

Dated July 31, 2026

Ratings:
Moody's: "Aa1"
(See "OTHER INFORMATION
Ratings" herein)-

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel (defined herein), assuming continuing compliance by the City (defined herein) after the date of initial delivery of the Certificates (defined herein) with certain covenants contained in the Ordinance (defined herein) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Certificates for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date thereof (1) will be excludable from the gross income of the owners thereof pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates, and (2) will not be included in computing the alternative minimum income of the owners thereof who are individuals.

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



\$15,865,000*
CITY OF MONT BELVIEU, TEXAS
(A political subdivision of the State of Texas located
in Chambers and Liberty Counties)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2026

Dated Date: September 1, 2026
Interest Accrues from Delivery Date (anticipated September 9, 2026)

Due: August 15, as shown on Page 2

PAYMENT TERMS . . . Interest on the \$15,865,000* City of Mont Belvieu, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2026 (the "Certificates"), will accrue from the date of initial delivery (anticipated September 9, 2026) to the underwriters hereof (the "Delivery Date"), will be payable February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2027, 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, New York, New York ("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 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 BOKF, N.A., Dallas, Texas (see "THE CERTIFICATES - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the applicable provisions of the Texas Constitution and the general laws of the State of Texas, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, as amended, and an ordinance to be adopted by the City Council of the City of Mont Belvieu, Texas (the "City"), on August 10, 2026, authorizing the issuance of the Certificates (the "Ordinance").

SECURITY FOR THE CERTIFICATES . . . The Certificates are direct obligations of the City and are secured by and payable from a continuing, direct, annual ad valorem tax levied, within the limits prescribed by law, levied against all taxable property located within the City. The Certificates are further secured by a limited pledge of a subordinate lien on the Net Revenues (as defined in the Ordinance) of the City's water and sewer system in an amount not to exceed \$1,000 (see "THE CERTIFICATES - SECURITY AND SOURCE OF PAYMENT").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to fund study, design, acquisition, demolition, construction, reconstruction, installation, purchasing, equipping, renovation, rehabilitation, extension, enlarging, expansion, and improvement of (1) City sewer systems; (2) City water supply systems; (3) streets, thoroughfares, bridges, and parking structures within the City; (4) parks and recreational facilities that are generally accessible to the public, including City Park as a part of the City's park system; (5) public safety facilities, including a City police station; and (6) certain other costs related and incidental thereto (see "THE CERTIFICATES - PURPOSE").

MATURITY SCHEDULE - CERTIFICATES

See page 2

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 20__, in whole or in part from time to time in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").

MANDATORY REDEMPTION . . . In the event any of the Certificates are structured as "Term" Certificates, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance, which provisions will be included in the final Official Statement (see "THE CERTIFICATES - MANDATORY SINKING FUND REDEMPTION").

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the underwriters identified below (the "Underwriters") subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Bond Counsel, Houston, Texas (see APPENDIX C - "FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the Underwriter by their Counsel, Bracewell LLP.

DELIVERY . . . It is expected that the Certificates will be available for delivery through the facilities of DTC on or about September 9, 2026.

STIFEL

FHN FINANCIAL CAPITAL MARKETS

* Preliminary, subject to change.

\$15,865,000*
CITY OF MONT BELVIEU, TEXAS
(A political subdivision of the State of Texas located
in Chambers and Liberty Counties)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2026

MATURITY SCHEDULE*
(Due August 15)

CUSIP ⁽¹⁾: 611766

<u>Principal Amount*</u>	<u>Maturity 8-15 ⁽²⁾</u>	<u>Interest Rate</u>	<u>Price or Yield⁽³⁾</u>	<u>CUSIP Suffix ⁽¹⁾</u>	<u>Principal Amount*</u>	<u>Maturity 8-15 ⁽²⁾</u>	<u>Interest Rate</u>	<u>Price or Yield⁽³⁾</u>	<u>CUSIP Suffix ⁽¹⁾</u>
525,000	2027				\$ 780,000	2037			
505,000	2028				820,000	2038			
530,000	2029				860,000	2039			
555,000	2030				900,000	2040			
580,000	2031				945,000	2041			
610,000	2032				995,000	2042			
640,000	2033				1,045,000	2043			
675,000	2034				1,095,000	2044			
705,000	2035				1,150,000	2045			
740,000	2036				1,210,000	2046			

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright^(c) 2025 CUSIP Global Services. All rights reserved. CUSIP[®] data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP[®] numbers are provided for convenience of reference only. None of the City, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (2) The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 20__, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. In the event any Certificates are structured as "term" Certificates, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance, which provisions will be included in the final Official Statement.
- (3) The initial price or yield is furnished by the Underwriters and represents the initial offering price or yield to the public, which may be changed by the Underwriters at any time.

* Preliminary, subject to change.

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule"), this document as the same may be supplemented or corrected by the City from time-to-time, may be treated as an Official Statement with respect to the Certificates described herein "deemed final" by the City as of the date hereof (or of any such supplement or correction) except for the omission of no more than the information provided by subsection (b)(1) of the Rule.

The information contained in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale made by means of it shall, under any circumstances, create an implication that there have not been changes in the matters discussed herein since the date of this Official Statement.

No broker, dealer, sales representative or any other person has been authorized by the City, the Financial Advisor or the Underwriters to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described in it and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or any other person. The information and expressions of opinion 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 matters described herein since the date hereof.

This Official Statement is delivered in connection with the sale of the Certificates and may not be reproduced or used, in whole or in part, for any other purposes.

All the summaries of the statutes, ordinances, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the City.

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

Neither the City, the Financial Advisor nor the Underwriters make any representations or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its book-entry-only system, as such information has been furnished by The Depository Trust Company.

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 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.

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

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 any purposes.

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

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The cover pages hereof, this page, the appendices included herein and any addenda, supplement, or amendment hereto, are part of the Official Statement.

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 Mont Belvieu, Texas (the "City") is a duly incorporated home-rule city and municipal corporation of the State of Texas, located in Chambers County, Texas and Liberty County, Texas. The City covers approximately 15 square miles (see "INTRODUCTION – DESCRIPTION OF CITY").
THE CERTIFICATES	The \$15,865,000* City of Mont Belvieu, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2026 are to mature on August 15 in the years 2027 through 2046 as shown on page 2.
PAYMENT OF INTEREST.....	Interest on the Certificates accrues from the Delivery Date, and is payable commencing February 15, 2027, and each August 15 and February 15 thereafter until 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 Texas Constitution and the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, Chapter 1502, Texas Government Code, as amended, and an ordinance to be adopted by the City Council of the City (the "Ordinance").
SECURITY FOR THE CERTIFICATES	The Certificates are direct obligations of the City and are payable from and secured by a continuing, direct, annual ad valorem tax levied, within the limits prescribed by law, levied against all taxable property located within the City. The Certificates are further payable by and secured from a limited pledge of a subordinate lien on the Net Revenues (as defined in the Ordinance) of the City's water and sewer system in an amount not to exceed \$1,000 (see "THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT").
REDEMPTION	The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after August 15, 20__, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES – OPTIONAL REDEMPTION"). In the event any of the Certificates are structured as "Term" Certificates, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance, which provisions will be included in the final Official Statement (see "THE CERTIFICATES – MANDATORY SINKING FUND REDEMPTION").
TAX EXEMPTION.....	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein.
USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to fund study, design, acquisition, demolition, construction, reconstruction, installation, purchasing, equipping, renovation, rehabilitation, extension, enlarging, expansion, and improvement of (1) City sewer systems; (2) City water supply systems; (3) streets, thoroughfares, bridges, and parking structures within the City; (4) parks and recreational facilities that are generally accessible to the public, including City Park as a part of the City's park system; (5) public safety facilities, including a City police station; and (6) certain other costs related and incidental thereto. (see "THE CERTIFICATES – PURPOSE").
RATINGS.....	The Certificates and presently outstanding general obligation debt of the City are rated "Aa1" by Moody's Investors Service, Inc. ("Moody's") (see "OTHER INFORMATION - RATINGS").
BOOK-ENTRY-ONLY SYSTEM.....	The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the 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.

* Preliminary, subject to change.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 30-Sep	Estimated City Population ⁽¹⁾	Net Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	G.O. Tax Debt Outstanding at End of Year	Per Capita G.O. Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	Total Tax Collections as a Percent of Total Levy
2022	9,330	\$ 4,184,583,456	\$ 448,508	\$ 81,590,000	\$ 8,745	1.95%	99.78%
2023	10,700	5,315,849,814	496,808	112,485,000	10,513	2.12%	98.47%
2024	11,922	5,917,401,202	496,343	103,560,000	8,686	1.75%	97.94% ⁽³⁾
2025	12,400	5,879,965,539 ⁽⁴⁾	474,191	170,565,000	13,755	2.90%	99.47%
2026	13,700	6,831,673,956	498,662	177,370,000 ⁽⁵⁾	12,947 ⁽⁵⁾	2.60% ⁽⁵⁾	98.80% ⁽⁶⁾

(1) Estimates provided by the City Officials.

(2) As reported by the Chambers County Appraisal District ("CCAD") and Liberty County Central Appraisal District ("LCCAD"), subject to change during the ensuing year.

(3) Decrease in Total Collections is due to prior year taxpayer protests.

(4) The decrease in value for 2024 to 2025 is due to a decline in industrial values and tangible personal business values as addressed by CCAD and LCCAD.

(5) Projected, includes the Certificates. Preliminary, subject to change.

(6) Collections as of June 30, 2026.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30				
	2025	2024	2023	2022	2021
Total Revenues	\$ 44,887,730	\$ 47,877,687	\$ 42,743,406	\$ 32,622,065	\$ 30,891,977
Total Expenditures	25,767,891	24,842,326	21,173,261	17,413,391	15,300,001
Other Sources (Uses)	(17,689,250)	(20,560,765)	(16,336,546)	(11,962,058)	(13,631,380)
Beginning Fund Balance	<u>33,212,156</u>	<u>30,737,560</u>	<u>25,503,961</u>	<u>22,257,345</u>	<u>20,296,749</u>
Ending Fund Balance	<u><u>\$ 34,642,745</u></u>	<u><u>\$ 33,212,156</u></u>	<u><u>\$ 30,737,560</u></u>	<u><u>\$ 25,503,961</u></u>	<u><u>\$ 22,257,345</u></u>

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CITY OFFICIALS, STAFF, AND CONSULTANTS

ELECTED OFFICIALS

City Council	Position	Term Expires (May)
Joey McWilliams	Mayor	2029
Don Price	Council Position 5/Mayor Pro Tem	2028
Mike Pomykal	Council Position 1	2029
Mark Ables	Council Position 2	2029
Arnold Peters	Council Position 3	2027
Tim Duree	Council Position 4	2027
Jabo Leonard	Council Position 6	2028

SELECTED ADMINISTRATIVE STAFF

Name	Position	Year Employed
Brian Winningham	City Manager	2022
Allison Dunning	City Secretary	2021
Calyn Wesson	Chief Financial Officer	2018

CONSULTANTS AND ADVISORS

City AttorneyJ. Grady Randle, LLP
Houston, Texas

AuditorsCrowe, LLP
Houston, Texas

Bond CounselNorton Rose Fulbright US LLP
Houston, Texas

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

For additional information regarding the City, please contact:

Calyn Wesson Chief Financial Officer City of Mont Belvieu 1 Town Center Mont Belvieu, Texas 77523 (281) 576-2213 Phone	or	Joe Morrow Managing Director Hilltop Securities Inc. 700 Milam, Suite 1200 Houston, Texas 77002 (713) 654-8690 Phone
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PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$15,865,000*
CITY OF MONT BELVIEU, TEXAS
(Chambers and Liberty Counties)
COMBINATION TAX AND REVENUE CERTIFICATES
OF OBLIGATION, SERIES 2026

INTRODUCTION

This Preliminary Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$15,865,000* City of Mont Belvieu, Texas (the "City"), Combination Tax and Revenue Certificates of Obligation, Series 2026 (the "Certificates"). The Certificates are being authorized for issuance under applicable provisions of the Texas Constitution and the general laws of the State of Texas, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, as amended, and an ordinance, to be adopted by the City Council of the City of Mont Belvieu, Texas on August 10, 2026 (the "Ordinance"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance.

There follows in this Official Statement a description 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. ("Financial Advisor"), Houston, Texas.

DESCRIPTION OF THE CITY

The City is a duly incorporated home-rule city located in the State of Texas and a municipal corporation organized and existing under the laws of the State of Texas. The City was incorporated on April 11, 1966, and first adopted its Home Rule Charter in 2013. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers elected from the City at large for three (3) year terms. Some of the services that the City provides are: public safety, streets, water and sanitary sewer utilities, culture-recreation, public improvements, and general administrative services. The 2026 estimated population for the City is 13,700. The City covers approximately 15 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated September 1, 2026, and mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Certificates will accrue from the date of delivery (anticipated to be September 9, 2026) (the "Delivery Date") and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2027, until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("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 "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" herein.

PURPOSE

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations to fund study, design, acquisition, demolition, construction, reconstruction, installation, purchasing, equipping, renovation, rehabilitation, extension, enlarging, expansion, and improvement of (1) City sewer systems; (2) City water supply systems; (3) streets, thoroughfares, bridges, and parking structures within the City; (4) parks and recreational facilities that are generally accessible to the public, including City Park as a part of the City's park system; (5) public safety facilities, including a City police station; and (6) certain other costs related and incidental thereto.

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* Preliminary, subject to change.

SOURCES AND USES

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

Sources of Funds:

Par Amount of Bonds

Reoffering Premium

Total:	<u>\$</u>	<u>-</u>
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Uses of Funds:

Deposit to Project Fund

Costs of Issuance⁽¹⁾

Underwriter's Discount

Total:	<u>\$</u>	<u>-</u>
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(1) Includes bond counsel, financial advisory, rating agency, Paying Agent/Registrar fees, and other costs of issuance or contingency.

SECURITY AND SOURCE OF PAYMENT

All taxable property within the City is subject to a continuing, direct, annual ad valorem tax levied, within the limits prescribed by law, by the City in an amount sufficient to provide for the payment of principal of and interest on all obligations payable in whole or in part from ad valorem taxes. Additionally, the Certificates are payable from and secured by a subordinate pledge of surplus Net Revenues of the City's water and sewer system, in an amount not to exceed \$1,000, as provided in the Ordinances.

TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct, annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, based on 90% tax collection, as calculated at the time of issuance. See "TAX INFORMATION" for discussion of the process for setting tax rates and related operations and maintenance tax limitations.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem the Certificates maturing on and after August 15, 20__, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity (or mandatory sinking fund redemption amount, with respect to Term Certificates, if any) 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 certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

With respect to any optional redemption of the Certificates, unless money sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption may, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and sufficient moneys are not received or such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Certificates, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Certificates have not been redeemed.

MANDATORY SINKING FUND REDEMPTION

In the event any of the Certificates are structured as "Term" Certificates, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance, which provisions will be included in the final Official Statement.

NOTICE OF REDEMPTION

Not less than 30 days prior to a redemption date, the City shall cause a notice of redemption to be sent by United States Mail, first-class postage prepaid, in the name of the City and at the City's expense, by the Paying Agent to each holder of a Certificate to be redeemed in whole or from time to time in part at the address of the holder appearing on the security register at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the holder. All notices of redemption shall state:

- (1) the redemption date,
- (2) the redemption price,
- (3) the principal amount and identification (by City and Certificate name, CUSIP number, stated maturity, interest rate, dated date, and, in the case of partial redemption, the Certificate numbers and respective principal amounts) of Certificates to be redeemed,
- (4) that on the redemption date the redemption price of each of the Certificates to be redeemed will become due and payable and that interest thereon shall cease to accrue from and after said date, and
- (5) that the Certificates to be redeemed are to be surrendered for payment of the redemption price at the place of payment, and the address of such place of payment.

TRANSFER, EXCHANGE AND REGISTRATION

The City shall cause to be kept at the place of payment a register in which, subject to such reasonable regulations as the City or the Paying Agent may prescribe, the Paying Agent shall provide for the registration of the Certificates and of transfers of the Certificates as provided in the Ordinance.

Upon surrender for transfer of any Certificate at the place of payment, the City shall execute, and the Paying Agent shall register and deliver, in the name of the designated transferee or transferees, one or more new Certificates of the same stated maturity, of any authorized denominations, and of a like aggregate principal amount. New Certificates registered, and delivered in an exchange or transfer will be delivered by the Paying Agent at the place of payment or sent by United States mail at the registered owner's written request, risk, and expense.

At the option of the registered owner, Certificates may be exchanged for other Certificates of the same stated maturity, of any authorized denominations, and of like aggregate principal amount, upon surrender of the Certificates to be exchanged at the place of payment. Whenever any Certificates are so surrendered for exchange, the City shall execute, and the Paying Agent shall register and deliver, the Certificates which the registered owner of Certificates making the exchange is entitled to receive.

All Certificates issued in any transfer or exchange of Certificates shall be delivered to the registered owners at the principal corporate trust office of the Paying Agent or sent by United States Mail, first class, postage prepaid to the registered owners, and, upon the registration and delivery thereof, the same shall be the valid obligations of the City, evidencing the same obligation to pay, and entitled to the same benefits under the Ordinance, as the Certificates surrendered in such transfer or exchange.

Every Certificate presented or surrendered for transfer or exchange must be duly endorsed or be accompanied by a written instrument of transfer in form satisfactory to the Paying Agent duly executed, by the registered owner thereof or his attorney duly authorized in writing.

No service charge may be made to the registered owner for any registration, transfer, or exchange of Certificates, but the City or the Paying Agent may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Certificates.

Neither the City nor the Paying Agent is required (1) to transfer or exchange any Certificate during a period beginning 45 days prior to a redemption date hereunder and ending at the close of business on the day of mailing of a notice of redemption or (2) thereafter to transfer or exchange in whole or in part any Certificate so selected for redemption provided, however, such limitation or transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

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 accredited by DTC 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 considers the source of such information to be reliable but takes no responsibility for the accuracy or completeness thereof.

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

DTC, New York, New York, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate for each maturity will be issued for the Certificates in the aggregate principal amount thereof and will be deposited with DTC.

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

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 Certificate ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest 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 the 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 DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participant to whose account such Certificates are credited, which may or may not be a Beneficial Owner. The 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.

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

Neither DTC nor Cede & Co. 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 the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All 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 dates 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 in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to DTC is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants shall be

the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall 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 and the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, securities certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but neither the City, the Financial Advisor nor the Underwriters takes responsibility for the accuracy thereof.

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisors or the Underwriters of the Certificates.

Effect of Termination of Book-Entry-Only System. In the event the Book-Entry-Only System with respect to the Certificates is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Certificates is discontinued by the City, printed securities certificates will be issued to the holders of the affected Certificates, and the applicable Certificates will be subject to transfer, exchange, and registration provisions as set forth in the Ordinance, summarized under "THE CERTIFICATES - TRANSFER, EXCHANGE AND REGISTRATION" below.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is BOKF, NA, Dallas, 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 affected by the changes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

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

DEFEASANCE

Any Certificate is deemed paid and is no longer considered to be outstanding within the meaning of the Ordinance when payment of the principal of and interest on such Certificate to the stated maturity thereof or to the redemption date has been made or has been provided for by deposit with the Paying Agent for such payment (1) money sufficient to make such payment, (2) Governmental Obligations certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and governmental obligations together so certified sufficient to make such payment, provided that all the expenses pertaining to the Certificates with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Paying Agent (and to such other bank or trust company).

If such deposit is made with respect to some but not all of the Certificates then outstanding, the City shall designate the stated maturities of Certificates with respect to which such deposit is made. If such deposit is sufficient so to provide for the payment of the principal of and interest on some but not all outstanding certificates of a particular stated maturity so designated, the Paying Agent shall select the outstanding certificates of such stated maturity with respect to which such deposit is made by such

random method as the Paying Agent deems fair and appropriate and which may provide for the selection of portions (equal to and leaving unredeemed an authorized denomination) of Certificates in denominations larger than \$5,000.

Notwithstanding anything in the Ordinance to the contrary, no such deposit has the effect described in the Ordinance (a) if made during the subsistence of a default in the payment of any Certificate unless made with respect to all of the Certificates then outstanding or (b) unless accompanied by an opinion of counsel of recognized standing in the field of federal income taxation to the effect that neither such deposit nor the investment thereof adversely affects the excludability of interest on any Certificate from the gross income of any owner thereof for federal income tax purposes.

At such times as a Certificate is deemed to be paid hereunder, as aforesaid, it is no longer entitled to the benefits of the Ordinance, except for the purposes of any such payment from such money or Governmental Obligations.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. Provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption, (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Governmental Obligations means (1) direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America, or (2) obligations authorized under Texas law at the time of deposit for discharge and final payment of governmental obligations which, at the time of deposit, have been assigned ratings in the highest rating category by nationally – recognized investment rating firm, but in the case of both Clauses (1) and (2) only if such obligations may not be called for redemption prior to maturity.

REPLACEMENT CERTIFICATES

If (1) any mutilated Certificate is surrendered to the Paying Agent, or the City and the Paying Agent receive evidence to their satisfaction of the destruction, loss, or theft of any Certificate, and (2) there is delivered to the City and the Paying Agent such security or indemnity as they require to save each of them harmless, then, in the absence of notice to the City or the Paying Agent that such Certificate has been acquired by a bona fide purchaser, the City shall execute and upon its request the Paying Agent shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Certificate, a new Certificate of the same stated maturity, and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost, or stolen Certificate has become or is about to become due and payable, the City in its discretion may pay such Certificate instead of issuing a new Certificate.

Upon the issuance of any new Certificate under the Ordinance, the City or the Paying Agent may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith.

Every new Certificate issued pursuant to the Ordinance in lieu of any mutilated, destroyed, lost, or stolen Certificate constitutes an original additional contractual obligation of the City, whether or not the mutilated, destroyed, lost, or stolen Certificate is at any time enforceable by anyone, and the new Certificate is entitled to all the benefits of the Ordinance equally and ratably with all other outstanding certificates.

OWNERSHIP

The City, the Paying Agent/Registrar and any agent of either may treat the person in whose name any Certificate is registered as the owner of such Certificate for the purposes of receiving payment of the principal thereof and the interest on the Certificate and for all other purposes whatsoever, whether or not such Certificate is due or overdue. Neither the City, the Paying Agent/Registrar, or any agent of either will be affected by any notice to the contrary. All payments made to or duly provided for the holder in accordance with the Ordinance will be valid and effectual and will discharge the liability of the City to the extent of the sums paid in or duly provided for.

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 registered owner of a Certificate to be paid on the Special Payment Date that appears 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.

REMEDIES

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

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, registered owners may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

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

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

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

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

AMENDMENT TO THE ORDINANCES

The City may, without the consent of or notice to any registered owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the consent of registered owners holding a majority in aggregate principal amount of the Certificates, then Outstanding, amend, add to, or rescind any of the provisions of the Ordinances; provided that, without the consent of all registered owners of Outstanding Certificates, affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any such Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any such Certificate or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on any such Certificate, (2) give any preference to any Certificate over any other Certificate, (3) modify any of the provisions in the definition in the Ordinance of the term "Outstanding" or (4) reduce the aggregate principal amount of Certificates required for consent to any amendment, addition, or waiver.

The Ordinances constitute a contract with the registered owners entered into upon the initial purchase of the Certificates, is binding on the City and its successors and assigns whether or not so expressed and may not be amended or repealed by the City so long as any Certificate remains Outstanding except as permitted in the Ordinances.

Any consent to any amendment hereof by the registered owner of any Certificate binds every future registered owner of the same Certificate and the registered owner of every Certificate issued upon transfer or in lieu thereof or in exchange therefor, in respect of anything done or suffered to be done by the City in reliance thereon, whether or not notation of such action is made upon such Certificate.

TAX INFORMATION

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

VALUATION OF TAXABLE PROPERTY

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

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

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

Through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2026 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,320,000 (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. 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.

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

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.

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 at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable.

Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption described in clause (1) above 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.

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. Effective January 1, 2026, a person is entitled to an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

FREEPORT AND GOODS-IN-TRANSIT EXEMPTIONS

Certain goods that are acquired in or imported into the State to be forwarded outside the State and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

OTHER EXEMPT PROPERTY

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

TAX INCREMENT REINVESTMENT ZONES

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER

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

PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Certificates.

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

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

DEBT TAX RATE LIMITATIONS

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

CITY AND TAXPAYER REMEDIES

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount," as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$62,883,169 for the 2026 tax year and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

LEVY AND COLLECTION OF TAXES

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. Taxpayers 65 years old or older, disabled veterans or an unmarried surviving spouse of a disabled veteran, are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 1 of each year and the final installment due before August 1. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

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 20% plus \$360,000; the disabled are also granted an exemption of 20% plus \$360,000.

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

See Table 1 for a listing of the amounts of the exemptions described above.

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 Chambers County Tax Office collects taxes for the City.

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

The City does not tax freeport property or goods in transit.

The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

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 job creation and property value enhancement.

The following paragraphs describe the tax abatement agreements the City is currently party to with abated values greater than \$200,000,000.

The City entered into an abatement agreement with Oneok MB4, Inc in 2018 in the approximate amount of \$265,000,000 of value abated. During the agreement the City will receive \$424,889 each year. The abatement schedule is as follows:

Tax Year	Percent Abated	Tax Year	Percent Abated
2020	100%	2026	100%
2021	100%	2027	100%
2022	100%	2028	100%
2023	100%	2029	100%
2024	100%	2030	Abatement expires and all taxes are paid
2025	100%		

The City entered into an abatement agreement with Targa Downstream in 2018 in the approximate amount of \$231,000,000 of value abated. During the agreement the City will receive \$276,301 each year. The abatement schedule is as follows:

Tax Year	Percent Abated	Tax Year	Percent Abated
2020	100%	2026	100%
2021	100%	2027	100%
2022	100%	2028	100%
2023	100%	2029	100%
2024	100%	2030	Abatement expires and all taxes are paid
2025	100%		

The City entered into an abatement agreement with Targa Train 7 in 2019 in the approximate amount of \$250,000,000 of value abated. During the agreement the City will receive \$402,088 each year. The abatement schedule is as follows:

Tax Year	Percent Abated	Tax Year	Percent Abated
2020	100%	2026	100%
2021	100%	2027	100%
2022	100%	2028	100%
2023	100%	2029	100%
2024	100%	2030	Abatement expires and all taxes are paid
2025	100%		

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The City entered into an abatement agreement with Targa Train 8 in 2019 in the approximate amount of \$250,000,000 of value abated. During the agreement the City received \$400,838 each year. The abatement schedule is as follows:

Tax Year	Percent Abated	Tax Year	Percent Abated
2020	100%	2026	100%
2021	100%	2027	100%
2022	100%	2028	100%
2023	100%	2029	100%
2024	100%	2030	Abatement expires and all taxes are paid
2025	100%		

The City entered into an abatement agreement with Oneok MB5 Fractionator 5 in 2019 in the approximate amount of \$275,000,000 of value abated. During the agreement the City received payments of \$2,068,703 in FY 2020, \$1,062,203 in FY 2021, \$1,062,203 in FY 2022 and \$465,208.01 each year from FY 2023-2033. The abatement schedule is as follows:

Tax Year	Percent Abated	Tax Year	Percent Abated
2020	100%	2028	100%
2021	100%	2029	100%
2022	100%	2030	100%
2023	100%	2031	100%
2024	100%	2032	100%
2025	100%	2033	Abatement expires and all taxes are paid
2026	100%		
2027	100%		

The City has entered into an abatement agreement with Oneok MB6 in the approximate amount of \$275,000,000 of value abated. During the agreement the City received an initial payment of \$962,500 in August 2024 and \$450,263.07 each tax year from 2026-2035. The abatement schedule is as follows:

Tax Year	Percent Abated	Tax Year	Percent Abated
2026	100%	2032	100%
2027	100%	2033	100%
2028	100%	2034	100%
2029	100%	2035	100%
2030	100%	2036	Abatement expires and all taxes are paid
2031	100%		

The City has entered into an abatement agreement with Targa Train 9 in the approximate amount of \$275,000,000 of value abated. During the agreement the City received an initial payment of \$962,500 in August 2024 and \$450,263.07 each tax year from 2025-2034. The abatement schedule is as follows:

Tax Year	Percent Abated	Tax Year	Percent Abated
2025	100%	2031	100%
2026	100%	2032	100%
2027	100%	2033	100%
2028	100%	2034	100%
2029	100%	2035	Abatement expires and all taxes are paid
2030	100%		

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The City has entered into an abatement agreement with Targa Train 10 in the approximate amount of \$295,000,000 of value abated. During the agreement the City received an initial payment of \$1,032,500 in August 2024 and \$483,009.48 each year from 2026-2035. The abatement schedule is as follows:

Tax Year	Percent Abated	Tax Year	Percent Abated
2026	100%	2032	100%
2027	100%	2033	100%
2028	100%	2034	100%
2029	100%	2035	100%
2030	100%	2036	Abatement expires and all taxes are paid
2031	100%		

CHAPTER 380 AGREEMENTS

Texas Local Government Code, Chapter 380, provides for the ability of the City to offer economic development incentives to promote economic development and stimulate business and commercial activity within the City. The City has entered into agreements with several developers that may allow abatement of a portion of their property taxes. The City has also entered into several agreements with developers that would allow rebate of a portion of their sales taxes. (see Appendix B, "Excerpts from the City's Annual Financial Report" - Note # 4).

INDUSTRIAL DEVELOPMENT DISTRICT

The City taxes property within its corporate limits but has no such power for property located outside its boundaries. Pursuant to a Texas statute adopted in 1963 specifically enabling Texas cities to do so, in 2013 the City Council authorized and caused the City to enter into a contract ("Industrial District Contract") with a corporation which provided that the City would not annex such corporate property 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).

Firm	Contract Expiration Date	Contractual Payment for FY 2026
Enterprise Products Operating LLP	December 31, 2028	\$ 584,490
		<u>\$ 584,490</u>

The Industrial District Payment in fiscal year ended September 30, 2026, will be \$584,490 with payments made through fiscal year 2028/2029.

MUNICIPAL UTILITY DISTRICTS WITHIN THE CITY

The City has entered into utility agreements with three municipal utility districts which are within the City's boundaries: Riceland Municipal Utility District No. 1, Riceland Municipal Utility District No. 2, and Riceland Municipal Utility District No. 3 in the master planned community of Riceland. Pursuant to the agreements, the districts are to acquire and construct water, sanitary sewer, storm sewer, roads, parks, recreational facilities, fire protection facilities and drainage facilities to serve the area within the districts and may issue bonds to finance such facilities. Such agreements provide the following:

- (1) The Districts will convey all infrastructure to the City in sections. Conveyance includes a 1-year warranty and all assets become the responsibility of the City to maintain.
- (2) The City will be responsible for charging and collecting customers for water and wastewater. The water and wastewater rates charged by the City will be equal and uniform to those charged other similar users within the City, with all revenues belonging exclusively to the City.
- (3) The City will contribute a rebate back to the District equal to 18 cents of the City's ad valorem taxes which the District shall deposit into the debt service fund for payment of bonds issued for the project. The City's obligation to make the annual payments shall terminate after all of the District debt obligations have been made.

It is expected that each of the districts will have a lifespan of approximately 40 years and will be dissolved upon final payment of the debt issued by each district.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2026/2027 Market Valuation Established by the Appraisal District (excluding totally exempt property)		\$ 10,681,407,076
Less Exemptions/Reductions at 100% Market Value:		
Productivity Loss	\$ 22,322,840	
Homestead Cap Loss	22,291,206	
Homestead Exemption	411,996	
BPP Exempt	44,152,855	
Surviving Spouse	727,250	
Pollution Control	158,643,646	
Abatements	2,028,095,843	
Local Discount	267,308,110	
DV 100%	62,247,990	
Interstate	125,672,870	
Exempt Property	588,527,321	
23.231 Cap	1,479	
Over 65/Disabled	229,150,503	
Circuit Breaker	57,859,073	
Taxable Assessed Valuation Before Adjustments		<u>\$ (3,607,412,982)</u>
2026/2027 Taxable Assessed Valuation		\$ 7,073,994,094 ⁽¹⁾
General Obligation Debt Payable from Ad Valorem Taxes (as of 6/30/2026)		
Combination Tax and Revenue Certificates of Obligation	\$ 170,565,000	
The Certificates	<u>15,865,000</u>	⁽²⁾
Debt Payable from Ad Valorem Taxes	\$ 186,430,000	
Interest and Sinking Fund Balance (as of 6/30/2026)	\$ 13,162,366	⁽³⁾
Ratio Net General Obligation Debt to 2025/2026 Net Taxable Assessed Valuation		2.64%

2026 Estimated Population - 13,700
Per Capita Taxable Assessed Valuation - \$516,350
Per Capita Net General Obligation Funded Debt - \$13,608⁽²⁾

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- (1) Certified Taxable Assessed Value from Chambers County Appraisal District and Liberty County Central Appraisal District. Subject to change throughout the year.
(2) Preliminary, subject to change.
(3) Unaudited. The unaudited information has not been prepared or reviewed by the City's independent auditor. The unaudited information is derived from internal account balances of the City and is subject to revision upon completion of the City's annual audit. Includes \$12,728,282 due August 15, 2026.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Fiscal Year Ended September 30,					
	2027		2026		2025	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real Residential, Single- Family	\$ 1,607,146,470	15.05%	\$ 1,477,094,880	14.89%	\$ 1,319,293,370	14.78%
Real, Residential, Multi-Family	16,018,290	0.15%	14,698,500	0.15%	13,314,870	0.15%
Real, Vacant Platted Lots/Tracts	26,353,850	0.25%	49,137,280	0.50%	34,227,200	0.38%
Real, Acreage (Land Only)	22,432,530	0.21%	910,610	0.01%	778,280	0.01%
Real, Farm and Ranch Improvements	117,189,780	1.10%	106,253,540	1.07%	77,084,650	0.86%
Real, Commercial	301,751,870	2.83%	217,038,650	2.19%	184,106,680	2.06%
Real, Industrial	6,409,904,673	60.01%	6,496,746,798	65.51%	6,026,787,733	67.52%
Real, Oil, Gas & Other Mineral Reserves	2,282,041	0.02%	3,168,946	0.03%	4,167,058	0.05%
Real and Intangible Personal, Utilities	133,867,093	1.25%	128,110,010	1.29%	115,942,380	1.30%
Tangible Personal, Industrial	32,519,750	0.30%	27,474,540	0.28%	25,793,540	0.29%
Tangible Personal, Business	1,330,766,239	12.46%	1,084,428,118	10.94%	1,094,045,712	12.26%
Tangible Personal, Other	91,640	0.00%	1,064,810	0.01%	757,680	0.01%
Real, Inventory	94,649,020	0.89%	1,524,790	0.02%	27,438,320	0.31%
Special Inventory	1,821,160	0.02%	12,776,410	0.13%	2,029,490	0.02%
Exempt Property	584,612,670	5.47%	296,488,925	2.99%	890	0.00%
Total Appraised Value Before Exemptions	\$ 10,681,407,076	100.00%	\$ 9,916,916,807	100.00%	\$ 8,925,767,853	100.00%
Less: Total Exemption/Reductions	(3,608,201,728)		(3,115,855,603)		(3,357,225,153)	
Plus: Adjustments Made after Certification	788,746		30,612,752		311,422,839	
Taxable Assessed Value ⁽¹⁾	<u>\$ 7,073,994,094</u>		<u>\$ 6,831,673,956</u>		<u>\$ 5,879,965,539</u> ⁽²⁾	

Category	Fiscal Year Ended September 30,			
	2024		2023	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,198,402,490	13.20%	\$ 893,174,250	10.35%
Real, Residential, Multi-Family	24,339,700	0.27%	22,878,240	0.27%
Real, Vacant Platted Lots/Tracts	36,071,960	0.40%	35,551,650	0.41%
Real, Acreage (Land Only)	21,303,850	0.23%	45,048,750	0.52%
Real, Farm and Ranch Improvements	89,298,290	0.98%	64,497,260	0.75%
Real, Commercial	135,447,490	1.49%	135,610,610	1.57%
Real, Industrial	6,064,709,485	66.81%	5,897,486,008	68.34%
Real, Oil, Gas & Other Mineral Reserves	3,819,895	0.04%	6,487,586	0.08%
Real and Intangible Personal, Utilities	94,643,030	1.04%	79,030,247	0.92%
Tangible Personal, Commercial	25,907,560	0.29%	22,808,800	0.26%
Tangible Personal, Industrial	1,378,445,206	15.18%	1,407,015,919	16.30%
Tangible Personal, Other	883,090	0.01%	279,340	0.00%
Real, Inventory	2,457,060	0.03%	17,311,870	0.20%
Special Inventory	2,180,290	0.02%	2,340,920	0.03%
Exempt Property	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 9,077,909,396	100.00%	\$ 8,629,521,450	100.00%
Less: Total Exemption/Reductions	(3,160,623,504)		(3,313,671,636)	
Plus: Adjustments Made after Certification	115,310.00		-	
Taxable Assessed Value	<u>\$ 5,917,401,202</u>		<u>\$ 5,315,849,814</u>	

(1) Certified Taxable Assessed Value from Chambers County Appraisal District and Liberty County Central Appraisal District.

(2) The decrease in value for 2024 to 2025 is due to a decline in industrial values and tangible personal business values as assessed by CCAD and LCCAD .

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

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TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Net Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2022	9,330	\$4,184,583,456	\$448,508	\$81,590,000	1.95%	\$8,745
2023	10,700	5,315,849,814	496,808	112,485,000	2.12%	10,513
2024	11,922	5,917,401,202	496,343	103,560,000	1.75%	8,686
2025	12,400	5,879,965,539 ⁽³⁾	474,191	170,565,000	2.90%	13,755
2026	13,700	6,831,673,956	498,662	177,370,000 ⁽⁴⁾	2.60% ⁽⁴⁾	12,947 ⁽⁴⁾

(1) Estimates provided by the City Officials.

(2) As reported by CCAD and LCCAD, subject to change during the ensuing year.

(3) The decrease in value for 2024 to 2025 is due to a decline in industrial values and tangible personal business values as assessed by CCAD and LCCAD.

(4) Projected, includes the Certificates. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2022	\$0.45475	\$0.23180	\$0.22295	\$19,033,728	99.85%	99.78%
2023	0.44349	0.25402	0.18948	23,644,748	98.61%	98.47%
2024	0.44425	0.23804	0.20621	25,273,693	99.82%	97.94% ⁽¹⁾
2025	0.47119	0.25823	0.21296	27,709,993	99.46%	99.47%
2026	0.52583	0.30101	0.22482	15,335,794	98.90% ⁽²⁾	98.80% ⁽²⁾

(1) Decrease in Total Collections is due to prior year taxpayer protests.

(2) Collection as of June 30, 2026.

TABLE 5 - TEN LARGEST TAXPAYERS

Much of the taxable value of the City is derived from liquefied petroleum gas stored in a salt dome formation within the City and related pipeline operations. The appraised value of the stored product fluctuates because of changes in market value. The valuation criteria for stored product to be used in inter-state commerce is lower than market value. The City cannot project and has no control over changes in the taxable values of taxable petrochemical property within the City.

Name of Taxpayer	Nature of Property	2025/2026 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Exxon Mobil Corp.	Oil & Gas	\$764,019,245	11.18%
Oneok Hydrocarbon LP	Oil & Gas	719,972,811	10.54%
Enterprise TX Operating LP	Oil & Gas	688,269,764	10.07%
Energy Transfer GC NGL	Natural Gas	590,633,094	8.65%
Enterprise Products Operating	Oil & Gas	436,656,947	6.39%
Cedar Bayou Fractionators LP	Natural Gas	316,002,004	4.63%
Targa Train 10 LLC	Natural Gas Liquids	215,318,272	3.15%
MTBV Caverns LLC	Natural Gas Storage	142,428,759	2.08%
Belvieu Environmental Fuels	Chemical Plant	131,523,879	1.93%
Targa Downstream LP	Oil & Gas	119,369,997	1.75%
		<u>\$4,124,194,772</u>	<u>60.37% ⁽¹⁾</u>

(1) Approximately 60.37% of the City's total taxable assessed value is concentrated in its top ten taxpayers. Adverse development affecting such taxpayers could adversely affect the taxable assessed valuation in the City resulting in less local tax revenue or future increase in ad valorem tax rates.

GENERAL OBLIGATION DEBT LIMITATION

No general obligation debt limitation is imposed on the City under current state law (see "THE CERTIFICATES – TAX RATE LIMITATION").

TABLE 6 - TAX ADEQUACY

Net Principal and Interest Requirements (2026).....	\$ 16,121,783 ⁽¹⁾
\$0.24590 Tax Rate at 99% Collection Produces	16,631,095
Average Net Principal and Interest Requirements on outstanding debt (2026-2046).....	\$ 12,832,155 ⁽¹⁾
\$0.19570 Tax Rate at 99% Collection Produces	13,235,890
Maximum Principal and Interest Requirements on Net Funded Debt (2027).....	\$ 16,121,783 ⁽¹⁾
\$0.24590 Tax Rate at 99% Collection Produces	16,631,095

(1) Projected, includes the Certificates. Interest on the Certificates estimated at market rates for purpose of illustration. Preliminary, subject to change.

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.

	Total G.O. Debt as of 6/30/2026	Estimated % Applicable	City's Overlapping G.O. Debt as of 6/30/2026
City of Mont Belvieu	\$ 186,430,000 ⁽¹⁾	100.00%	\$ 186,430,000
Barbers Hill Independent School District	541,355,000	29.18%	157,967,389
Chambers County	211,325,000	24.22%	51,182,915
Dayton Independent School District	41,340,000	0.10%	41,340
Liberty County	131,825,000	0.03%	39,548
Riceland Management District	12,245,000	98.69%	12,084,591
Riceland MUD #1	11,895,000	99.17%	11,796,272
Total Direct and Overlapping Funded Debt			\$ 419,542,054
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation			6.14%
Per Capita Overlapping Funded Debt			\$ 30,624

(1) Includes the Certificates. Preliminary, subject to change.

Source: Texas Municipal Reports.

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DEBT INFORMATION

TABLE 8 - PRO FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending	Outstanding Debt Service			The Certificates ⁽¹⁾			Total Debt Service Requirements	% of Principal Retired
9/30	Principal	Interest	Total	Principal	Interest	Total		
2026	\$ 9,060,000	\$ 7,061,783	\$ 16,121,783	\$ -	\$ -	\$ -	\$ 16,121,783	
2027	7,650,000	6,958,794	14,608,794	525,000	740,367	1,265,367	15,874,160	
2028	7,275,000	6,594,044	13,869,044	505,000	767,000	1,272,000	15,141,044	
2029	7,625,000	6,240,894	13,865,894	530,000	741,750	1,271,750	15,137,644	
2030	7,990,000	5,870,294	13,860,294	555,000	715,250	1,270,250	15,130,544	22.38%
2031	8,370,000	5,495,094	13,865,094	580,000	687,500	1,267,500	15,132,594	
2032	8,765,000	5,101,394	13,866,394	610,000	658,500	1,268,500	15,134,894	
2033	9,155,000	4,703,444	13,858,444	640,000	628,000	1,268,000	15,126,444	
2034	9,565,000	4,297,163	13,862,163	675,000	596,000	1,271,000	15,133,163	
2035	9,965,000	3,896,150	13,861,150	705,000	562,250	1,267,250	15,128,400	48.68%
2036	10,390,000	3,476,450	13,866,450	740,000	527,000	1,267,000	15,133,450	
2037	10,790,000	3,072,175	13,862,175	780,000	490,000	1,270,000	15,132,175	
2038	10,200,000	2,651,225	12,851,225	820,000	451,000	1,271,000	14,122,225	
2039	10,600,000	2,242,606	12,842,606	860,000	410,000	1,270,000	14,112,606	
2040	9,125,000	1,840,331	10,965,331	900,000	367,000	1,267,000	12,232,331	78.29%
2041	8,095,000	1,488,131	9,583,131	945,000	322,000	1,267,000	10,850,131	
2042	8,435,000	1,144,944	9,579,944	995,000	274,750	1,269,750	10,849,694	
2043	8,045,000	779,431	8,824,431	1,045,000	225,000	1,270,000	10,094,431	
2044	5,400,000	428,287	5,828,287	1,095,000	172,750	1,267,750	7,096,037	
2045	4,065,000	188,006	4,253,006	1,150,000	118,000	1,268,000	5,521,006	99.35%
2046	-	-	-	1,210,000	60,500	1,270,500	1,270,500	100.00%
	<u>\$170,565,000</u>	<u>\$73,530,639</u>	<u>\$244,095,639</u>	<u>\$ 15,865,000</u>	<u>\$ 9,514,617</u>	<u>\$ 25,379,617</u>	<u>\$269,475,256</u>	

(1) Interest on the Certificates has been estimated at market rates for the purpose of illustration. Preliminary, subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Net Tax Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2026	\$ 16,121,783
Interest and Sinking Fund Beginning Balance, 9/30/2025	\$ 1,011,298
Budgeted Interest and Sinking Fund Tax Collections	15,162,410
Budgeted Transfer from MB Link	1,012,519 ⁽¹⁾
Budgeted Investment Income	151,800
Budgeted Other Income	<u>15,000</u>
	<u>17,353,027</u>
Estimated Balance, 9/30/2026	\$ 1,231,244

(1) The City will pay debt service related to the Combination Tax & Revenue Certificates of Obligation, Series 2017 with user fees associated with MB Link, a broadband fiber network available to residents of the City.

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date of Authorization	Amount Authorized	Amount Previously Issued	Unissued Balance
Sewer System	5/12/93	\$ 500,000	\$ -	\$ 500,000
Sewer System	1/21/95	3,000,000	2,990,000	10,000
Water & Sewer System	11/8/05	10,250,000	9,210,000	1,040,000
Library	5/11/13	2,000,000	-	2,000,000
		<u>\$ 15,750,000</u>	<u>\$ 12,200,000</u>	<u>\$ 3,550,000</u>

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City anticipates the issuance of approximately \$7.4 million of additional general obligation debt in calendar year 2027. A final determination as to the amount and timing of such issuance and whether to proceed with any such issuance is within the discretion of the City Council and will depend on a number of factors.

TABLE 11 – OTHER OBLIGATIONS

The City currently has no other obligations outstanding.

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 # 4).

OTHER POST-EMPLOYMENT BENEFITS

The City also participates in the cost sharing multi-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund ("SDBF"). (For more detailed information concerning the death benefits plan, see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" - Note # 4).

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FINANCIAL INFORMATION

TABLE 12 - GENERAL FUND REVENUE AND EXPENDITURE HISTORY

	For Fiscal Year Ended September 30				
	2025	2024	2023	2022	2021
<u>Revenues:</u>					
Ad Valorem Taxes	\$ 14,892,010	\$ 13,065,409	\$ 13,264,073	\$ 9,541,849	\$ 8,821,172
Sales Tax	11,786,512	14,169,421	11,657,309	8,567,998	8,614,302
Franchise & Local Taxes	7,912,616	7,709,941	7,109,642	7,022,787	6,545,378
Other Taxes	127,762	99,862	52,951	47,807	31,978
Licenses & Permits	853,359	523,395	631,533	687,768	557,469
Fines & Forfeitures	207,794	183,356	150,041	94,909	117,298
Charges for Services	771,291	630,228	433,157	332,602	260,791
Intergovernmental	1,122,405	865,962	946,990	757,888	823,744
Investment Income	1,762,641	1,968,203	971,182	389,883	149,108
Other Revenue	5,451,340	8,661,910	7,526,528	5,178,574	4,970,737
Total Revenues	<u>\$ 44,887,730</u>	<u>\$ 47,877,687</u>	<u>\$ 42,743,406</u>	<u>\$ 32,622,065</u>	<u>\$ 30,891,977</u>
<u>Expenditures:</u>					
General Government	\$ 8,121,254	\$ 8,086,329	\$ 6,007,235	\$ 5,338,793	\$ 4,551,653
Public Safety	11,404,414	10,741,992	8,847,423	7,034,563	6,224,398
Community Development	1,618,717	1,796,215	2,539,343	1,841,079	1,781,191
Community Services	4,623,506	4,217,790	3,779,260	3,198,956	2,742,759
Total Expenditures	<u>\$ 25,767,891</u>	<u>\$ 24,842,326</u>	<u>\$ 21,173,261</u>	<u>\$ 17,413,391</u>	<u>\$ 15,300,001</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 19,119,839	\$ 23,035,361	\$ 21,570,145	\$ 15,208,674	\$ 15,591,976
<u>Other Financing Sources (Uses)</u>					
Transfers in	\$ 679,026	\$ 35,000	\$ 570,500	\$ 727,942	\$ 424,042
Transfers (out)	(18,398,120) ⁽¹⁾	(20,595,765) ⁽¹⁾	(16,907,046) ⁽¹⁾	(12,690,000) ⁽¹⁾	(14,055,422) ⁽¹⁾
Sale of Capital Assets	29,844.00	-	-	-	-
Total Other Financing Sources (Uses)	<u>\$(17,689,250)</u>	<u>\$(20,560,765)</u>	<u>\$(16,336,546)</u>	<u>\$(11,962,058)</u>	<u>\$(13,631,380)</u>
Net Change in Fund Balance	\$ 1,430,589	\$ 2,474,596	\$ 5,233,599	\$ 3,246,616	\$ 1,960,596
Beginning Fund Balance	33,212,156	30,737,560	25,503,961	22,257,345	20,296,749
Ending Fund Balance	<u>\$ 34,642,745</u>	<u>\$ 33,212,156</u>	<u>\$ 30,737,560</u>	<u>\$ 25,503,961</u>	<u>\$ 22,257,345</u>

Source: City's audited financial statements.

- (1) Transfers are primarily to the Cash Capital Fund (generally used for capital projects costing approximately \$1 million or less), and the Fixed Asset Replacement Fund (generally used for the replacement of rolling stock, capital equipment and capital repairs), with smaller transfers to cover operations of various Enterprise Funds, if needed.

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TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, 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. On May 22, 2003, the voters of the City approved the disposition of an additional sales and use tax of one-half of one percent ($\frac{1}{2}\%$ of 1%) that was collected by the Economic Development Corporation. The City has enacted an additional one-half of one percent ($\frac{1}{2}$ of 1%) sales and use tax to be collected by the City for property tax reduction. Beginning October 1, 2003, the City began to collect the one-half of one percent ($\frac{1}{2}$ of 1%) sales and use tax.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2021	\$ 8,614,302	46.22%	\$ 0.2018	\$ 1,002
2022	8,567,998	45.01%	0.2048	918
2023	11,657,309	49.30%	0.2193	1,089
2024	14,169,421	56.06%	0.2395	1,189
2025	11,786,512 ⁽³⁾	42.54%	0.2005	951
2026	10,391,174 ⁽⁴⁾	67.76%	0.1521	758

The City has entered into several agreements for a rebate of sales taxes. (see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" - NOTE # 4).

- (1) Represents only the sales taxes remitted to the City based on its 1.5% levy.
- (2) Based on population estimates by the City.
- (3) No fractionators were being built, which led to a decrease in Sales Tax Revenue.
- (4) Projected unaudited total from the City.

The sales tax breakdown for the City is as follows:

County Sales and Use	0.500%
Property Tax Relief	0.500%
City Sales & Use Tax	1.000%
State Sales & Use Tax	6.250%
Total	<u>8.250%</u>

FINANCIAL POLICIES

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund Types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds represent increases (i.e., revenues and other financing uses) in net current assets. The modified accrual basis of accounting is followed by the Governmental Funds Types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, if measurable, except for principal and interest on general long-term debt, which are recorded when due.

Those revenues susceptible to accrual are ad valorem taxes, franchise taxes, hotel occupancy taxes, interest revenue and charges for services. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

The Budget Officer (City Manager) and City Council follow these procedures in establishing the budgets reflected in the financial statements:

- At least 60 days prior to the beginning of each fiscal year, the Budget Officer (City Manager) submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted at which all interested persons' comments concerning the budget are heard.

3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year.
4. The department level is the legal level of budgetary control. The City has also adopted policy for budgetary control at the operating and capital spending account levels within each department, therefore individual account variances may occur at both the operating and capital expenditure department levels. Transfers between operating departments must be accomplished by budget amendment approved by the City Council. Budget amendments calling for new fund appropriations must also be approved by the City Council.
5. Budgets for the General, Special Revenue and Debt Service Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds.
6. Budgeted amounts remain as originally adopted or as amended by the City Council.

INVESTMENTS

The City invests its investable funds in investments 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.

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 State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025 Texas Government Code; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission (the "SEC") and operating under SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by obligations described in the clauses (1) through (8) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the value of the securities loaned under the program must be not less than 100% collateralized, including accrued income, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (12) certain bankers' acceptances with 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, (13) commercial paper with a stated maturity of 365 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, (14) a no-load money market mutual fund registered with and regulated by the SEC and complies with federal SEC Rule 2a-7, and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities 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 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, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended) (the "PFIA"). All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report to the City Council 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.

Under State 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 records 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 engage in any investment transaction with the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of business organizations (defined as local government investment pool or discretionary investment management firm) offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio, or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization 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 purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (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 14 - CURRENT INVESTMENTS

As of June 30, 2026, the City's investable funds were invested in the following categories:

Description	Percent of Total	Book Value	Market Value
Investment Pools	83.16%	\$167,454,611	\$167,454,611
Cash Insured Accounts	14.18%	28,548,829	28,548,829
Checking Accounts	2.66%	5,352,635	5,352,635
	<u>100.00%</u>	<u>\$201,356,075</u>	<u>\$201,356,075</u>

TAX MATTERS

TAX EXEMPTION . . . The delivery of the Certificates is subject to the opinion of Bond Counsel to the effect that interest on the Certificates for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. A form of Bond Counsel's opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinion, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Certificates. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt Certificates. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Certificates. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Certificates.

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

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN CERTIFICATES . . The initial public offering price of certain Certificates (the "Discount Certificates") may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the Underwriters of such Discount Certificate. A portion of such original issue discount allocable to the holding period of a Discount Certificate by the Underwriters will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Certificates described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an Underwriters in a different amount from the amount of the payment denominated as interest actually received by the Underwriters during the tax year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The purchase price of certain Certificates (the "Premium Certificates") paid by an owner may be greater than the amount payable on such Certificates at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Certificate over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Certificate in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity (or, in some cases with respect to a callable Certificate, the yield based on a call date that results in the lowest yield on the Certificate).

Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance the City has made the following undertaking for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the undertaking while it remains obligated to advance funds to pay such Certificates. Under the undertaking the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board ("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 shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the City ending in or after 2026, financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 14 and (2) if not provided as part of such financial information and operating data, audited financial statements of the City within the twelve months after the end of each fiscal year. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in the Ordinance or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation, and in substantially the form included in the Official Statement, and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

Accordingly, the City must provide updated information included in the above-referenced tables by March 31 in each year, and audited financial statements for the preceding fiscal year must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

NOTICE OF CERTAIN EVENTS . . . The City shall notify the MSRB through EMMA of any of the following events with respect to the Certificates in a timely manner, and not more than 10 business days after occurrence of the event:

1. Principal and interest payment delinquencies; Non-payment related defaults, if material;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Certificates, or other material events affecting the tax status of the Certificates;
7. Modifications to rights of Registered Owners of the Certificates, if material;
8. Certificate 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, which shall occur as described below;
13. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, 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 the financial obligation of the obligated person, any of which reflect financial difficulties.

For these purposes, (a) any event described in the immediately preceding paragraph (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 of the City 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, and (b) "Financial Obligation" in the immediately preceding paragraphs (15) and (16) means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

AVAILABILITY OF INFORMATION . . . The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The City will be obligated to observe and perform its disclosure covenants while it remains an "obligated person" with respect to the Certificates within the meaning of the Rule, except that the City in any event will give the notice required by the Ordinance of any Certificate calls and defeasance that cause the City to be no longer such an "obligated person".

The provisions in the Ordinance are for the sole benefit of the registered owners and beneficial owners of the Certificates, and nothing, express or implied, will give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the financial results, condition, or prospects of the City or the State or hereby undertake to update any information except as expressly provided. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Certificates at any future date.

UNDER NO CIRCUMSTANCES WILL THE CITY BE LIABLE TO THE REGISTERED OWNER OR BENEFICIAL OWNER OF ANY CERTIFICATE OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THE ORDINANCE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligations will constitute a breach of or default.

The City may amend its continuing disclosure undertaking from time to time to adapt to changed circumstances resulting 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, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Certificates in the primary offering of the Certificates 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 (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the Outstanding Certificates consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the registered owners and beneficial owners of the Certificates. The City may also amend or repeal the provisions if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Underwriters from lawfully purchasing the Certificates.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City believes it has substantially complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The Certificates and presently outstanding general obligation debt of the City are rated "Aa1" by Moody's Investors Service, Inc. ("Moody's"), without 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 ratings, or either of them, 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 pending litigation against the City that, if decided adversely against the City, would have a material adverse financial impact upon the City or its operations.

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, investment securities 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 PFIA requires that the Certificates be assigned a rating of not less than "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 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 AND NO-LITIGATION CERTIFICATES

The City will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas 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 Norton Rose Fulbright US LLP, Houston, Texas, Bond Counsel, in substantially the form attached hereto as Appendix C.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the statements and information appearing in the Official Statement under the captions "THE CERTIFICATES" "- SOURCES AND USES OF FUNDS," "- TAX RATE LIMITATIONS," "- BOOK-ENTRY-ONLY SYSTEM," and "- REMEDIES"), and "CONTINUING DISCLOSURE OF INFORMATION" "COMPLIANCE WITH PRIOR UNDERTAKINGS", and Bond Counsel is of the opinion that the information contained therein conforms to the provisions of the Ordinances; further, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "TAX MATTERS," "OTHER INFORMATION – LEGAL OPINIONS AND NO-LITIGATION CERTIFICATES", "OTHER INFORMATION – LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS, " and "OTHER INFORMATION – REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE" and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein. Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent upon the sale and delivery of the Certificates.

Certain legal matters will be passed upon for the Underwriters by Bracewell LLP, Counsel to the Underwriters. The legal fee to be paid to Underwriters' Counsel for services rendered in connection with the sale and delivery of the Certificates is contingent upon the sale and delivery of the Certificates.

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

The City will furnish the Underwriters a certificate, dated as of the date of delivery of the Certificates, executed by an appropriate official of the City, to the effect that no litigation of any nature is then pending or threatened in any court, restraining or enjoining the issuance or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceeding for the issuance, execution or delivery of the Certificates; or affecting the validity of the Certificates.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. 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, 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.

UNDERWRITERS

The Underwriters have agreed, subject to certain conditions, to purchase the Certificates from the City, at a purchase price of \$_____, representing the par amount of the Certificates, plus a [net] premium of \$_____, and less an underwriting discount of \$_____. 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 of the Certificates.

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 federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of the information.

Stifel, Nicolaus & Company, Incorporated ("Stifel") and its affiliates comprise a full service financial institution engaged in activities which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Stifel and its affiliates may have provided, and may in the future provide, a variety of these services to the City and to persons and entities with relationships with the City, for which they received or will receive customary fees and expenses.

In the ordinary course of these business activities, Stifel and its affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City.

Stifel and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire such assets, securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

CYBERSECURITY

Computer networks and data transmission and collection are vital to the operations of the City. Information technology and infrastructure of the City may be subject to attacks by outside or internal hackers and may be subject to breach by employee error, negligence or malfeasance. An attack or breach could compromise systems and the information stored thereon, result in the loss of confidential or proprietary data and disrupt the operations of the City. To mitigate these risks, the City continuously endeavors to improve the range of control for digital information operations, enhancements to the authentication process, and additional measures toward improving system protection/security posture, including required training for City staff and administration.

EXPOSURE TO OIL AND GAS INDUSTRY

Recent volatility in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. In the past, the greater Houston area has been particularly affected by adverse conditions in the oil and gas industry, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the City, resulting in a reduction in property tax revenue. The area in and around the City includes a heavy concentration of petroleum refineries and chemical plants that are a source of employment for City residents. The Certificates are secured by an ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Certificates.

INCREASE IN COSTS OF BUILDING MATERIALS AND LABOR SHORTAGES

As a result of low supply and high demand, shipping constraints, and the ongoing trade war (including tariffs and retaliatory tariffs), there have been substantial increases in the cost of lumber and other materials, causing developers, homebuilders, and general contractors to experience budget overruns. Further, the federal administration's impositions and threatened impositions of tariffs and the imposition or threatened impositions of retaliatory tariffs against the United States will impact the ability of developers, homebuilders, and general contractors to estimate costs, which could have a direct effect on the City's ability to finance water, sanitary, and detention facilities.

Furthermore, the federal administration's immigration policies may impact the Texas workforce.

AUDITED FINANCIAL STATEMENTS

Crowe, LLP, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Crowe, LLP relating to the City's financial statements for the fiscal year ended September 30, 2025 is included in this Official Statement in APPENDIX B; however, Crowe, LLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

HURRICANE BERYL

The City sustained high levels of wind and rainfall as a result of Hurricane Beryl's landfall along the Texas gulf coast on July 8, 2024. According to the observations of the City, there were no interruptions of water and sewer service as a result of Hurricane Beryl. Also, the City did not receive reports that any homes or improvements within the City experienced flooding or other structural damage as a result of Hurricane Beryl.

The City is subject to occasional severe weather events, including tropical storms and hurricanes. The City has experienced various storms exceeding a 0.2% probability (i.e. "500-year flood" events). If the City were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the City as a result of such a weather event, the investment security of the Certificates could be adversely affected.

If a future weather event significantly damaged all or part of the improvements within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase 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 that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the City. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the City could be adversely affected.

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 hurricanes, tropical storms, and other tropical disturbances. If a weather-related event were to significantly damage all or part of the properties comprising the tax base within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase 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 that property owners will choose to carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the City. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the City could be adversely affected.

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.

APPROVAL OF OFFICIAL STATEMENT

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

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

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

GENERAL

The City, located in Chambers County, Texas and Liberty County, Texas at the junction of State Highway 146 and Interstate 10, approximately 35 miles east of Houston, was incorporated April 11, 1966, but has been in existence as a community for a considerably longer period. The community had previously been known as Barbers Hill, a name still preserved by the local school district, taken from a geological formation peculiar to the area, a salt dome.

The City has excellent access to recreational facilities. Trinity Bay, which is ten minutes from the City, offers beaches and fishing year-round. The City of Houston is located approximately 35 miles west of the City. Houston's many colleges and universities, hospitals and its cultural and entertainment facilities are readily available.

INDUSTRY

With a major oil field within the city limits, the City benefits from mineral production and satellite industries. The Barbers Hill Oil Field was the sixth major oil field discovered in Texas, production of which began in 1916.

The salt dome at the City is reputedly the largest developed salt dome in the world. Salt is solution mined and the brine is piped to industry along the Houston Ship Channel for the production of chlorine. Besides mineral production, the dome has proven a unique method of storage for gaseous and other products. Deep cavities created are especially well-suited for underground storage purposes. Using an excavation method similar to the Frasch process of sulfur mining, water is forced into underground deposits and the stored products are brought to the surface.

The major companies involved in these operations are included in the "Principal Taxpayers" section. Overall, it is estimated that industry employs approximately 1,300 people within the City resulting in a direct payroll of approximately \$63 million. These companies in turn serve many of the major petrochemical plants, pipelines and other industries along the Texas Gulf Coast.

OPERATIONS

The City provides water and sewer utilities to the area which is administered by a department within the City. The City also operates police, fire, EMS, parks, the Eagle Point Golf Course, Eagle Point Recreation Center, sanitation and animal control departments. The City has 224 full-time employees, 73 part-time employees and 32 seasonal positions budgeted for. The City also offers MB Link, a broadband fiber network to residents.

Texas law prohibits municipal employees from engaging in strikes and collective bargaining. An exception allows firefighters and police officers to engage in collective bargaining (but not to strike) after a favorable vote of the electorate. The voters have not approved collective bargaining for either firefighters or police officers. In 1993, a state law was enacted that permits firefighters to organize bargaining units to negotiate wages and working conditions with the Mayor and City council. The statute does not mandate that City officials open meetings to the public.

EDUCATION

Barbers Hill Independent School District (the "District") has one early childhood center, two elementary schools, two intermediate schools, two middle schools, one high school and one alternative campus with a total enrollment of approximately 8,200 students. The District encompasses a 192.3-square mile area.

Located in the neighboring City of Baytown since 1934, Lee College is a public co-educational, two-year community college offering liberal arts, technical and continuing education. The 37-acre campus, comprised of ten major buildings and several small facilities, serves in excess of 12,000 students per year. The college offers quality education that serves a wide range of needs and ambitions. A branch campus will open in Mont Belvieu in the Fall of 2027.

TRANSPORTATION

Transportation opportunities are extensive due to the already existing enterprises within and surrounding the City. Interstate 10 is the main corridor through Chambers County, and as with all portions of the county, this thoroughfare provides Mont Belvieu with many financial opportunities. Also, a wide range of efficient transportation sources, including rail, air, and water are available to companies and individuals located in the Baytown/West Chambers County Area. Freight rail service is provided by the Union Pacific and Southern Pacific railroad.

There are two major airports within 30 miles of the area, George Bush Intercontinental Airport to the north and William P. Hobby Airport to the south of downtown Houston. Both provide passenger and cargo service throughout the United States and to 29 foreign markets. Additionally, Houston is served by every major overnight delivery service in the United States.

The Houston Ship Channel, located minutes away from the Mont Belvieu area, is 40 feet deep and 400 feet wide, stretching 50 miles from the Gulf of Mexico just east of Galveston Island to the Turning Basin six miles from downtown Houston.

West Chambers County is bisected by Interstate 10 (east and west), State Highway 146 (north and south), and State Highway 99 (north and south) respectively. Other state and local highways linking the area are FM 565, FM 1492, FM 3180, and FM 207.

THE COUNTY

Chambers County (the "County") is located on the Upper Texas Gulf Coast, bordered on the east by Jefferson County (Beaumont - Port Arthur), on the west by Harris County (Houston), on the north by Liberty County and on the south and southwest by Galveston County. The county seat, Anahuac, is located at the mouth of the Trinity River. It comprises an area of 613.5 square miles of land and 294.4 square miles of water. The County has an estimated population of 46,571. Physiographically, Chambers County can be described as having broad areas of relatively flat coastal plains inland from coastal marshes, between wooded belts along rivers and minor streams and bordering the large coastal estuaries of Trinity and Galveston Bays. Environmentally, the County has suffered relatively little natural degradation and alteration from outside development.

The County's diversity is also shown in its economic makeup. The oil and gas industry can be seen throughout the County. Numerous petrochemical plants in the area produce a variety of products. The County's flat coastal plains water supply provide the basis for agriculture including ranching, rice, and soybean farming being primary. The commercial fishing industry of Galveston and Trinity Bays also play an important part in the County's economy. Throughout the county the construction and service industries, along with a growing number of retail and manufacturing businesses all play a part in the county's economy.

EMPLOYMENT STATISTICS

	June	Average Annual				
	2026	2025	2024	2023	2022	2021
Civilian Labor Force	27,645	27,436	26,794	21,715	21,015	20,767
Employed	26,060	26,109	25,551	20,550	19,906	19,080
Unemployed	1,585	1,327	1,243	1,165	1,109	1,687
Percent Unemployed	5.73%	4.84%	4.64%	5.36%	5.28%	8.12%

Source: Texas Workforce Commission.

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APPENDIX B

EXCERPTS FROM THE
CITY OF MONT BELVIEU, TEXAS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the Year Ended September 30, 2025

The information contained in this Appendix consists of excerpts from the City of Mont Belvieu, Texas Annual Comprehensive Financial Report for the Year Ended September 30, 2025, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
City Council Members of the
City of Mont Belvieu, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Mont Belvieu, Texas (the "City"), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2025, 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 (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and total other postemployment benefits liability and related ratios, schedule of the City's proportionate share of the net pension liability, and schedule of contributions, identified as Required Supplementary Information on the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

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 statements and schedules as identified in the table of contents 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 was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2026 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 the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Crowe LLP

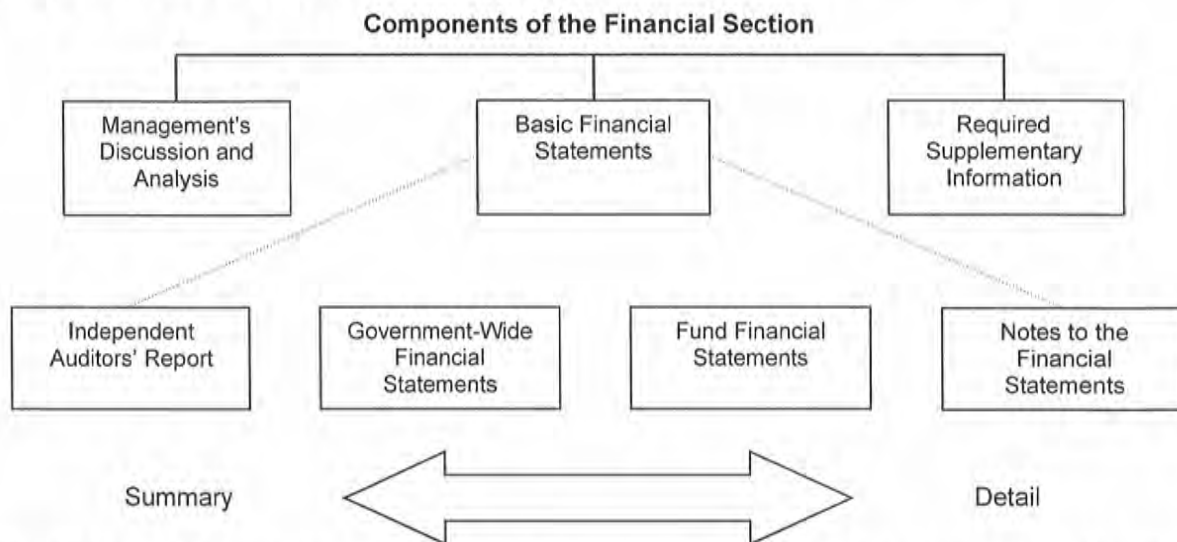
Houston, Texas
March 5, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2025

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Mont Belvieu, Texas (the "City") for the year ending September 30, 2025. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



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

Government-Wide Statements

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

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

(Continued)

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2025

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

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

1. *Governmental Activities* – Most of the City's basic services are reported here, including public safety (police, fire, and emergency medical services), community services (building permits/inspection), community development, and general government (City administrator, City secretary, finance, human resources, and information technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – City-provided services where a fee is paid for those services are reported here. These services include the City's golf course, recreation center, water and wastewater public utilities, high speed internet, and solid waste services.

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains 29 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital projects-CIP fund, 2023 construction fund, 2024 construction fund and 2025 construction fund, which are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for its general fund and debt service fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with those budgets.

(Continued)

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2025

Proprietary Fund

The City maintains one type of proprietary fund, enterprise 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 its golf course, recreation center, water distribution and wastewater collection/treatment (public utility), high speed internet, and solid waste. The proprietary fund financial statements provide separate information for the respective enterprise funds. The proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund, schedule of changes in net pension liability and related ratios – Texas Municipal Retirement System (TMRS), schedule of the City's proportionate share of the net pension liability – Texas Emergency Services Retirement System (TESRS), schedule of changes in the total OPEB liability and related ratios – Supplemental Death Benefits Fund, and schedules of contributions for TMRS and TESRS. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$301,532,475 as of year end, representing an increase of \$23,525,257 over the prior year. A portion of the City's net position, 68 percent, reflects its investments in capital assets (e.g., land, City Hall, police station, fleet equipment, drainage systems, as well as the public works facilities) less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

(Continued)

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2025

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	2025			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
ASSETS				
Current and other assets	\$ 192,568,783	\$ 8,119,116	\$ -	\$ 200,687,899
Capital assets, net	191,751,371	106,044,038	-	297,795,409
Total assets	<u>384,320,154</u>	<u>114,163,154</u>	<u>-</u>	<u>498,483,308</u>
DEFERRED OUTFLOWS ON RESOURCES				
Deferred outflows - pensions/OPEB	2,510,949	418,625	-	2,929,574
Total deferred outflows on resources	<u>2,510,949</u>	<u>418,625</u>	<u>-</u>	<u>2,929,574</u>
LIABILITIES				
Long-term liabilities	177,032,819	11,647,242	-	188,680,061
Other liabilities	8,460,505	2,022,499	-	10,483,004
Total liabilities	<u>185,493,324</u>	<u>13,669,741</u>	<u>-</u>	<u>199,163,065</u>
DEFERRED INFLOWS ON RESOURCES				
Deferred inflows - pensions/OPEB	579,007	138,335	-	717,342
Total deferred inflows on resources	<u>579,007</u>	<u>138,335</u>	<u>-</u>	<u>717,342</u>
NET POSITION				
Net investment in capital assets	110,344,986	95,625,491	(323,818)	205,646,659
Restricted	1,807,361	-	-	1,807,361
Unrestricted	<u>88,606,425</u>	<u>5,148,212</u>	<u>323,818</u>	<u>94,078,455</u>
Total net position	<u>\$ 200,758,772</u>	<u>\$ 100,773,703</u>	<u>\$ -</u>	<u>\$ 301,532,475</u>

(Continued)

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2025

	2024			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
ASSETS				
Current and other assets	\$ 122,216,635	\$ 7,992,370	\$ -	\$ 130,209,005
Capital assets, net	195,612,755	80,089,949	-	275,702,704
Total assets	317,829,390	88,082,319	-	405,911,709
DEFERRED OUTFLOWS ON RESOURCES				
Deferred outflows - pensions/OPEB	2,453,637	493,781	-	2,947,418
Total deferred outflows on resources	2,453,637	493,781	-	2,947,418
LIABILITIES				
Long-term liabilities	105,222,695	12,344,195	-	117,566,890
Other liabilities	11,225,317	1,708,429	-	12,933,746
Total liabilities	116,448,012	14,052,624	-	130,500,636
DEFERRED INFLOWS ON RESOURCES				
Deferred inflows - pensions/OPEB	274,765	76,508	-	351,273
Total deferred inflows on resources	274,765	76,508	-	351,273
NET POSITION				
Net investment in capital assets	124,870,398	68,974,729	(531,041)	193,314,086
Restricted	961,012	-	-	961,012
Unrestricted	77,728,840	5,472,239	531,041	83,732,120
Total net position	\$ 203,560,250	\$ 74,446,968	\$ -	\$ 278,007,218

The City's governmental activities net position decreased from \$203,560,250 to \$200,758,772, largely as a result of transfers to business-type activities. The net position of business-type activities increased to \$100,773,703 from \$74,446,968, primarily due to transfers in from governmental activities. The City can use the unrestricted portion of net position of \$94,078,455 as needed to provide municipal services.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities in the amount of \$323,818 is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

(Continued)

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2025

Statement of Activities

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

	For the Year Ended September 30, 2025			For the Year Ended September 30, 2024		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues						
Charges for services	\$ 2,154,205	15,551,363	\$ 17,705,568	\$ 1,417,378	\$ 13,487,517	\$ 14,904,895
Operating grants and contributions	3,149,881	-	3,149,881	3,086,188	-	3,086,188
General revenues						
Ad valorem taxes	27,386,445	-	27,386,445	24,603,363	-	24,603,363
Sales taxes	11,786,512	-	11,786,512	14,169,421	-	14,169,421
Franchise fees and local taxes	7,912,616	-	7,912,616	7,709,941	-	7,709,941
Other taxes	238,735	-	238,735	276,016	-	276,016
Investment income	5,911,750	289,268	6,201,018	6,828,796	323,114	7,151,910
Other	12,429,489	36,366	12,465,855	12,101,748	(41,383)	12,060,365
Total revenues	<u>70,969,633</u>	<u>15,876,997</u>	<u>86,846,630</u>	<u>70,192,851</u>	<u>13,769,248</u>	<u>83,962,099</u>
Expenses						
General government	11,238,641	-	11,238,641	13,128,224	-	13,128,224
Public safety	15,784,896	-	15,784,896	14,163,073	-	14,163,073
Community development	5,456,087	-	5,456,087	6,069,881	-	6,069,881
Community services	5,539,935	-	5,539,935	4,990,435	-	4,990,435
Interest and fees on debt	5,479,586	-	5,479,586	3,143,267	-	3,143,267
Golf course	-	4,108,078	4,108,078	-	3,645,520	3,645,520
Public utilities	-	7,648,487	7,648,487	-	7,048,339	7,048,339
High speed internet	-	2,704,739	2,704,739	-	2,960,693	2,960,693
Recreation center and solid waste	-	5,360,924	5,360,924	-	5,228,537	5,228,537
Total expenses	<u>43,499,145</u>	<u>19,822,228</u>	<u>63,321,373</u>	<u>41,494,880</u>	<u>18,883,089</u>	<u>60,377,969</u>
Increase (decrease) in net position before transfers	27,470,488	(3,945,231)	23,525,257	28,697,971	(5,113,841)	23,584,130
Transfers in (out)	(30,271,966)	30,271,966	-	(17,266,924)	17,266,924	-
Change in net position	(2,801,478)	26,326,735	23,525,257	11,431,047	12,153,083	23,584,130
Net position-beginning of year	<u>203,560,250</u>	<u>74,446,968</u>	<u>278,007,218</u>	<u>192,129,203</u>	<u>62,293,885</u>	<u>254,423,088</u>
Net position-end of year	\$ 200,758,772	\$ 100,773,703	\$ 301,532,475	\$ 203,560,250	\$ 74,446,968	\$ 278,007,218

(Continued)

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2025

For the year ended September 30, 2025, revenue from governmental activities before transfers totaled \$70,969,633, which remained comparable to the prior year. For the year ended September 30, 2025, expenses from governmental activities before transfers totaled \$43,499,145, which is a 5 percent increase from the previous year. The increase is primarily due to increases in public safety primarily due to an increase in personnel costs and depreciation and interest and fees on debt expenses as a result of new certificates of obligation issued during the year.

Business-type activities are shown comparing expenses of \$19,822,228 to total revenues of \$15,876,997 generated by related services. Business-type activities revenue increased by \$2,107,749 from the prior year mainly due to charges for services. Charges for services primarily increased due to growth in the City increasing customer counts, as well as additional customers being added to the golf course, and water distribution and wastewater collection/treatment service. Business-type activities expenses increased by \$939,139 from the prior year mainly due to increases in golf course personnel salaries, costs of sales and services, and capital asset depreciation expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$182,795,370. Of this, \$34,619,887 is unassigned and available for day-to-day operations of the City, \$57,194,134 is assigned to various capital project items, \$9,484 is assigned for animal services, \$89,141,646 is restricted for capital projects, \$796,065 is restricted for special projects, \$1,011,296 is restricted for debt service, and \$22,858 is nonspendable.

The general fund is the chief operating fund of the City. At the end of the fiscal year, unassigned fund balance in the general fund was \$34,619,887, while total fund balance reached \$34,642,745. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 134% percent of total general fund expenditures, while total fund balance also represents 134% percent of total general fund expenditures. There was an increase in fund balance of \$1,430,589 from the prior year for the general fund. The increase in fund balance is primarily related to a decrease in transfers out compared to the prior year.

The debt service fund balance totaled \$1,011,296 as of year end, which is a net increase of \$483,405 from the previous year. This increase can primarily be attributed to increases in property tax revenue in the debt service fund.

There was an increase of \$11,958,588 in the capital projects-CIP fund balance for a total of \$39,215,532 at year end. This increase is primarily due to transfers in from the general fund to continue ongoing capital projects and proceeds from the sale of capital assets.

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2025

The 2023 construction fund ended the year with \$11,741,350 in fund balance which represented a decrease of \$15,448,225 as a result of the use of bond funding for continued capital projects ongoing within the City.

The 2024 construction fund ended the year with \$20,278,359 in fund balance which represented an increase of \$20,278,359 as a result of proceeds from the issuance of debt.

The 2025 construction fund ended the year with \$56,453,223 in fund balance which represented a increase of \$56,453,223 as a result of proceeds from the issuance of debt.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

General fund actual revenues exceeded budgeted revenues by a net \$6,772,278. This is largely due to actual sales tax revenue exceeding the budget by \$4,370,025. This was primarily related to increased commercial activity throughout the City, as well as conservative estimates by the City.

Total expenditures in the general fund were less than budgeted by \$3,660,768. The positive variance in the general government, public safety, and community development departments contributed to the overall positive variance. This variance is primarily due to less personnel-related expenditures than anticipated during the year.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$297,795,409 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$22,092,705.

Significant capital asset acquisitions during the current year included the following:

- Significant road and utility infrastructure improvements
- 21 new vehicles

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

LONG-TERM DEBT

At the end of the current year, the City had general obligation debt of \$160,585,000 related to governmental activities and \$9,980,000 related to business-type activities.

More detailed information about the City's long-term liabilities is presented in note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of Mont Belvieu enters Fiscal Year 2025–2026 in a position of exceptional financial strength and strategic momentum. Despite continued national economic pressures, including inflationary impacts and elevated interest rates, the City has maintained disciplined fiscal management, conservative budgeting practices, and a sustained focus on long-term infrastructure and service delivery.

(Continued)

CITY OF MONT BELVIEU, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2025

The City continues to experience steady, managed growth. The City's estimated population is 13,700 by 2026, supported by a service area population of approximately 46,000 residents. Median home values have increased to \$443,066, reflecting continued market strength and residential demand.

Long-term growth remains anchored by the Riceland Master Planned Community, a 1,400-acre development anticipated to deliver nearly 4,000 single-family homes over the next two decades. This development will include a new town center and more than \$200 million in public infrastructure and amenities.

The 2025-2026 budget reflects significant revenue growth driven primarily by new development and valuation increases. The City will raise \$7.76 million (28%) more in property tax revenue than the prior year, with \$5.72 million attributable to new property added to the tax roll.

Total General Fund revenue for 2025-2026 is budgeted at \$42.46 million, an increase of 11.4% year over year. Property tax revenue increased by 36%, supported by more than \$1.08 billion in new taxable value.

The City maintains a conservative reserve policy, ending 2025–2026 with 365 days of General Fund reserves, equating to approximately \$34.6 million.

The 2025-2026 budget includes more than \$21 million in active capital investments, with over \$126 million in future Capital Improvement Projects identified through 2029. The City also maintains a fully funded \$10 million Capital Improvement Fund and a \$5 million Fixed Asset Replacement Fund reserve.

Public safety remains the City's largest General Fund investment, accounting for 34% of total General Fund expenditures. The FY 2025–2026 budget supports expanded police, fire, and EMS staffing while maintaining operational efficiency.

The City maintained its Aa1 credit rating in 2025, with a true interest cost of 4.27%. According to Moody's, the rating reflects exceptionally strong financial reserves, liquidity, and prudent fiscal management. The issuance of Bond Series 2025 in the amount of \$54.8 million will further support key infrastructure investments.

Enterprise operations continue to strengthen. MB Link maintains 83% residential market penetration and is projected to exceed 3,000 residential subscribers by 2026 while covering its own debt service. The Golf Course, Recreation Center, Public Works, and Solid Waste operations continue to demonstrate financial sustainability.

The 2025-2026 tax rate was set at \$0.525826 per \$100 of assessed valuation. The City continues to adhere to fiscally conservative principles, emphasizing future maintenance, operations, and capital investment while maintaining a competitive tax rate.

The City is the model city for strategic planning, diverse tax base, and commitment to innovation and infrastructure that positions the City for sustained growth and success. The comprehensive planning process ensures alignment with City Council priorities, long-term goals, and the needs of the community.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City's finance department, City of Mont Belvieu, P.O. Box 1048, Mont Belvieu, Texas, 77580.

BASIC FINANCIAL STATEMENTS

CITY OF MONT BELVIEU, TEXAS
STATEMENT OF NET POSITION
September 30, 2025

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
ASSETS				
Cash and cash equivalents	\$ 6,342,697	\$ 795,523	\$ -	\$ 7,138,220
Investments	181,087,492	5,212,950	-	186,300,442
Receivables, net	5,041,710	1,880,315	-	6,922,025
Internal balances	74,026	(74,026)	-	-
Prepaid items	11,344	4,833	-	16,177
Inventory	11,514	299,521	-	311,035
Capital assets				
Nondepreciable	27,802,294	56,600,595	-	84,402,889
Net depreciable capital assets	163,949,077	49,443,443	-	213,392,520
Total assets	<u>384,320,154</u>	<u>114,163,154</u>	<u>-</u>	<u>498,483,308</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pensions - TMRS	1,829,370	418,625	-	2,247,995
Deferred outflows - pensions - TESRS	648,419	-	-	648,419
Deferred outflows - OPEB - TMRS	33,160	-	-	33,160
Total deferred outflows of resources	<u>2,510,949</u>	<u>418,625</u>	<u>-</u>	<u>2,929,574</u>
LIABILITIES				
Accounts payable and accrued liabilities	7,248,537	1,669,837	-	8,918,374
Unearned revenue	369,560	312,347	-	681,907
Accrued interest payable	842,408	40,315	-	882,723
Long-term liabilities				
Due within one year	9,748,769	1,090,954	-	10,839,723
Due in more than one year	167,284,050	10,556,288	-	177,840,338
Total long-term liabilities	<u>177,032,819</u>	<u>11,647,242</u>	<u>-</u>	<u>188,680,061</u>
Total liabilities	<u>185,493,324</u>	<u>13,669,741</u>	<u>-</u>	<u>199,163,065</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pensions - TMRS	465,856	138,335	-	604,191
Deferred inflows - pensions - TESRS	-	-	-	-
Deferred inflows - OPEB - TMRS	113,151	-	-	113,151
Total deferred inflows of resources	<u>579,007</u>	<u>138,335</u>	<u>-</u>	<u>717,342</u>
NET POSITION				
Net investment in capital assets	110,344,986	95,625,491	(323,818)	205,646,659
Restricted for				
Debt service	1,011,296	-	-	1,011,296
Special projects	796,065	-	-	796,065
Unrestricted	88,606,425	5,148,212	323,818	94,078,455
Total net position	<u>\$ 200,758,772</u>	<u>\$ 100,773,703</u>	<u>\$ -</u>	<u>\$ 301,532,475</u>

See notes to financial statements.

CITY OF MONT BELVIEU, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2025

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Government Activities	Business-Type Activities	Total
Primary Government						
Governmental activities						
General government	\$ 11,238,641	\$ -	\$ 1,122,405	\$ (10,116,236)	\$ -	\$ (10,116,236)
Public safety	15,784,896	1,300,846	1,400,310	(13,083,740)	-	(13,083,740)
Community development	5,456,087	853,359	-	(4,602,728)	-	(4,602,728)
Community services	5,539,935	-	627,166	(4,912,769)	-	(4,912,769)
Interest and fees on debt	5,479,586	-	-	(5,479,586)	-	(5,479,586)
Total governmental activities	43,499,145	2,154,205	3,149,881	(38,195,059)	-	(38,195,059)
Business-type activities						
Golf course	4,108,078	3,627,301	-	-	(480,777)	(480,777)
Public utilities	7,648,487	4,818,956	-	-	(2,829,531)	(2,829,531)
High speed internet	2,704,739	2,922,949	-	-	218,210	218,210
Recreation and solid waste	5,360,924	4,182,157	-	-	(1,178,767)	(1,178,767)
Total business-type activities	19,822,228	15,551,363	-	-	(4,270,865)	(4,270,865)
Total primary government	\$ 63,321,373	\$ 17,705,568	\$ 3,149,881	(38,195,059)	(4,270,865)	(42,465,924)
General revenues						
Taxes						
Ad valorem taxes				27,386,445	-	27,386,445
Sales taxes				11,786,512	-	11,786,512
Franchise fees and local taxes				7,912,616	-	7,912,616
Other taxes				238,735	-	238,735
Investment income				5,911,750	289,268	6,201,018
Other revenues				9,041,389	-	9,041,389
Gain (loss) on sale of assets				3,388,100	36,366	3,424,466
Transfers and contributions				(30,271,966)	30,271,966	-
Total general revenues and transfers				35,393,581	30,597,600	65,991,181
Change in net position				(2,801,478)	28,326,735	23,525,257
Beginning net position				203,560,250	74,446,968	278,007,218
Ending net position				\$ 200,758,772	\$ 100,773,703	\$ 301,532,475

See notes to financial statements.

CITY OF MONT BELVIEU, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2025

	General	Debt Service	Capital Projects-CIP	2023 Construction	2024 Construction	2025 Construction	Nonmajor Governmental	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 5,671,383	\$ 165,978	\$ 454,461	\$ 426	\$ 7,945	\$ -	\$ 42,504	\$ 6,342,697
Investments	28,790,126	847,088	40,782,504	14,118,449	20,459,453	56,551,223	19,538,649	181,087,492
Receivables, net	4,728,462	33,215	146,478	-	-	-	133,555	5,041,710
Due from other funds	74,026	-	-	-	-	-	-	74,026
Inventory	11,514	-	-	-	-	-	-	11,514
Prepaid items	11,344	-	-	-	-	-	-	11,344
Total assets	<u>\$ 39,286,855</u>	<u>\$ 1,046,281</u>	<u>\$ 41,383,443</u>	<u>\$ 14,118,875</u>	<u>\$ 20,467,398</u>	<u>\$ 56,551,223</u>	<u>\$ 19,714,708</u>	<u>\$ 192,568,783</u>
LIABILITIES								
Accounts payable and accrued liabilities	\$ 2,271,129	\$ 1,770	\$ 2,167,911	\$ 2,377,525	\$ 189,039	\$ 98,000	\$ 143,163	\$ 7,248,537
Unearned revenue	250,880	-	-	-	-	-	118,680	369,560
Total liabilities	<u>2,522,009</u>	<u>1,770</u>	<u>2,167,911</u>	<u>2,377,525</u>	<u>189,039</u>	<u>98,000</u>	<u>261,843</u>	<u>7,618,097</u>
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue - property taxes	35,975	33,215	-	-	-	-	-	69,190
Unavailable revenue - EMS charges	2,086,126	-	-	-	-	-	-	2,086,126
Total deferred inflows of resources	<u>2,122,101</u>	<u>33,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,155,316</u>

(Continued)

CITY OF MONT BELVIEU, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2025

	General	Debt Service	Capital Projects-CIP	2023 Construction	2024 Construction	2025 Construction	Nonmajor Governmental	Total Governmental Funds
FUND BALANCES								
Nonspendable								
Inventory	\$ 11,514	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,514
Prepaid items	11,344	-	-	-	-	-	-	11,344
Restricted								
Debt service	-	1,011,296	-	-	-	-	-	1,011,296
Special projects	-	-	-	-	-	-	796,065	796,065
Capital projects	-	-	-	11,741,350	20,278,359	56,453,223	668,714	89,141,646
Assigned								
Animal services	-	-	-	-	-	-	9,484	9,484
Capital projects	-	-	39,215,532	-	-	-	17,978,602	57,194,134
Unassigned	34,619,887	-	-	-	-	-	-	34,619,887
Total fund balances	34,642,745	1,011,296	39,215,532	11,741,350	20,278,359	56,453,223	19,452,865	182,795,370
Total liabilities, deferred inflows of resources, and fund balances	\$ 39,286,855	\$ 1,046,281	\$ 41,383,443	\$ 14,118,875	\$ 20,467,398	\$ 56,551,223	\$ 19,714,708	\$ 192,568,783

See notes to financial statements.

CITY OF MONT BELVIEU, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2025

Total fund balances for governmental funds \$ 182,795,370

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

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

Capital assets - nondepreciable	27,802,294
Capital assets - depreciable, net	163,949,077

Long-term liabilities and deferred outflows and deferred inflows related to bonds and the net pension and total other post employment benefit (OPEB) liability are deferred in the governmental funds.

Net pension liability	(4,363,522)
Total OPEB liability	(265,483)
Deferred outflows - pensions	2,477,789
Deferred outflows - OPEB	33,160
Deferred inflows - pensions	(465,856)
Deferred inflows - OPEB	(113,151)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,155,316
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Some liabilities, including bonds payable, accrued interest, and compensated absences, are not reported as liabilities in the governmental funds.

Accrued interest payable	(842,408)
Noncurrent liabilities due in one year	(9,748,769)
Noncurrent liabilities due in more than one year	<u>(162,655,045)</u>

Net position of governmental activities	<u>\$ 200,758,772</u>
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See notes to financial statements.

CITY OF MONT BELVIEU, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS
For the year ended September 30, 2025

	General	Debt Service	Capital Projects-CIP	Formerly Major Fund Fixed Asset Replacement	2023 Construction	2024 Construction	2025 Construction	Nonmajor Governmental	Total Governmental Funds
Revenues									
Ad valorem taxes	\$ 14,892,010	\$ 12,481,766	\$ -		\$ -	\$ -	\$ -	\$ -	\$ 27,373,776
Sales tax	11,786,512	-	-		-	-	-	-	11,786,512
Franchise fees and local taxes	7,912,616	-	-		-	-	-	-	7,912,616
Other taxes	127,762	-	-		-	-	-	110,973	238,735
Licenses and permits	853,359	-	-		-	-	-	-	853,359
Fines and forfeitures	207,794	-	-		-	-	-	18,856	226,650
Charges for services	771,291	-	-		-	-	-	-	771,291
Intergovernmental	1,122,405	-	627,166		-	-	-	1,400,310	3,149,881
Investment income	1,762,641	226,010	1,175,879		919,434	941,969	53,860	831,957	5,911,750
Other revenue	5,451,340	207	1,586,955		-	-	-	2,002,887	9,041,389
Total revenues	44,887,730	12,707,983	3,390,000		919,434	941,969	53,860	4,364,983	67,265,959
Expenditures									
Current									
General government	8,121,254	-	-		-	-	-	127,161	8,248,415
Public safety	11,404,414	-	-		-	-	-	18,301	11,422,715
Community development	1,618,717	-	1,000		-	-	-	-	1,619,717
Community services	4,623,506	-	-		-	-	-	175,879	4,799,385
Capital outlay	-	-	12,297,180		16,367,659	2,810,939	98,000	8,243,895	39,817,673
Debt service									
Principal	-	7,645,000	-		-	-	-	-	7,645,000
Interest and fiscal charges	-	4,579,578	-		-	-	-	-	4,579,578
Issuance costs	-	-	-		-	229,993	841,861	-	1,071,854
Total expenditures	25,767,891	12,224,578	12,298,180		16,367,659	3,040,932	939,861	8,565,236	79,204,337
Excess (deficiency) of revenues over (under) expenditures	19,119,839	483,405	(8,908,180)		(15,448,225)	(2,098,963)	(886,001)	(4,200,253)	(11,938,378)

(Continued)

CITY OF MONT BELVIEU, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS
For the year ended September 30, 2025

	General	Debt Service	Capital Projects-CIP	Formerly Major Fund Fixed Asset Replacement	2023 Construction	2024 Construction	2025 Construction	Nonmajor Governmental	Total Governmental Funds
Other Financing Sources (Uses)									
Debt issued	\$ -	\$ -	\$ -		\$ -	\$ 20,535,000	\$ 54,775,000	\$ -	\$ 75,310,000
Bond premium	-	-	-		-	1,700,757	2,564,224	-	4,264,981
Transfers in	679,026	-	15,984,510		-	141,565	-	2,926,361	19,731,462
Transfers (out)	(18,398,120)	-	(565,506)		-	-	-	(478,810)	(19,442,436)
Sale of capital assets	29,844	-	5,447,764		-	-	-	-	5,477,608
Total other financing sources (uses)	(17,689,250)	-	20,866,768		-	22,377,322	57,339,224	2,447,551	85,341,615
Net change in fund balances	1,430,589	483,405	11,958,588		(15,448,225)	20,278,359	56,453,223	(1,752,702)	73,403,237
Beginning fund balances, as previously presented	33,212,156	527,891	27,256,944	13,476,096	27,189,575	-	-	7,729,471	109,392,133
Change within financial reporting entity	-	-	-	(13,476,096)	-	-	-	13,476,096	-
Beginning fund balances, as adjusted	33,212,156	527,891	27,256,944	-	27,189,575	-	-	21,205,567	109,392,133
Ending fund balances	\$ 34,642,745	\$ 1,011,296	\$ 39,215,532		\$ 11,741,350	\$ 20,278,359	\$ 56,453,223	\$ 19,452,865	\$ 182,795,370

See notes to financial statements.

CITY OF MONT BELVIEU, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the year ended September 30, 2025

Net change in fund balances - total governmental funds	\$ 73,403,237
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlay	38,167,080
Depreciation expense	(9,377,964)
Disposals, net	(2,089,508)
Transfer of capital assets from governmental activities to business-type activities	(30,560,992)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred ad valorem tax revenue	12,669
Deferred emergency medical services revenue	302,905

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

Principal expenditures	7,645,000
Proceeds from debt issued	(75,310,000)
Premium on bonds issued	(4,264,981)
Amortization of bond premiums	773,697
Accrued interest payable	(601,851)
Sales tax refund agreement	42,312
Compensated absences	(484,296)
Deferred outflows - pensions	71,195
Deferred inflows - pensions	(317,476)
Deferred outflows - OPEB	(13,883)
Deferred inflows - OPEB	13,234
Net pension liability	(194,357)
Total OPEB liability	(17,499)

Change in net position of governmental activities	\$ <u>(2,801,478)</u>
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See notes to financial statements.

CITY OF MONT BELVIEU, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2025

	Business-Type Activities - Enterprise Funds				
	<u>Golf Course</u>	<u>Public Utility</u>	<u>High Speed Internet</u>	<u>Total Nonmajor Enterprise</u>	<u>Total Funds</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 464,041	\$ 161,720	\$ 440	\$ 169,322	\$ 795,523
Investments	155,183	2,595,995	2,461,772	-	5,212,950
Receivables, net	154,456	789,652	502,586	433,621	1,880,315
Inventory	264,128	11,240	-	24,153	299,521
Prepays	913	2,120	624	1,176	4,833
Total assets	<u>1,038,721</u>	<u>3,560,727</u>	<u>2,965,422</u>	<u>628,272</u>	<u>8,193,142</u>
Noncurrent assets					
Capital assets					
Nondepreciable	14,013,224	41,690,329	-	897,042	56,600,595
Net depreciable	<u>1,936,696</u>	<u>31,098,399</u>	<u>12,382,777</u>	<u>4,025,571</u>	<u>49,443,443</u>
Total noncurrent assets	<u>15,949,920</u>	<u>72,788,728</u>	<u>12,382,777</u>	<u>4,922,613</u>	<u>106,044,038</u>
Total assets	<u>16,988,641</u>	<u>76,349,455</u>	<u>15,348,199</u>	<u>5,550,885</u>	<u>114,237,180</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - pensions	-	260,649	103,267	54,709	418,625
Total deferred outflows of resources	<u>-</u>	<u>260,649</u>	<u>103,267</u>	<u>54,709</u>	<u>418,625</u>

(Continued)

CITY OF MONT BELVIEU, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2025

	Business-Type Activities - Enterprise Funds				
	<u>Golf Course</u>	<u>Public Utility</u>	<u>High Speed Internet</u>	<u>Total Nonmajor Enterprise</u>	<u>Total Funds</u>
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	\$ 264,589	\$ 678,572	\$ 537,972	\$ 229,019	\$ 1,710,152
Due to other funds	-	-	-	74,026	74,026
Compensated absences	82,664	167,984	61,107	89,199	400,954
Unearned revenue	156,939	-	-	155,408	312,347
Bonds payable within one year	-	-	690,000	-	690,000
Total current liabilities	<u>504,192</u>	<u>846,556</u>	<u>1,289,079</u>	<u>547,652</u>	<u>3,187,479</u>
Noncurrent liabilities					
Compensated absences	9,185	18,665	6,790	9,911	44,551
Net pension liability	-	445,691	244,673	92,826	783,190
Bonds payable, net	-	-	9,728,547	-	9,728,547
Total liabilities	<u>513,377</u>	<u>1,310,912</u>	<u>11,269,089</u>	<u>650,389</u>	<u>13,743,767</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - pensions	-	63,270	56,310	18,755	138,335
Total deferred inflows of resources	<u>-</u>	<u>63,270</u>	<u>56,310</u>	<u>18,755</u>	<u>138,335</u>
NET POSITION					
Net investment in capital assets	15,949,920	72,788,728	1,964,230	4,922,613	95,625,491
Unrestricted	<u>525,344</u>	<u>2,447,194</u>	<u>2,161,837</u>	<u>13,837</u>	<u>5,148,212</u>
Total net position	<u>\$ 16,475,264</u>	<u>\$ 75,235,922</u>	<u>\$ 4,126,067</u>	<u>\$ 4,936,450</u>	<u>\$ 100,773,703</u>

See notes to financial statements.

CITY OF MONT BELVIEU, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the year ended September 30, 2025

	Business-Type Activities - Enterprise Funds				
	<u>Golf Course</u>	<u>Public Utility</u>	<u>High Speed Internet</u>	<u>Total Nonmajor Enterprise</u>	<u>Total Funds</u>
Operating revenues					
Water charges	\$ -	\$ 2,749,764	\$ -	\$ -	\$ 2,749,764
Sewer charges	-	1,800,830	-	-	1,800,830
Sanitation	-	-	-	2,180,085	2,180,085
Other services	3,627,301	268,362	2,922,949	2,002,072	8,820,684
Total operating revenues	3,627,301	4,818,956	2,922,949	4,182,157	15,551,363
Operating expenses					
Personnel	1,701,515	2,386,436	951,243	2,155,074	7,194,268
Costs of sales and services	1,781,669	2,523,651	539,348	2,064,743	6,909,411
Depreciation	624,894	2,531,420	902,934	1,141,107	5,200,355
Total operating expenses	4,108,078	7,441,507	2,393,525	5,360,924	19,304,034
Operating income (loss)	(480,777)	(2,622,551)	529,424	(1,178,767)	(3,752,671)
Nonoperating revenues (expenses)					
Investment income	29,627	131,063	121,134	7,444	289,268
Sale (loss) of capital assets	20,835	(206,980)	-	15,531	(170,614)
Loss on the sale of capital asset	-	-	-	-	-
Interest and fiscal charges	-	-	(311,214)	-	(311,214)
Total nonoperating revenues	50,462	(75,917)	(190,080)	22,975	(192,560)
Income (loss) before contributions and transfers	(430,315)	(2,698,468)	339,344	(1,155,792)	(3,945,231)
Contributions and transfers					
Capital contributions	6,926,310	21,416,861	649,685	1,568,136	30,560,992
Transfers in	-	-	-	390,000	390,000
Transfers (out)	(225,000)	(70,000)	-	(384,026)	(679,026)
Total contributions and transfers	6,701,310	21,346,861	649,685	1,574,110	30,271,966
Change in net position	6,270,995	18,648,393	989,029	418,318	26,326,735
Beginning net position	10,204,269	56,587,529	3,137,038	4,518,132	74,446,968
Ending Net Position	\$ 16,475,264	\$ 75,235,922	\$ 4,126,067	\$ 4,936,450	\$ 100,773,703

See notes to financial statements.

CITY OF MONT BELVIEU, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2025

	Business-Type Activities - Enterprise Funds				
	Golf Course	Public Utility	High Speed Internet	Total Nonmajor Enterprise	Total Funds
Cash flows from operating activities					
Receipts from customers	\$ 3,618,604	\$ 4,813,647	\$ 2,864,178	\$ 4,126,512	\$ 15,422,941
Payments to employees	(1,663,831)	(2,341,472)	(933,249)	(2,123,846)	(7,062,398)
Payments to suppliers	(1,780,285)	(2,485,099)	(358,173)	(2,044,143)	(6,667,700)
Net cash provided (used) by operating activities	174,488	(12,924)	1,572,756	(41,477)	1,692,843
Cash flows from noncapital and financing activities					
Transfers from other funds	-	-	-	390,000	390,000
Transfer to other funds	(225,000)	(70,000)	-	(384,026)	(679,026)
Net cash provided (used) by noncapital financing activities	(225,000)	(70,000)	-	5,974	(289,026)
Cash flows from capital and related financing activities					
Capital purchases	-	-	(833,634)	-	(833,634)
Proceeds from sale of capital assets	42,050	7,518	-	20,000	69,568
Principal paid on capital debt	-	-	(660,000)	-	(660,000)
Interest and fiscal charges	-	-	(347,887)	-	(347,887)
Net cash provided (used) by capital and related financing activities	42,050	7,518	(1,841,521)	20,000	(1,771,953)
Cash flows from investing activities					
Sale (purchase) of investments	222,719	35,675	69,873	-	328,267
Interest on investments	29,627	131,063	121,134	7,444	289,268
Net cash provided (used) by investing activities	252,346	166,738	191,007	7,444	617,535
Net Increase (decrease) in cash and cash and equity in pooled cash	243,884	91,332	(77,758)	(8,059)	249,399
Beginning cash and cash equivalents	220,157	70,388	78,198	177,381	546,124
Ending cash and cash equivalents	\$ 464,041	\$ 161,720	\$ 440	\$ 169,322	\$ 795,523

(Continued)

CITY OF MONT BELVIEU, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2025

	Business-Type Activities - Enterprise Funds				
	<u>Golf Course</u>	<u>Public Utility</u>	<u>High Speed Internet</u>	<u>Total Nonmajor Enterprise</u>	<u>Total Funds</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (480,777)	\$ (2,622,551)	\$ 529,424	\$ (1,178,767)	\$ (3,752,671)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	624,894	2,531,420	902,934	1,141,107	5,200,355
Changes in operating assets and liabilities					
(Increase) decrease in					
Accounts receivable	(36,343)	(5,309)	(58,771)	(126,972)	(227,395)
Deferred outflows - pensions	-	41,693	17,713	15,750	75,156
Inventory	(50,706)	7,685	-	(4,391)	(47,412)
Prepays	(913)	(2,120)	(624)	(1,176)	(4,833)
Increase (decrease) in					
Accounts payable and accrued liabilities	52,090	30,867	181,175	24,991	289,123
Due to other funds	-	-	-	74,026	74,026
Compensated absence	38,597	49,586	19,681	33,351	141,215
Deferred inflows - pensions	-	34,299	14,571	12,957	61,827
Net pension liability	-	(78,494)	(33,347)	(29,654)	(141,495)
Unearned revenue	27,646	-	-	(2,699)	24,947
Net cash provided (used) by operating activities	<u>\$ 174,488</u>	<u>\$ (12,924)</u>	<u>\$ 1,572,756</u>	<u>\$ (41,477)</u>	<u>\$ 1,692,843</u>
Noncash investing, capital, and financing activities					
Contributions of capital assets from governmental funds/developers	<u>\$ 6,926,310</u>	<u>\$ 21,416,861</u>	<u>\$ 649,685</u>	<u>\$ 1,568,136</u>	<u>\$ 30,560,992</u>

See notes to financial statements.

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The City of Mont Belvieu, Texas (the "City") was incorporated as a "Home Rule Charter" on November 11, 2013. The City has a "Council-Manager" form of government.

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

The City provides the following services: public safety to include police, fire, and emergency medical services; parks; sanitation, water, and sewer services; recreation; public improvements; planning and zoning; general administration; high speed internet; and solid waste.

The City is an independent political subdivision of the State of Texas (the "State") governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

Government-Wide Financial Statements: The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

Basis of Presentation - Government-Wide Financial Statements: While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

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

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 governmental funds:

General Fund: The *general fund* is used to account for all financial transactions not properly included in other funds. The principal sources of revenue include local property taxes, sales taxes, franchise fees, fines and forfeitures, as well as licenses and permits. Expenditures include general government, public safety, community development, and community services. The general fund is always considered a major fund for reporting purposes.

Debt Service Fund: The *debt service fund* is used to account for the payment of interest and principal on all long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Special Revenue Funds: The *special revenue funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

Capital Projects Funds: The *capital projects funds* are used for the expenditures of resources accumulated from the issuance of debt and related interest earnings as well as other monies assigned for capital improvement projects. The capital projects-CIP fund, 2023 construction fund, 2024 construction fund, and 2025 construction fund are considered major funds for reporting purposes.

The City reports the following proprietary fund:

Enterprise Funds: The *enterprise funds* are used to account for the operations that provide water and wastewater services, sanitation services, high speed internet services, solid waste, as well as operations of the Eagle Pointe golf course and recreation center. These services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The public utility, solid waste, and high-speed internet enterprise funds are considered major funds for reporting purposes. The golf course and recreation center funds are not considered major funds.

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 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.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

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

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

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

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

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Investments: Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest-earning contracts, such as certificates of deposit, are reported at cost.

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

- Direct obligations of the U.S. Government or U.S. Government agencies
- Fully collateralized certificates of deposit
- Money market mutual funds that meet certain criteria
- Bankers' acceptances
- Statewide investment pools

Inventories and Prepaid Items: Inventories are valued at cost using the first-in/first-out method. The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

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

Capital Assets: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Assets Depreciation</u>	<u>Estimated Useful Life</u>
Vehicles	2 to 15 years
Furniture and equipment	5 to 20 years
Infrastructure	25 to 30 years
Water and sewer system	3 to 40 years
Building and improvements	5 to 40 years

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

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.

At the fund level, the City has only two types of items, which arises only under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and emergency medical services. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

Compensated Employee Absences: The City accounts for compensated absences in accordance with GASB Statement No. 101, *Compensated Absences*. Compensated absences include vacation, compensatory time, and sick that (1) have been earned for services previously rendered by employees, (2) accumulate and may be carried over into subsequent years, and (3) are more likely than not to be used as time off or settled (for example, paid in cash to the employee) during employment or upon separation from employment. The liability is measured using the pay rates in effect at year-end and includes salary-related payments that are directly and incrementally associated with the payment of these benefits.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

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

Leases: The City has noncancellable leases of equipment. The City would recognize a lease liability and an intangible, right-to-use asset (the "lease asset") in the government-wide financial statements. The City's leases to report are immaterial to the financial statement as a whole and are not recognized as a lease liability or a lease asset.

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

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

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

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally 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.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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

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

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncement: GASB Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences and associated salary related payments by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management implemented this pronouncement for fiscal year ended September 30, 2025. The impact on the financial statements as a result of implementation of this standard was immaterial. The footnotes to the financial statements have been amended in accordance with the standard.

Revenues and Expenditures/Expenses:

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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes: Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at one percent per month, but the penalty remains at a maximum of 12 percent until paid.

A penalty of six percent and interest of one percent are added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12 percent on July 1 of each year, with interest continuing to increase at one percent per month until the account is paid. An additional penalty of 20 percent is added in July for attorney costs. There are no discounts allowed on taxes.

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 are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information: Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital project funds, which adopt project length budgets. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control as defined by the charter is the department in the approved budget. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Expenditures in Excess of Appropriations: For the year ended September 30, 2025, expenditures exceeded appropriations at the legal level of control as follows:

General fund	
Transfers out	\$ 9,711,327

NOTE 3 - DETAILED NOTES ON ALL FUNDS

Deposits and Investments: As of September 30, 2025, the City had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 40,416,529	0.11
TexSTAR	40,821,422	0.13
Texas Class	71,726,054	0.23
Money market	33,336,437	0.00
Total value	<u>\$ 186,300,442</u>	
Portfolio weighted average maturity		0.14

Credit risk - State law and the City's investment policy limits investments to 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. Further, commercial paper must be rated not less than "A-1" or "P-1" or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2025, the City's investments in investment pools were rated "AAAm" by Standard & Poor's. The municipal bonds are all rated AAA, Aaa, or Aa2 by S&P or Moody's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

Concentration of credit risk - The City's investment policy does not allow for an investment in any one issuer that is in excess of 50 percent of the portfolio's total investments.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2025, market values of pledged securities and FDIC coverage exceeded bank balances.

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

TexPool - TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool "AAAm." As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

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

TexSTAR - The Texas Short-Term Asset Reserve Fund ("TexSTAR") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

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

Texas CLASS - The Texas Cooperative Liquid Assets Securities System Trust ("CLASS") is a public funds investment pool under Section 2256.016 of the Act, Texas Government Code, as amended. CLASS is created under an amended and restated trust agreement, dated as of December 14, 2011 (the "Agreement"), among certain Texas governmental entities investing in CLASS (the "Participants"), with Cutwater Investor Services Corporation as program administrator and Wells Fargo Bank Texas, NA as custodian. CLASS is not SEC registered and is not subject to regulation by the State. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the "Board"), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained from CLASS' website at www.texasclass.com.

CLASS is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, CLASS must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within CLASS. CLASS transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. The City's balance is considered the fair value of their investment in CLASS.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

Receivables: The following comprises receivable balances at year end for governmental activities:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects-CIP</u>	<u>Nonmajor Governmental</u>	<u>Total Funds</u>
Ad valorem taxes	\$ 35,975	\$ 33,215	\$ -	\$ -	\$ 69,190
Other taxes	-	-	-	24,800	24,800
EMS receivable	2,086,126	-	-	-	2,086,126
Other	<u>2,606,361</u>	<u>-</u>	<u>146,478</u>	<u>108,755</u>	<u>2,861,594</u>
	<u>\$ 4,728,462</u>	<u>\$ 33,215</u>	<u>\$ 146,478</u>	<u>\$ 133,555</u>	<u>\$ 5,041,710</u>

The following comprises receivable balances at year end for business-type activities:

	<u>Golf Course</u>	<u>Public Utility</u>	<u>Internet</u>	<u>Nonmajor Enterprise</u>	<u>Total Funds</u>
Other	<u>\$ 154,456</u>	<u>\$ 789,652</u>	<u>\$ 502,586</u>	<u>\$ 433,621</u>	<u>\$ 1,880,315</u>

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets: A summary of changes in capital assets for governmental activities for the year end is as follows:

	Primary Government			
	Beginning Balance	Increases/ Reclassifications	(Decreases)/ Reclassifications	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated				
Land	\$ 21,870,918	\$ -	\$ (2,077,838)	\$ 19,793,080
Construction in progress	18,668,764	36,645,790	(47,305,340)	8,009,214
Total capital assets not being depreciated	40,539,682	36,645,790	(49,383,178)	27,802,294
Other capital assets				
Buildings	48,679,415	32,507	-	48,711,922
Improvements other than buildings	151,329,478	17,251,035	(11,710)	168,568,803
Machinery and equipment	11,967,408	982,096	(1,008,215)	11,941,289
Total other capital assets	211,976,301	18,265,638	(1,019,925)	229,222,014
Less accumulated depreciation/ amortization for				
Buildings	(9,507,362)	(1,681,121)	-	(11,188,483)
Improvements other than buildings	(40,083,841)	(6,307,631)	11,710	(46,379,762)
Machinery and equipment	(7,312,025)	(1,389,212)	996,545	(7,704,692)
Total accumulated depreciation	(56,903,228)	(9,377,964)	1,008,255	(65,272,937)
Total capital assets being depreciated, net	155,073,073	8,887,674	(11,670)	163,949,077
Governmental activities capital assets, net	\$ 195,612,755	\$ 45,533,464	\$ (49,394,848)	191,751,371
				(170,548,031)
				89,141,646
				\$ 110,344,986

Depreciation was charged to governmental functions as follows:

Depreciation was charged to governmental functions as follows:

General government	\$ 2,157,746
Public safety	3,218,526
Community development	3,371,869
Community services	629,823
Total governmental activities depreciation expense	\$ 9,377,964

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

The following is a summary of changes in capital assets for business-type activities for the year end:

	Primary Government			
	Beginning Balance	Increases	(Decreases)/ Reclassifications	Ending Balance
<u>Business-type activities</u>				
Capital assets not being depreciated				
Land	\$ 520,138	\$ -	\$ -	\$ 520,138
Golf course	2,345,498	-	-	2,345,498
Construction in progress	25,788,088	28,584,230	(637,359)	53,734,959
Total capital assets not being depreciated	28,653,724	28,584,230	(637,359)	56,600,595
Capital assets, being depreciated				
Buildings	19,992,758	23,424	(6,513)	20,009,669
Improvements other than buildings	80,502,936	1,229,240	393,691	82,125,867
Machinery and equipment	15,061,219	1,557,732	(2,478,830)	14,140,121
Total capital assets being depreciated	115,556,913	2,810,396	(2,091,652)	116,275,657
Less accumulated depreciation/ amortization for				
Buildings	(17,423,198)	(551,748)	6,513	(17,968,433)
Improvements other than buildings	(37,914,146)	(2,995,241)	243,667	(40,665,720)
Machinery and equipment	(8,783,344)	(1,653,366)	2,238,649	(8,198,061)
Total accumulated depreciation	(64,120,688)	(5,200,355)	2,488,829	(66,832,214)
Total capital assets being depreciated, net	51,436,225	(2,389,959)	397,177	49,443,443
Business-type activities capital assets, net	\$ 80,089,949	\$ 26,194,271	\$ (240,182)	106,044,038
		Less associated debt		(10,418,547)
		Net investment in capital assets		\$ 95,625,491

Depreciation was charged to business-type functions as follows:

Depreciation was charged to business-type functions as follows:

Golf course	\$ 624,894
Recreation center	710,222
Public utilities	2,531,420
High speed internet	902,934
Solid waste	430,885
Total business-type activities depreciation expense	\$ 5,200,355

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

Long-Term Debt: The following is a summary of changes in the City's total long-term liabilities for the year end. In general, the City uses the general and debt service funds to liquidate governmental and business-type long-term liabilities.

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
<u>Governmental activities</u>					
Bonds, notes, and other payables					
Certificates of obligation	\$ 92,920,000	\$ 75,310,000	\$ (7,645,000)	\$ 160,585,000 *	\$ 8,370,000
Bond premium	6,795,565	4,264,981	(773,697)	10,286,849 *	-
Tax refund agreements	42,312	-	(42,312)	-	-
Other liabilities					
Net pension liability - TMRS	3,765,729	-	(728,348)	3,037,381	-
Net pension liability - TESRS	403,436	922,705	-	1,326,141	-
Total OPEB liability - TMRS	247,984	17,499	-	265,483	-
Compensated absences	1,047,669	1,427,197	(942,901)	1,531,965	1,378,769
Total governmental activities	<u>\$ 105,222,695</u>	<u>\$ 81,942,382</u>	<u>\$ (10,132,258)</u>	<u>\$ 177,032,819</u>	<u>\$ 9,748,769</u>
Long-term debt due in more than one year				<u>\$ 167,284,050</u>	
*Debt associated with governmental capital assets				<u>\$ 170,548,031</u>	
Net debt associated with business-type capital assets				<u>\$ 323,818</u>	
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Business-type activities</u>					
Bonds, notes, and other payables					
Certificates of obligation	\$ 10,640,000	\$ -	\$ (660,000)	\$ 9,980,000 **	\$ 690,000
Bond premium	475,220	-	(36,673)	438,547 **	-
Other liabilities					
Compensated absences	304,290	415,076	(273,861)	445,505	400,954
Net pension liability - TMRS	924,685	-	(141,495)	783,190	-
Total business-type activities	<u>\$ 12,344,195</u>	<u>\$ 415,076</u>	<u>\$ (1,112,029)</u>	<u>\$ 11,647,242</u>	<u>\$ 1,090,954</u>
Long-term liabilities due in more than one year				<u>\$ 10,556,288</u>	
**Debt associated with business-type capital assets				<u>\$ 10,418,547</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.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

General obligation bonds and certificates of obligation at year end were comprised of the following debt issues:

<u>Description</u>	<u>Interest Rate</u>	<u>Balance</u>
Governmental activities		
Certificates of obligation		
Series 2016	2.00-4.00%	\$ 1,445,000
Series 2017A	3.00-5.00%	1,430,000
Series 2019	3.00-5.00%	20,935,000
Series 2020	2.00-4.00%	17,040,000
Series 2022A	4.00-5.00%	8,615,000
Series 2022B	4.00-5.00%	370,000
Series 2023	4.36-6.00%	36,115,000
Series 2024	4.00-5.00%	19,860,000
Series 2025	4.25-5.00%	54,775,000
Total certificates of obligation		<u>160,585,000</u>
Total governmental activities debt		<u>\$ 160,585,000</u>
Business-type activities		
Certificates of obligation		
2017 Series	4.00%	9,980,000
Total business-type activities debt		<u>\$ 9,980,000</u>

During fiscal year 2025, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2024 in the amount of \$20,535,000. The Certificates are set to mature between 2025 through 2045 and carry an interest rate of 4.00% to 5.00%. The proceeds from the Certificates will be used for contractual obligations to fund the design, acquisition, construction, renovation, and related costs for City utility, drainage and flood control, transportation, parks and recreation, and public works administrative facilities, including associated land and right-of-way purchases.

During fiscal year 2025, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2025 in the amount of \$54,775,000. The Certificates are set to mature between 2026 through 2045 and carry an interest rate of 4.25% to 5.00%. The proceeds from the Certificates will be used for contractual obligations to fund the study, design, acquisition, construction, renovation, and related costs for City utilities, drainage and flood control, transportation infrastructure, parks and recreation, public works administrative facilities, public safety facilities, and associated land and right-of-way purchases.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

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

Fiscal Year Ended September 30,	Governmental Activities		Business-Type Activities	
	Certificates of Obligation		Certificates of Obligation	
	Principal	Interest	Principal	Interest
2026	\$ 8,370,000	\$ 6,739,265	\$ 690,000	\$ 322,519
2027	6,925,000	6,670,776	725,000	288,019
2028	6,530,000	6,327,776	745,000	266,269
2029	6,855,000	5,996,976	770,000	243,919
2030	7,200,000	5,649,476	790,000	220,819
2031-2035	41,490,000	22,762,928	4,330,000	730,319
2036-2040	49,175,000	13,188,214	1,930,000	94,575
2041-2045	34,040,000	4,028,794	-	-
	<u>\$ 160,585,000</u>	<u>\$ 71,364,205</u>	<u>\$ 9,980,000</u>	<u>\$ 2,166,439</u>

The City is not obligated in any manner for special assessment debt.

Obligations to State – Tax Refund Agreements: During 2004 and 2006, the Texas State Comptroller of Public Accounts notified the City that the State had remitted additional sales tax receipts to the City that were not collected within the City limits. During 2009, the City was notified that it had been overpaid by an additional \$186,965. The terms of the settlement require the City to repay the State in non-interest installments of \$3,527 being withheld from the sales tax remittance each month from the Texas State Comptroller of Public Accounts. As of September 30, 2025, the obligation had been repaid in full.

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 are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

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

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General	Capital Projects - CIP	\$ 15,505,700
General	Nonmajor funds	2,892,420
Capital projects - CIP	2024 Construction	141,565
Capital projects - CIP	Nonmajor funds	390,000
Capital projects - CIP	Nonmajor funds	33,941
Golf course	General	225,000
Public Utility	General	70,000
Nonmajor proprietary funds	General	384,026
Nonmajor funds	Capital Projects - CIP	478,810
		<u>\$ 20,121,462</u>

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

Amounts transferred between funds are related to amounts transferred to fund the purchase of assets and capital improvement projects and various government expenditures.

NOTE 4 - OTHER INFORMATION

Risk Management: The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

Contingent Liabilities: 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 of expenditures that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

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

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

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

Under each Agreement, the Developers must meet certain commercial/retail development and/or employment requirements in order to have a portion of their property taxes abated. The minimum limitation value varies by Agreement.

The following summarizes the current Agreements:

- Each Agreement, with the exception of Lone Star NGL, abates 100% of taxes while the Lone Star NGL Agreement abates 75% of taxes. Each Agreement base term is for 10 years and requires a payment in lieu of taxes calculated on an agreement-by-agreement basis.
- Each Agreement retains a contingency that terms and payments may change if assessed values vary by 5%, and Agreements will be reevaluated at that time.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

A summary of the Agreements entered into by the City can be found below:

<u>Company</u>	<u>Payment in Lieu of Taxes</u>	<u>Approximate Tax Value</u>	<u>Approximate Tax Abated</u>
Enterprise Products Operating	\$ 686,993	\$ 542,731,146	\$ 2,557,291
Exxon Mobil	1,800,000	543,987,600	2,563,211
Cedar Bayou Fractionators	425,785	236,495,000	1,114,339
Energy Transfer	441,268	237,394,000	1,118,575
Oneok Hydrocarbon	890,097	466,668,000	2,198,889
Targa	678,389	736,350,219	3,469,602
JRI Investments	-	731,990	3,449
Talke Improvements	-	2,973,600	14,011
Three JK	-	1,058,330	4,987
Total	<u>\$ 4,922,532</u>	<u>\$ 2,768,389,885</u>	<u>\$ 13,044,354</u>

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

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

- Each Agreement, with the exception of MB Retail Associates, requires the City to abate 50% of sales taxes collected throughout the year, while the MB Retail Associates Agreement requires 100% of sales tax to be abated. The City returns each of these amounts in a lump sum payment at the end of the year, with the exception of the MB Retail Associates Agreement which require quarterly returns of sales tax collections.
- All 50% tax abatements are calculated net of the stated benchmark for collections. This benchmark varies per Agreement.

Below is a summary of the taxes abated and payments made by the City:

<u>Company</u>	<u>Total Sales Tax Collected</u>	<u>Sales Tax Rebate</u>
Exxon Mobil	\$ 455,202	\$ 134,096
Cedar Bayou	359,856	107,928
Targa	187,726	93,863
MB Retail Associates	1,389,537	1,389,537
Casa Julia	71,366	71,366
Total	<u>\$ 2,463,687</u>	<u>\$ 1,796,790</u>

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Pension Plan:

Texas Municipal Retirement System

Plan Description: The City participates as one of 938 plans in the defined benefit cash-balance plan administered by TMRS. TMRS is a statewide public retirement plan created by the State and administered in accordance with the Texas Government Code, Title 8, Subtitle G (the "TMRS Act") as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees (the "Board"); however, TMRS is not fiscally dependent on the State. TMRS issues a publicly available annual comprehensive financial report that can be obtained at www.tmr.com.

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

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

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

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

	2025	2024
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees Covered by Benefit Terms: At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	44
Inactive employees entitled to, but not yet receiving, benefits	103
Active employees	234
Total	<u>381</u>

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.08% and 13.65% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2025 were \$2,380,219, which were equal to the required contributions.

Net Pension Liability: The City's Net Pension Liability (NPL) was measured as of December 31, 2024, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The TPL in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income to satisfy the short-term and long-term funding needs of TMRS.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

The long-term expected rate of return on pension plan investments was determined by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage. The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2025 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global equity	35%	7.1%
Core fixed income	6%	5.0%
Non-core fixed income	6%	6.8%
Hedge funds	5%	6.4%
Private equity	13%	8.5%
Private debt	13%	8.2%
Real estate	12%	6.7%
Infrastructure	6%	6.0%
Other private markets	<u>4%</u>	7.3%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the TPL was 6.75%. The projection of cash flows used to determine the discount rate assumed that member and employer contributions will be made at the rates specified in statute. Based on that assumption, the TMRS's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Changes in the NPL:

	Increase (Decrease)		
	Total Pension Liability (A)	Plan Fiduciary Net Position (B)	Net Pension Liability (A) - (B)
Changes for the year			
Service cost	\$ 3,111,005	\$ -	\$ 3,111,005
Interest	2,576,415	-	2,576,415
Differences between expected and actual experience	190,682	-	190,682
Changes of assumptions	-	-	-
Contributions - employer	-	2,188,918	(2,188,918)
Contributions - employee	-	1,171,438	(1,171,438)
Net investment income	-	3,409,878	(3,409,878)
Benefit payments, including refunds of employee contributions	(1,516,972)	(1,516,972)	-
Administrative expense	-	(21,778)	21,778
Other changes	-	(512)	512
Net Changes	4,361,130	5,230,972	(869,842)
Balance at September 30, 2023	37,372,097	32,681,684	4,690,413
Balance at September 30, 2024	<u>\$ 41,733,227</u>	<u>\$ 37,912,656</u>	<u>\$ 3,820,571</u>

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

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	<u>\$ 10,420,858</u>	<u>\$ 3,820,571</u>	<u>\$ 1,525,370</u>

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

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions: For the fiscal year ended September 30, 2025, the City recognized pension expense of \$2,352,415.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 478,027	\$ 90,542
Changes in actuarial assumptions	-	31,775
Difference between projected and actual investment earnings	-	481,874
Contributions subsequent to the measurement date	<u>1,769,968</u>	<u>-</u>
Total	<u>\$ 2,247,995</u>	<u>\$ 604,191</u>

\$1,769,968 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year ended September 30,</u>	<u>Pension Expense</u>
2026	\$ 88,674
2027	349,625
2028	(412,430)
2029	(180,289)
2030	<u>28,256</u>
Total	<u>\$ (126,164)</u>

Texas Emergency Services Retirement System

Plan Description: The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by Texas Emergency Services Retirement System (TESRS) and established and administered by the State to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2024, there were 244 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2024, TESRS's membership consisted of:

Retirees and beneficiaries currently receiving benefits	4,122
Terminated members entitled to benefits but not yet receiving them	1,806
Active participants (vested and nonvested)	<u>3,394</u>
Total	<u>9,322</u>

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Pension Plan Fiduciary Net Position: Detailed information about TESRS's fiduciary net position is available in a separately-issued Annual Comprehensive Financial Report that includes financial statements and Required Supplementary Information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and Required Supplementary Information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations that may be of interest are also available at the same link.

Benefit Provided: Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees (the "Board") authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by Board rule. The benefit provisions include retirement benefits, as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percentage increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his/her vested percentage multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On- and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy: Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of TESRS, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the TESRS contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make TESRS "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The Board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the August 31, 2024 actuarial valuation, even the maximum 15% Part Two contributions are not enough to have an adequate contribution arrangement.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Additional contributions may be made by governing bodies within two years of joining TESRS to grant up to 15 years of credit for prior service per member. Prior service purchased must have occurred before the department began participation in TESRS.

A small subset of participating departments has a different contribution arrangement that is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into TESRS. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by TESRS.

Ultimately, the contribution policy also depends upon the total return of the System's assets, which varies from year to year. Investment policy decisions are established and maintained by the board of trustees. For the year ending August 31, 2024, the money-weighted rate of return on pension plan investments was 11.85%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

Contributions: The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule, and there is no maximum contribution rate. For the fiscal year ending September 30, 2025, total contributions (dues, prior service, and interest on prior service financing) of \$60,400 were paid by the City. The State appropriated \$1,292,763 for the fiscal year ending August 31, 2024 to TESRS as a whole.

Actuarial Assumptions: The TPL in the August 31, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	August 31, 2024
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market value
Actuarial assumptions	
Investment rate of return*	7.25%
Projected salary increases	N/A
* Includes inflation at	2.75%
Cost-of-living adjustment	None

Mortality rates were based on the PubS-2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components 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 (currently 4.6%) and by adding expected inflation (2.75%). In addition, the final 7.25% assumption was selected by rounding down.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Equities		
Large Cap Domestic	20%	5.71%
Small/mid Cap Domestic	10%	5.98%
Developed International	15%	6.19%
Emerging Markets	5%	7.38%
Global Infrastructure	5%	6.63%
Real Estate	10%	4.50%
Multi-asset income	5%	3.75%
Fixed Income	30%	1.97%
Cash	0%	0.00%
Total	<u>100.00%</u>	
Weighted Average		4.60%

Discount Rate: The discount rate used to measure the total pension liability was 5.38%. The projection of cash flows was used to determine the discount rate assumed that contributions of the governing bodies will be made at the contribution rate as of August 31, 2024 actuarial valuation. Based on these assumptions, the TESRS's fiduciary net position was projected to make projected future benefit payments of current active and inactive employees through 2051. Therefore, the discount rate of 5.38% is the single rate of return that results in a present value of all projected benefits equal to the sum of the present value of benefits through 2051 discounted at the long-term expected rate of return of 7.25% and the present value of benefits after 2051 discounted at the 3.87% discount rate based on the Bond Buyer Index of general obligation bonds with 20 years to maturity at/near August 31, 2024.

Discount Rate Sensitivity Analysis: The following presents the net pension liability of the City, calculated using the discount rate of 5.38%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.38%) or one percentage point higher (6.38%) than the current rate:

	<u>1% Decrease in Discount Rate (4.38%)</u>	<u>Current Discount Rate (5.38%)</u>	<u>1% Increase in Discount Rate (6.38%)</u>
City's proportionate share of the NPL	\$ <u>1,830,203</u>	\$ <u>1,326,141</u>	\$ <u>925,225</u>

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions: At September 30, 2025, the City reported a liability of \$1,326,141 for its proportionate share of the TESRS's TPL. This liability reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the City were as follows:

City's proportionate share of the collective NPL	\$ 1,326,141
State's proportionate share that is associated with the City*	<u>332,132</u>
	\$ <u>1,658,273</u>

*Calculated using the City's proportionate share of contributions multiplied by the State's share of the collective NPL.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

The TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2024. GASB Statement No. 68 requires the net pension liability to be measured as of a date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward (nor did they provide the necessary information for the participants to roll forward) the NPL to be measured as of a date no earlier than the end of the City's prior fiscal year. While the City acknowledges that the measurement date does not fall within this 12-month period, the City elected to honor the conservatism principle and report a NPL measured as of August 31, 2024. The City used the assumption that any differences in the NPL measured as of August 31, 2024 versus September 30, 2024 would be immaterial. The employer's proportion of the NPL was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2023 thru September 30, 2024.

At September 30, 2025, the City's proportion of the collective NPL was 1.235%, which was an increase of 0.303% from its proportion measured as of September 30, 2024.

The discount rate decreased from 7.50% as of December 31, 2023 to 5.38% as of December 31, 2024. There were no other changes of assumptions or other inputs that affected measurement of the net pension liability during the measurement period.

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

For the year ended September 30, 2024 the City recognized pension expense of \$437,724. On-behalf revenues and expenditures were immaterial and not recognized by the City.

At September 30, 2025, the City reported its proportionate share of the TESRS's deferred outflows/inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 71,214	\$ -
Changes in assumptions	472,400	-
Difference between expected and actual experience	44,405	-
Contributions paid to TESRS subsequent to the measurement date	60,400	-
Total	<u>\$ 648,419</u>	<u>\$ -</u>

The contributions paid to TESRS subsequent to the measurement date of the net pension liability but before the end of the City's reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The net amounts of the City's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year ended September 30,</u>	<u>Pension Expense</u>
2026	\$ 349,168
2027	260,174
2028	(7,929)
2029	(13,394)
Total	<u>\$ 588,019</u>

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Other Postemployment Benefits:

TMRS Supplemental Death Benefit

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

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

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The SDBF's funding policy assures that adequate resources are available to meet all death benefit payments for the upcoming year. The SDBF is a pay-as-you-go fund, and any excess contributions are available for future SDBF benefits.

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

Participation in the SDBF as of December 31, 2024 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	35
Inactive employees entitled to, but not yet receiving, benefits	16
Active employees	<u>234</u>
Total	<u>285</u>

Total OPEB Liability: The City's total OPEB liability of \$265,483 was measured as of December 31, 2024 and was determined by an actuarial valuation as of that date.

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Actuarial Assumptions and Other Inputs: The total OPEB liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.60% to 11.85% including inflation
Discount rate*	4.08%
Retirees' share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements of GASB Statement 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. 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 Scale MP-2021 to account for future mortality improvements subject to the floor.

* The discount rate was based on the Bond Buyer "20-Bond GO Index" rate closet to, but not later than December 31, 2024.

The actuarial assumptions used in the December 31, 2024 valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

Changes in the Total OPEB Liability:

	Total OPEB Liability
Changes for the year	
Service cost	\$ 28,449
Interest	9,791
Difference between expected and actual experience	(15)
Changes of assumptions	(15,706)
Benefit payments*	(5,020)
Net Changes	17,499
Beginning balance	247,984
Ending balance	\$ 265,483

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

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 4 - OTHER INFORMATION (Continued)

The discount rate increased from 3.77% as of December 31, 2023 to 4.08% as of December 31, 2024. There were no other changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

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

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

	1% Decrease in Discount Rate (3.08%)	Current Discount Rate (4.08%)	1% Increase in Discount Rate (5.08%)
City's total OPEB liability	\$ 320,960	\$ 265,483	\$ 222,661

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: For the year ended September 30, 2025, the City recognized OPEB expense of \$23,433. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 1,064	\$ 27,099
Changes in actuarial assumptions	28,206	86,052
Contributions subsequent to the measurement date	3,890	-
Total	\$ 33,160	\$ 113,151

\$3,890 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2026.

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

<u>Year ended September 30,</u>	<u>OPEB Expense Amount</u>
2026	\$ (13,690)
2027	(16,038)
2028	(21,785)
2029	(19,056)
2030	(10,608)
Thereafter	(2,704)
Total	\$ (83,881)

(Continued)

CITY OF MONT BELVIEU, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2025

NOTE 5 – CHANGE WITHIN REPORTING ENTITY

The City reclassified the capital projects fund from major to a nonmajor governmental fund because its financial activity no longer met the major-fund thresholds established by GASB 34. The change within reporting entity did not affect the City's total fund balances or net position.

	Reporting Units Affected by Adjustments to Beginning Balances	
	<u>Funds</u>	
	<u>Fixed Asset Replacement</u>	<u>Nonmajor Governmental</u>
Beginning fund balance, previously presented	\$ 13,476,096	\$ 7,729,471
Change within financial reporting entity	<u>(13,476,096)</u>	<u>13,476,096</u>
Beginning net fund balance, as adjusted	<u>\$ -</u>	<u>\$ 21,205,567</u>

NOTE 6 – SUBSEQUENT EVENT

On January 7, 2026, the City entered into a Promissory Note (the "Note") in connection with the purchase of approximately 96.28 acres of land located in Chambers County, Texas. The total purchase price financed under the Note was \$11.7 million. The Note is secured by a vendor's lien on the acquired property.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

[DATE]

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We have acted as bond counsel in connection with the issuance by the City of Mont Belvieu, Texas (the “*Issuer*”) of its \$15,865,000 Combination Tax and Revenue Certificates of Obligation, Series 2026 (the “*Certificates*”).

In rendering the opinions herein we have examined and relied upon an executed certificate; original or certified copies of the proceedings had in connection with issuance of the Certificates, including the Ordinance of the governing body of the Issuer which authorizes issuance of the Certificates (the “*Ordinance*”); certificates of officers of the Issuer related to the expected use and investment of proceeds of the sale of the Certificates and certain other funds of the Issuer, which are within its sole knowledge and control; and such other material and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates.

Based upon such examination, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Certificates are valid and legally binding obligations of the Issuer payable from the sources, and enforceable in accordance with the terms and conditions, described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Certificates are payable from and equally and ratably secured solely by a lien on and pledge of taxes within the limits prescribed by law and are further payable from and secured by a pledge of and lien on certain net revenues from the operation of the Issuer’s waterworks and sanitary sewer system.

3. Pursuant to the Internal Revenue Code of 1986, as amended and in force on the date hereof (the “*Code*”), and existing regulations, published rulings, and court decisions thereunder, assuming continuing compliance with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Certificates is excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes pursuant to section 103 of the Code, and such interest will not be included for federal income tax purposes in computing the alternative minimum taxable income of the owners thereof who are individuals.

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

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[DATE]
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We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, "S" corporations with "subchapter C" earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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