This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Preliminary Official Statement is delivered in final form. Under no circumstances shall the Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

HTS Continuing Disclosure Services
A Division of Hilltop Securities.
(See "CONTINUING DISCLOSURE OF INFORMATION" herein)

PRELIMINARY OFFICIAL STATEMENT

Dated August 18, 2026

Ratings:
Moody's: "Aa1"
S&P: "AA+"
(See "OTHER INFORMATION - Ratings" herein)

NEW ISSUE - Book-Entry-Only

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

LCTX
LEAGUE CITY

$158,980,000*
CITY OF LEAGUE CITY
(Galveston and Harris Counties)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2026

Dated Date: September 1, 2026
Interest Accrual Date: Delivery Date (defined below)
Due: February 15, as shown on page ii hereof

PAYMENT TERMS . . . Interest on the $158,980,000* City of League City, Texas Combination Tax and Revenue Certificates of Obligation, Series 2026 (the "Certificates") will accrue from the Delivery Date (as defined below) and will be payable February 15 and August 15 of each year 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 ("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 The Bank of New York Mellon Trust Company, N.A. (see "THE CERTIFICATES - PAYING AGENT/REGISTRAR").

Concurrently with the Certificates, the City is issuing its proposed $7,765,000* General Obligation Improvement Bonds, Series 2026 (the "Bonds"). This Official Statement describes only the Certificates and not the Bonds, which are described under a separate Offical Statement.

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the City, payable from (i) a direct and continuing annual ad valorem tax, levied within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of a subordinate lien on the net revenues of the City's waterworks and sewer system, in an amount not to exceed $1,000, as provided in the ordinance authorizing the Certificates to be adopted by the City Council of the City on August 25, 2026 (the "Certificate Ordinance") which will delegate pricing of the Certificates to an Authorized Officer who will approve and execute a Pricing Certificate that will contain the final terms of sale of the Certificates. The Certificate Ordinance together with the Pricing Certificate are referred to herein as the "Ordinance". For a description of the City's authority for the issuance of the Certificates and the security for the Certificates (see "THE CERTIFICATES – AUTHORITY FOR ISSUANCE").

PURPOSE FOR THE CERTIFICATES . . . Proceeds from the sale of the Certificates will be used for the purposes of evidencing the indebtedness of the City for all or any part of the costs associated with the construction of any public work, the purchase of materials, supplies, equipment, machinery, buildings, land and rights-of-way for authorized needs and purposes, or payment of professional services related to such projects, including: the (i) acquisition, repair, renovation, construction, extension and improvement of the City's waterworks and sewer system; (ii) acquisition, construction and improvement of certain thoroughfares, including related right-of-way acquisition, detention, and project costs; and (iii) design, construction, improvement and equipment of Pat Hallisey Park, including the expansion of a softball complex and a little league baseball complex (inclusive of restrooms and related park infrastructure), one or more international-sized soccer fields, tennis and pickleball courts, trails, picnic facilities and pavilion, one or more playgrounds, parking, lighting, a maintenance facility, drainage, landscaping and access roads into the park, and (iv) payment of costs of issuance related thereto.

MATURITY SCHEDULE
See page ii

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 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 listed below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel (see APPENDIX C -"FORM OF BOND COUNSEL OPINION"). Certain legal matters will be passed upon for the Underwriters by Jackson Walker LLP, Houston, Texas, counsel to the Underwriters.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on or about September 23, 2026 ("Delivery Date").

Raymond James

TD Financial Products **Baker Group LP** **Huntington Capital Markets**

* Preliminary, subject to change.

$158,980,000*
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris Counties)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026

MATURITY SCHEDULE **CUSIP PREFIX: 521769 [3]**

Principal Amount*	Maturity Feb 15 [1]	Interest Rate	Initial Yield [2]	CUSIP Suffix [3]	Principal Amount*	Maturity Feb 15 [1]	Interest Rate	Initial Yield [2]	CUSIP Suffix [3]
$4,625,000	2027				$6,110,000	2042			
3,985,000	2028				6,425,000	2043			
4,190,000	2029				6,750,000	2044			
4,410,000	2030				7,100,000	2045			
4,630,000	2031				7,465,000	2046			
4,870,000	2032				5,795,000	2047			
3,895,000	2033				6,115,000	2048			
4,095,000	2034				6,445,000	2049			
4,305,000	2035				6,790,000	2050			
4,525,000	2036				7,155,000	2051			
4,760,000	2037				4,120,000	2052			
5,000,000	2038				4,340,000	2053			
5,260,000	2039				4,575,000	2054			
5,530,000	2040				4,820,000	2055			
5,815,000	2041				5,080,000	2056			

* Preliminary, subject to change.

(1) The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 20__, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on February 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.
(2) The initial yields on the Certificates are established by and are the sole responsibility of the Underwriters and may be changed by the Underwriters at any time.
(3) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Fact Set Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

For purposes of compliance with the United States Securities and Exchange Commission's (the "SEC") Rule 15c2-12, as amended (the "Rule"), this document constitutes an Official Statement of the City with respect to the Certificates that has or will be "deemed final" by the City as of its date except for the omission of no more than the information permitted by the Rule.

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

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

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

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

None of the City, the Financial Advisor, Bond Counsel or the Underwriters make any representation or warranty with respect to the information contained in the Official Statement regarding the Depository Trust Company ("DTC") or its Book-Entry-Only System as described under "THE CERTIFICATES- BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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

This Official Statement contains "Forward-Looking" statements. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

The 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 sales to dealers who may sell the Certificates into investment accounts.

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

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for any purpose.

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The cover page 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 League City, Texas (the "City"), is a political subdivision and municipal corporation of the State of Texas (the "State"), located in Galveston County and Harris County, Texas. The City covers approximately 53 square miles (see "INTRODUCTION - DESCRIPTION OF CITY").

THE CERTIFICATES .... The Certificates are issued as $158,980,000* Combination Tax and Revenue Certificates of Obligation, Series 2026. The Certificates are issued as serial Certificates maturing February 15, 2027, through February 15, 2056, inclusive, unless the Underwriters designates two or more consecutive maturities as a Term Certificate (see "THE CERTIFICATES -DESCRIPTION OF THE CERTIFICATES").

PAYMENT OF INTEREST .... Interest on the Certificates accrues from the Delivery Date, and is payable February 15, 2027, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES").

AUTHORITY FOR ISSUANCE .... The Certificates are being issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, an ordinance to be adopted by the City Council of the City and a Pricing Certificate to be executed by an authorized Officer of the City (collectively, the "Ordinance") (see "THE CERTIFICATES – AUTHORITY FOR ISSUANCE ").

SECURITY FOR THE CERTIFICATES .... The Certificates constitute direct obligations of the City, payable from (i) a direct and continuing annual ad valorem tax levied, within the limit prescribed by law, on all taxable property located within the City and (ii) a limited pledge of a subordinate lien on the net revenues of the City's Waterworks and Sewer System in an amount not to exceed $1,000, as provided in the Ordinance (see "The CERTIFICATES – AUTHORITY FOR ISSUANCE " AND "– SECURITY AND SOURCE OF PAYMENT").

REDEMPTION FOR THE CERTIFICATES .... The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 20__, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on February 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, under existing law, interest on the Certificates (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.

USE OF PROCEEDS .... Proceeds from the sale of the Certificates will be used for the purposes of evidencing the indebtedness of the City for all or any part of the costs associated with the construction of any public work, the purchase of materials, supplies, equipment, machinery, buildings, land and rights-of-way for authorized needs and purposes, or payment of professional services related to such projects, including: the (i) acquisition, repair, renovation, construction, extension and improvement of the City's waterworks and sewer system; (ii) acquisition, construction and improvement of certain thoroughfares, including related right-of-way acquisition, detention, and project costs; and (iii) design, construction, improvement and equipment of Pat Hallisey Park, including the expansion of a softball complex and a little league baseball complex (inclusive of restrooms and related park infrastructure), one or more international-sized soccer fields, tennis and pickleball courts, trails, picnic facilities and pavilion, one or more playgrounds, parking, lighting, a maintenance facility, drainage, landscaping and access roads into the park, and (iv) payment of costs of issuance related thereto.

* Preliminary, subject to change.

RATINGS .... The Certificates and presently outstanding general obligation debt of the City are rated "Aa1" by Moody's Investors Service, Inc. and "AA+" by S&P Global Ratings, a division of S&P Global Inc. (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.

LEGALITY .... The Certificates are offered for delivery when, as and if issued and received by the Underwriters listed on the cover page hereof and subject to the approving opinion of the Attorney General of the State and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel. The form of the legal opinion of Bond Counsel appears in APPENDIX C.

CONCURRENT ISSUANCE.............. Concurrently with the Certificates, the City is issuing its proposed $7,765,000* General Obligation Improvement Bonds, Series 2026 (the "Bonds"). This Official Statement describes only the Certificates and not the Bonds, which are described under a separate Offical Statement.

*Preliminary, subject to change.

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SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population [(1)]	Net Taxable Assessed Valuation [(2)]	Per Capita Taxable Assessed Valuation	G.O. Tax Debt Outstanding at End of Year [(3)]	Per Capita G.O. Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	Total Tax Collections as a Percent of Total Levy
2022	116,834	$ 10,637,206,860	91,045	$ 237,850,000	2,036	2.24%	99.88%
2023	118,740	11,578,279,605	97,510	239,095,000	2,014	2.07%	99.77%
2024	121,595	11,578,279,605	95,220	267,540,000	2,200	2.31%	99.62%
2025	123,910	12,040,664,123	97,173	247,670,000	1,999	2.06%	99.72% [(4)]
2026	125,884	12,303,759,337	97,739	395,000,000 [(5)]	3,138 [(5)]	3.21% [(5)]	99.63% [(6)]

(1) Source: The City.
(2) As reported by the Galveston Central Appraisal District and Harris Central Appraisal District, subject to adjustments throughout the year.
(3) Includes self-supporting debt.
(4) Total collections reflecting a refund of 2023 and 2022 taxes.
(5) Projected to fiscal year end. Includes the Certificates and Bonds. Preliminary, subject to change.
(6) Collections through July 31, 2026.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30				
	2025	2024	2023	2022	2021
Total Revenue	$99,891,630	$98,583,379	$88,727,749	$83,972,636	$80,645,289
Total Expenditures	96,160,710	85,406,535	83,880,335	77,008,882	74,081,234
Other Sources (Uses)	(1,620,729)	(7,034,295)	(3,006,393)	(7,791,604)	(5,834,633)
Beginning Fund Balance	34,390,124	28,247,575	26,406,554	27,234,404 [(1)]	25,743,160
Increase (decrease) in Fund Balance	2,110,191	6,142,549	1,841,021	(827,850)	729,422
Ending Fund Balance	$ 36,500,315	$ 34,390,124	$ 28,247,575	$ 26,406,554	$ 26,472,582

(1) Restated.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Title	Current Length of Service	Term Expires November	Occupation
Nick Long	Mayor	11 Years	2026	Benefits Consultant
Sean Saunders	Council Position 7/Mayor Pro Tem	3 Years	2026	Engineer/Paramedic
Andy Mann	Council Position 1	7 Years	2026	IT Manager
Tommy Cones	Council Position 2	3 Years	2026	Retired
Tom Crews	Council Position 3	3 Years	2028	CPA
Courtney Chadwell	Council Position 4	2 Years	2028	Machine Ops Manager
Scott Higginbotham	Council Position 5	1 Year	2028	Business Owner
Chad Tressler	Council Position 6	7 Years	2026	Systems Engineer

SELECTED ADMINISTRATIVE STAFF

Name	Position	Service To City	Total Governmental Service
John Baumgartner	City Manager	14.5 Years	38.5 Years
Rick Davis	Assistant City Manager	3.5 Years	31.5 Years
Angie Steelman	Assistant City Manager, Chief Financial Officer	18.5 Years	18.5 Years
Kimberly Corell	Director of Finance	4.5 Years	15 Years
Diana Stapp	City Secretary	22.5 Years	23.5 Years
Michelle Villarreal	City Attorney	11 Years	19.5 Years

CONSULTANTS AND ADVISORS

Auditors .... Weaver and Tidwell, LLP.
The Woodlands, Texas

Bond Counsel .... Bracewell LLP
Houston, Texas

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

For additional information regarding the City, please contact:

Angie Steelman
City of League City
Assistant City Manager
Chief Financial Officer
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League City, Texas 77573
(281) 338-4186 Phone
(281) 554-1354 Fax

or

Joe Morrow
Financial Advisor
Hilltop Securities Inc.
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Houston, Texas 77002
(713) 654-8690 Phone
(713) 654-8658 Fax

PRELIMINARY OFFICIAL STATEMENT
RELATING TO

$158,980,000*
CITY OF LEAGUE CITY
(Galveston and Harris Counties)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2026

INTRODUCTION

This Preliminary Official Statement, which includes the cover page and Appendices hereto, provides certain information regarding the issuance of $158,980,000* City of League City, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2026 (the "Certificates"). Capitalized terms used in this Official Statement, except as otherwise indicated herein, have the same meanings assigned to such terms in the ordinance to be adopted by the City Council of the City (the "Certificate Ordinance") and a Pricing Certificate to be executed by an authorized Officer of the City to determining the final terms of the Certificates (the "Pricing Certificate"). The Certificate Ordinance and the Pricing Certificate are collectively referred to herein as the "Ordinance."

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

Concurrently with the Certificates, the City is issuing its proposed $7,765,000* General Obligation Improvement Bonds, Series 2026 (the "Bonds"). This Official Statement describes only the Certificates and not the Bonds, which are described under a separate Offical Statement.

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized under the laws of the State, including the City's Home Rule Charter, and located in Galveston and Harris Counties. The City was incorporated in 1961, and first adopted its Home Rule Charter on March 27, 1962. The City operates with a City Council comprised of the Mayor and seven Councilmembers serving four-year terms with biennial elections. By virtue of municipal elections conducted on May 8, 2010, the City's Home Rule Charter was amended to adopt the Council-Manager form of government. A City Manager now serves as the Chief Administrative and Executive Officer of the City, appointed by the City Council to administer all municipal affairs of the City. Some of the services that the City provides are public safety, highways and streets, water and sanitary sewer utilities, culture-recreation, planning and zoning, and general administrative services. The 2020 Census population for the City was 109,087, while the estimated 2026 population is 125,884. The City covers approximately 53 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated September 1, 2026, and interest will accrue from the Delivery Date defined on the cover page hereof and will mature on February 15 in each of the years and in the amounts shown on page ii hereof. Interest 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, commencing February 15, 2027. The definitive Certificates will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "– BOOK-ENTRY-ONLY SYSTEM" herein).

PURPOSE

Proceeds from the sale of the Certificates will be used for the purposes of evidencing the indebtedness of the City for all or any part of the costs associated with the construction of any public work, the purchase of materials, supplies, equipment, machinery, buildings, land and rights-of-way for authorized needs and purposes, or payment of professional services related to such projects, including: the (i) acquisition, repair, renovation, construction, extension and improvement of the City's waterworks and sewer system; (ii) acquisition, construction and improvement of certain thoroughfares, including related right-of-way acquisition, detention, and project costs; and (iii) design, construction, improvement and equipment of Pat Hallisey Park, including the expansion of a softball complex and a little league baseball complex (inclusive of restrooms and related park infrastructure), one or more international-sized soccer fields, tennis and pickleball courts, trails, picnic facilities and pavilion, one or more playgrounds, parking, lighting, a maintenance facility, drainage, landscaping and access roads into the park, and (iv) payment of costs of issuance related thereto.

* Preliminary, subject to change.

SOURCES AND USES OF PROCEEDS

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

Sources of Funds:		
Par Amount		
[Net] Premium		
	Total:	$ -
Uses of Funds:		
Deposit to Construction Fund		
Underwriters' Discount		
Costs of Issuance (1)		
	Total:	$ -

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(1) Includes bond counsel, financial advisory, rating agency, Paying Agent/Registrar fees, and other costs of issuance or contingency.

AUTHORITY FOR ISSUANCE

The Certificates are being issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT

The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a subordinate pledge of net revenues of the City's Waterworks and Sewer System in an amount not to exceed $1,000, as provided in the Certificate Ordinance.

PAYMENT RECORD

The City has never defaulted in payment of its debt secured by ad valroem taxes.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 20__, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on February 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. The optional redemption of Certificates may be conditioned upon issuance on or prior to the redemption date of one or more series of refunding bonds or other obligations to pay the redemption price of the Certificates to be redeemed. If less than all of the Certificates are to be redeemed, the City may select the maturities of such Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Obligation or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION

In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedule on page ii are combined to create Term Certificates, each such Term Certificate shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Certificate and continuing on February 15 in each year thereafter until the stated maturity date of that Term Certificate, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial maturity schedule on page ii. Term Certificates to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from and among the Term Certificates then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Certificates of the maturity then subject to redemption which have been purchased and canceled by the City or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

NOTICE OF REDEMPTION

Not less than 30 days prior to a redemption date for the Certificates, the Paying Agent/Registrar, at the direction of the City, shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Certificates conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Certificate subject to conditional redemption where such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

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

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

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

DEFEASANCE

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificates are registered in its nominee name. The information in this section concerning DTC and the BOOK-ENTRY-ONLY SYSTEM has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes 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 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 will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 Certificates ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Certificates representing their ownership interests in 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 Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificates documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the register and request that copies of the notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy). Principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar of each series, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar of each series, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar of each series, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the respective Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered.

The City may decide to discontinue the use of the system of BOOK-ENTRY-ONLY transfers through DTC (or a successor depository). In that event, Certificates, as appropriate, will be printed and delivered.

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 Advisor, or the Underwriters.

Effect of Termination of BOOK-ENTRY-ONLY SYSTEM. In the event that the BOOK-ENTRY-ONLY SYSTEM of the Certificates is discontinued, printed Certificates will be issued to the DTC Participants or the holder, as the case may be, and such Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "CERTIFICATES – TRANSFER, EXCHANGE AND REGISTRATION" below.

PAYING AGENT/REGISTRAR

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

TRANSFER, EXCHANGE AND REGISTRATION

Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "-BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. In the event the Book-Entry-Only System should be discontinued, printed Certificates will be delivered to the Holders and thereafter, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the 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 owner of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

REMEDIES OF HOLDERS OF THE CERTIFICATES

The Ordinance does not provide for the appointment of a trustee to represent the interests of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinance. Furthermore, the Ordinance does not establish specific events of default with respect to the Certificates and, under State law, there is no right to the acceleration of maturity of the Certificates upon the failure of the City to observe any covenant under the Ordinance. A registered owner of the Certificates could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Certificate; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages could be vulnerable to the defense of sovereign 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 of sections 271.151-160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers municipalities and relates to contracts entered into by municipalities for providing goods or services to municipalities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

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

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

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

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AD VALOREM PROPERTY TAXATION

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

2025 Legislative Session

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

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Harris Central Appraisal District and Galveston Central Appraisal District (each, an "Appraisal District"). Except as described below, each Appraisal District is required to appraise all property within the respective 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 years. A taxing unit may require annual review at its own expense and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to the 10% Homestead Cap.

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.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to valuation by Productivity Value.

The appraisal values set by the Appraisal 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 – ISSUER 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. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to exemptions state mandated homestead.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than $5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributed to local option homestead exemptions.

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

Local Option Freeze for the Elderly and Disabled

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Personal Property

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

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

Other Exempt Property

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER

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

TAX INCREMENT REINVESTMENT ZONES

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

The City has one TIRZ that is currently in existence (TIRZ No. 4 defined below) and one (TIRZ No.5 defined below) with minimal activity. Tax increments have been used to finance the development of major infrastructure within the City.

The Tax Increment Reinvestment Zones Nos. 2 and 3 have expired or been terminated.

The Tax Increment Reinvestment Zone No. 2 – Victory Lakes ("TIRZ No. 2") was created with a base year of January 1, 1999 and encompasses an area of approximately 540 acres. The zone was enlarged in 2006 to include an additional 102 acres. Tax increments generated within the zone are used for public improvements including streets, drainage, and water and sewer infrastructure. TIRZ No. 2 was terminated early by City Council action in August 2023. Remaining funds are to be used by the City to complete certain infrastructure projects.

The Tax Increment Reinvestment Zone No. 3 – Centerpointe ("TIRZ No. 3") was created with a base year of January 1, 2000 and encompasses an area of approximately 352 acres. Tax increments generated within the zone are used for public improvements including streets, drainage, and water and sewer infrastructure. TIRZ No. 3 expired February 2020. Remaining funds are to be used by the City to complete certain infrastructure projects.

The Tax Increment Reinvestment Zone No. 4 – Westwood ("TIRZ No. 4") was created with a base year of January 1, 2003 and encompasses an area of approximately 493 acres. Tax increments generated within the zone were used for public improvements including streets, drainage, and water and sewer infrastructure. TIRZ No. 4 is anticipated to expire in December 2032.

The Tax Increment Reinvestment Zone No. 5 – Downtown ("TIRZ No. 5") was created with a base year of January 1, 2017 and encompasses an area of approximately 51.47 acres. The increments generated within the zone are used for public improvements including streets, drainage and water and sewer infrastructure. Minimal activity has occurred within TIRZ No. 5 since its creation.

The City participates at 100% for TIRZ No. 5 but contributions to TIRZ No. 4 are 75% of the incremental value.

Incremental value created within the tax increment financing zones produces tax increment revenues that are separate and apart from ad valorem tax revenues that are not pledged to pay the Certificates. The tax year 2025 Taxable Assessed Value within the TIRZ No. 4 zone is equal to approximately $683,622,512 and within TIRZ No. 5 zone equal to approximately $29,475,056. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT."

PUBLIC IMPROVEMENT DISTRICTS

The City has created certain public improvement districts, of which public improvement district Nos. 1, 2, 3 and 5 are currently active. Any debt incurred by the City from such public improvement district are self-supporting. See "TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT".

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. The City does not currently have any tax abatement agreements. See "AD VALOREM PROPERTY TAXATION – TAX ABATEMENT POLICY" for descriptions 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.

380 AGREEMENTS

On October 28, 2014, the City entered into a Chapter 380 Economic Development Agreement with 101 League City I45/646, L.P. and Cabela's Wholesale, Inc. in order to encourage economic development within the City. The City makes certain payments derived from annual sales tax and property tax rebates associated with the development through December 31, 2030, or totaling $9,346,000, whichever occurs first. The remaining amount to be paid to 101 League City I45/646, L.P., if and only if the company meets the terms of the agreement, is approximately $6,000,000.

On January 28, 2022, the City entered into a new Chapter 380 Economic Development Agreement with Clear Creek Point, L.P., to encourage additional economic development in the City. Until the agreement terminates/expires on November 30, 2042, the City will make certain payments, according to the terms of the agreement, for up to $14,000,000. All payments may only be made as rebates from new, incremental, and annual sales tax, hotel tax, and property tax revenues generated by the new development that are greater than the values for each of the same tax revenue categories in the base year. The project has not yet created any new development or incremental tax revenue, so the City has not yet made any payments to Clear Creek Point, L.P.

TAX ABATEMENT POLICY

The City may grant up to 100% abatement of property taxes on buildings, fixed machinery and business personal property for up to ten years. Minimum qualifications for tax abatement are $1.5 million in taxable property value, $2 million in taxable sales, or 7 new jobs for new businesses/projects. Minimum qualifications for tax abatement are 15% increase in taxable property value, Tax taxable sales, or number of jobs for expanding businesses/projects.

Galveston County may join the City on projects that meet the county's eligibility requirements. Certain manufacturing or research and development corporations may qualify for reduction in school district property taxes under the Texas Economic Development Act. This incentive program was created in order to provide companies making a substantial capital investment to receive tax credits from participating local school districts.

The tax abatement on the Tax Year 2025 assessed valuation is $0.

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

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

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 debt, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State will permit allocation of $1.50 of the $2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance. Furthermore, Article VIII of the City Charter limits the City's ad valorem tax rate for to no more than sixty cents ($0.60) for each one hundred dollars ($100.00) of market value for the operation and maintenance of city services. Any levy of taxes to pay principal or interest on any tax bonds or other tax-supported debt of the City, such as the Certificates, is not subject to this limitation in the Charter.

THE CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES

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

ISSUER 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 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 "– PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS") The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1. Taxpayers who are 65 years of age or older or disabled may defer payment of their taxes without penalty until 181 days after the person no longer owns the property or occupies it as a residence homestead.

PENALTIES AND INTEREST

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action 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 or disabled of $200,000.

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.

Pursuant to Article VIII, Section I-b of the Constitution of the State of Texas, the City has granted an ad valorem tax freeze on residence homesteads of the disabled and of individuals 65 years of age or older. Tax year 2006 serves as the base valuation year. The freeze loss for tax year 2023, 2024 and 2025 was, $1,491,432,304, $1,611,761,081 and $898,614,850, respectively.

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

The City does not tax nonbusiness personal property.

Galveston County collects taxes for the City.

The City does permit split payments and does not permit discounts. The City does not tax freeport property.

The City has adopted a tax abatement policy.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2026/2027 Market Valuation Established by Galveston Central and Harris Central Appraisal Districts (excluding totally exempt property)			$19,826,943,281
Less Exemptions/Reductions at 100% Market Value:			
Homestead Exemptions	$2,273,891,241		
Veteran Homestead Exemptions	1,349,827,522		
Homestead Cap Adjustment	169,872,419		
Circuit Breaker Limitation	158,958,239		
Over 65	1,766,703,225		
Disabled Persons	105,826,689		
Disabled Verterans	429,268,419		
Freeport Exemptions	72,042,143		
Solar	1,387,300		
Other Exemptions	116,582,491		
Transfer Adjustment	262,960		
Pollution	2,800		
Personal Vehicle	58,895,867		
Productivity Loss	118,856,945		
Adjustment for Frozen Totals	855,743,957		$ 7,478,122,217
Adjustments Made After Certification			$ -
2026/2027 Net Taxable Valuation (1)			$12,348,821,064
General Obligation Debt Payable from Ad Valorem Taxes (as of 8/25/2026) (2)			
Outstanding Bonds	$ 140,845,000		
Outstanding Certificates of Obligation	87,410,000		
The Bonds	7,765,000	(3)	
The Certificates	158,980,000	(4)	$ 395,000,000
Less: Self-Supporting Debt (as of 6/1/26) (5)			
Water and Sewer System General Obligation Debt			$ 230,670,000
Economic Development Corporation General Obligation Debt			15,110,000
Tax Increment Reinvestment Zone General Obligation Debt			8,460,000
Net Funded Debt Payable From Ad Valorem Taxes			$ 140,760,000
Interest and Sinking Fund Balance (as of 5/31/2026)			$ 4,406,281
Ratio Net General Obligation Debt to Taxable Assessed Valuation			1.14%

2026 Estimated Population - 125,884

Per Capita Taxable Assessed Valuation - $98,097

Per Capita Net General Obligation Funded Debt - $1,118

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(1) Estimated Harris Central Appraisal District values have been used until 2026 certified values are available. Breakdowns by Category and Exemption were not available.

(2) Excludes the City's contractual bonds sold by the Gulf Coast Water Authority ("GCWA") for the benefit of the City. See "TABLE 10 - REVENUES OF WATERWORKS AND SANITARY SEWER SYSTEM USED TO PAY CONTRACT REVENUE DEBT SERVICE."

(3) The City's proposed $7,765,000 Bonds, which are expected to be delivered concurrently with the Certificates. Preliminary, subject to change.

(4) Preliminary, subject to change.

(5) Includes the Certificates. Preliminary, subject to change. See "TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT."

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Fiscal Year Ended September 30,					
	2027		2026		2025	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real Residential, Single- Family	14,306,714,886	72.16%	$ 14,532,016,105	78.92%	$ 14,066,095,347	78.49%
Real, Residential, Multi-Family	880,339,214	4.44%	917,122,510	4.98%	938,153,490	5.24%
Real, Vacant Platted Lots/Tracts	313,371,817	1.58%	204,090,146	1.11%	213,680,943	1.19%
Real, Acreage (Land Only)	119,605,375	0.60%	100,215,523	0.54%	119,321,600	0.67%
Real, Farm and Ranch Improvements	126,815,718	0.64%	90,371,518	0.49%	82,915,236	0.46%
Real, Commercial and Industrial	1,784,578,439	9.00%	1,732,507,047	9.41%	1,794,902,684	10.02%
Real, Oil, Gas & Other Mineral Reserves	9,648,882	0.05%	13,593,288	0.07%	2,983,009	0.02%
Real and Intangible Personal, Utilities	216,104,735	1.09%	186,986,273	1.02%	176,862,907	0.99%
Tangible Personal, Business	555,828,096	2.80%	468,070,256	2.54%	465,625,467	2.60%
Tangible Personal, Other	8,420,519	0.04%	7,887,780	0.04%	4,331,920	0.02%
Real, Inventory	55,794,411	0.28%	115,070,576	0.62%	24,200,881	0.14%
Special Inventory	41,877,070	0.21%	46,782,471	0.25%	31,326,640	0.17%
Total Appraised Value Before Exemptions	19,826,943,281	92.90% (2)	$ 18,414,713,493	100.00%	$ 17,920,400,124	100.00%
Less: Total Exemption/Reductions	(7,478,122,217)		(5,206,003,516)		(4,061,153,493)	
Total Assessed Value (1)	12,348,821,064		$ 13,208,709,977		$ 13,859,246,631	
Plus: Adjustments Made After Certification	-		-		-	
Less: Adjustment for Frozen Values	-		(904,950,640)		(1,818,582,508)	
Taxable Assessed Value (2)	$ 12,348,821,064		$ 12,303,759,337		$ 12,040,664,123	

	Fiscal Year Ended September 30,			
	2024		2023	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 13,710,681,009	79.67%	$ 12,042,068,780	79.02%
Real, Residential, Multi-Family	899,285,164	5.23%	855,821,494	5.62%
Real, Vacant Platted Lots/Tracts	172,856,389	1.00%	149,061,973	0.98%
Real, Acreage (Land Only)	120,826,202	0.70%	55,818,060	0.37%
Real, Farm and Ranch Improvements	74,140,226	0.43%	58,051,816	0.38%
Real, Commercial and Industrial	1,600,019,794	9.30%	1,522,263,449	9.99%
Real, Oil, Gas & Other Mineral Reserves	12,041,713	0.07%	5,464,203	0.04%
Real and Intangible Personal, Utilities	167,399,347	0.97%	149,129,176	0.98%
Tangible Personal, Business	380,499,791	2.21%	346,943,200	2.28%
Tangible Personal, Other	4,375,720	0.03%	4,319,020	0.03%
Real, Inventory	33,981,270	0.20%	8,623,036	0.06%
Special Inventory	33,008,390	0.19%	41,991,820	0.28%
Total Appraised Value Before Exemptions	$ 17,209,115,015	100.00%	$ 15,239,556,027	100.00%
Less: Total Exemption/Reductions	(3,923,042,011)		(3,166,321,480)	
Total Assessed Value (1)	$ 13,286,073,004		$ 12,073,234,547	
Less: Adjustment for Frozen Values	-		(1,436,027,687)	
Plus: Adjustments Made after Certification	(1,707,793,399)		-	
Taxable Assessed Value	$ 11,578,279,605		$ 10,637,206,860	

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(1) Source: The City's audited financial statements. Information provided by Harris Central Appraisal District & Galveston Central Appraisal District. Certified values are subject to change over time as contested values are resolved and the Appraisal District updates record.
(2) Only includes breakdown from Galveston County as Harris County breakdown is not yet available.
(3) Estimated Harris Central Appraisal District values have been used until 2026 certified values are available. Breakdowns by Category and Exemption were not available.

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

Fiscal year and taxable assessed valuation reflects valuation from previous tax year (i.e. fiscal year ended September 30, 2025 reflects the tax year 2024 valuation.)

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 [(3)]	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2022	116,834	$ 10,637,206,860	$ 91,045	$ 237,850,000	2.24%	2,036
2023	118,740	11,578,279,605	97,510	239,095,000	2.07%	2,014
2024	121,595	11,578,279,605	95,220	267,540,000	2.31%	2,200
2025	123,910	12,040,664,123	97,173	247,670,000	2.06%	1,999
2026	125,884	12,303,759,337	97,739	395,000,000 [(4)]	3.21% [(4)]	3,138 [(4)]

(1) Source: The City.
(2) As reported by the Galveston Central Appraisal District and Harris Central Appraisal District, subject to adjustments.
(3) Includes self-supporting debt.
(4) Includes the Certificates and the City's proposed $7,765,000 Bonds which are expected to be delivered concurrently with the Certificates. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

				Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections To Date	
Fiscal Year	Tax Year	Total Tax Rate[(2)]	Total Tax Levy for Fiscal Year	Amount	Percent of Levy	Amount	Amount	Percent of Levy
2022	2021	$ 0.4655	$ 48,747,954	$ 48,466,300	99.42%	$ 223,688	$ 48,689,988	99.88%
2023	2022	0.4155	48,981,547	48,629,832	99.28%	240,909	48,870,741	99.77%
2024	2023	0.3950	50,388,138	49,964,574	99.16%	229,660	50,194,234	99.62%
2025	2024	0.3690	48,891,559	48,754,736	99.72%	1,959 [(1)]	48,756,695	99.72% [(1)]
2026	2025	0.3636	47,574,549	47,156,286	99.12% [(2)]	242,160	47,398,446	99.63% [(2)]

(1) Total collections reflecting a refund of 2023 and 2022 taxes.
(2) Collections as of July 31, 2026.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2026/2027 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Texas-New Mexico Power Co	Utility	$ 101,045,540	0.82%
Wizard Energy Storage LLC	Energy Storage	$ 100,111,990	0.81%
CAF Victory Owner LLC	Apartments	54,500,000	0.44%
VL Town Center Associates LLC	Limited Liability Co	53,544,150	0.43%
KV Beacon Lakes Apartments LLC	Apartments	48,950,000	0.40%
PRIII TRG Beacon Island Owner LP	Developer	48,719,000	0.39%
Centennial South Shore LP	Apartments	47,287,735	0.38%
W Walker Street TX Partners LLC	Apartments	47,250,000	0.38%
HZ Signature Point Dst	Apartments	46,054,400	0.37%
TL II Apartments LLC	Apartments	45,000,100	0.36%
		$ 592,462,915	4.80%

Source: Harris Central Appraisal District and Galveston Central Appraisal District. Estimated values from Harris Central Appraisal District were used will update once certified values are in.

GENERAL OBLIGATION DEBT LIMITATION

No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter.

TABLE 6 - TAX ADEQUACY

2026 Principal and Interest Requirements on Net Funded Debt	$ 13,532,382 (1)
$0.1119 Tax Rate at 98% Collection Produces	$ 13,541,964
Average Annual Principal and Interest Requirements on Net Funded Debt, 2026 - 2056	$ 5,130,025 (1)
$0.0424 Tax Rate at 98% Collection Produces	$ 5,131,182
Maximum Principal and Interest Requirements on Net Funded Debt, 2027	$ 13,659,566 (1)
$0.1129 Tax Rate at 98% Collection Produces	$ 13,662,983

(1) Includes the Certificates and the City's proposed $7,765,000 Bonds which are expected to be delivered concurrently with the Certificates. Excludes the Self-Supporting Debt. Preliminary, subject to change.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

	2025/26 Taxable Assessed Value	2025/26 Tax Rate	Total G.O. Debt as of 8/25/26	Estimated % Applicable	City's Overlapping G.O. Debt as of 8/25/26
City of League City	$ 12,348,821,064	$ 0.415526	$ 140,760,000 (1)	100.00%	$ 140,760,000
Bay Colony West MUD	26,015,000	0.860000	26,015	100.00%	26,015
Clear Creek ISD	1,093,530,000	0.969000	1,093,530,000	35.79%	391,374,387
College of the Mainland	142,695,000	0.264000	142,695,000	11.26%	16,067,457
Dickinson ISD	416,310,000	1.142000	416,310,000	29.40%	122,395,140
Galveston Co	126,960,000	0.323000	126,960,000	25.84%	32,806,464
Galveston Co Mgmt Dist #1	2,765,000	-	2,765,000	100.00%	2,765,000
Galveston Co MUD # 6	1,870,000	0.060000	1,870,000	100.00%	1,870,000
Galveston Co MUD # 36	22,420,000	1.150000	20,510,000	100.00%	20,510,000
Galveston Co MUD # 39	11,665,000	0.360000	11,665,000	100.00%	11,665,000
Galveston Co MUD # 43	22,380,000	0.450000	22,380,000	100.00%	22,380,000
Galveston Co MUD # 44	25,960,000	0.550000	25,960,000	100.00%	25,960,000
Galveston Co MUD # 45	47,240,000	0.710000	47,240,000	100.00%	47,240,000
Galveston Co MUD # 46	28,655,000	0.545000	28,655,000	100.00%	28,655,000
Galveston Co MUD # 73	21,905,000	1.100000	21,905,000	100.00%	21,905,000
Galveston WC&ID # 1	35,675,000	0.250000	35,675,000	2.20%	784,850
Galveston WC&ID # 12	21,050,000	0.181000	21,050,000	0.00%	-
Harris Co	2,473,177,553	0.381000	2,473,177,553	0.04%	989,271
Harris Co Department of Education	28,960,000	0.005000	28,960,000	0.04%	11,584
Harris Co Flood Control Dist	937,165,000	-	937,165,000	0.04%	374,866
Harris Co Hospital District	1,644,825,000	0.268000	861,580,000	0.04%	344,632
Harris Co Toll Road		-	-	0.00%	-
Port of Houston Auth	386,074,397	-	386,074,397	0.04%	154,430
Santa Fe ISD	57,600,000	1.101000	57,600,000	1.32%	760,320
South Shore Harbour MUD # 7	15,875,000	0.427000	15,875,000	100.00%	15,875,000
Westwood Management District	41,925,000	0.940000	41,925,000	100.00%	41,925,000
Total Direct and Overlapping Funded Debt					$ 947,599,416
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation					7.67%
Per Capita Overlapping Funded Debt					$ 7,528

(1) Includes the City's proposed $7,765,000 Bonds which are expected to be delivered concurrently with the Certificates. Excludes the Self-Supporting Debt. Preliminary, subject to change.

DEBT INFORMATION

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service [1] Principal	Outstanding Debt Service [1] Interest	The Bonds [2] Principal	The Bonds [2] Interest	The Certificates [2] Principal	The Certificates [2] Interest	Total Outstanding Debt Service	Water and Sewer System Self-Supporting Requirements[3]	Sales Tax Self Supporting Requirements[3]	TIRZ No. 4 Self Supporting Requirements[3]	PID No. 3 Self Supporting Requirements	Total Net Debt Service Requirements
2026	$ 19,415,000	$ 9,403,486	$ -	$ -	$ -	$ -	$ 28,818,486	$ 14,321,108	$ 583,275	$ 361,500	$ 20,221	$ 13,532,382
2027	19,830,000	8,491,540	270,000	340,518	4,625,000	7,117,825	40,674,884	21,542,535	3,916,209	1,556,574	-	13,659,566
2028	20,440,000	7,603,118	245,000	368,625	3,985,000	7,756,213	40,397,956	21,362,483	3,913,288	1,553,550	-	13,568,635
2029	21,010,000	6,688,128	255,000	356,125	4,190,000	7,551,838	40,051,090	21,311,386	3,919,163	1,552,200	-	13,268,341
2030	20,645,000	5,782,793	270,000	343,000	4,410,000	7,336,838	38,787,631	20,281,933	3,921,713	1,557,725	-	13,026,260
2031	19,840,000	5,009,109	280,000	329,250	4,630,000	7,110,838	37,199,196	21,426,152	3,330,388	1,551,850	-	10,890,807
2032	15,170,000	4,405,868	295,000	314,875	4,870,000	6,873,338	31,929,081	16,190,314	3,329,888	1,559,525	-	10,849,354
2033	11,995,000	3,938,565	310,000	299,750	3,895,000	6,654,213	27,092,528	14,910,864	3,331,263	-	-	8,850,401
2034	11,900,000	3,529,781	325,000	283,875	4,095,000	6,454,463	26,588,118	14,853,649	3,329,388	-	-	8,405,082
2035	10,105,000	3,155,159	345,000	267,125	4,305,000	6,244,463	24,421,746	12,716,614	3,329,138	-	-	8,375,994
2036	9,155,000	2,829,303	360,000	249,500	4,525,000	6,023,713	23,142,515	11,675,143	3,330,263	-	-	8,137,110
2037	8,550,000	2,527,270	380,000	231,000	4,760,000	5,791,588	22,239,858	11,413,778	3,332,513	-	-	7,493,568
2038	8,080,000	2,239,294	400,000	211,500	5,000,000	5,547,588	21,478,381	10,911,713	3,330,763	-	-	7,235,906
2039	7,785,000	1,970,313	420,000	191,000	5,260,000	5,291,088	20,917,400	10,915,138	3,329,888	-	-	6,672,375
2040	6,770,000	1,727,388	440,000	169,500	5,530,000	5,021,338	19,658,225	10,920,388	3,329,638	-	-	5,408,200
2041	5,205,000	1,512,613	465,000	146,875	5,815,000	4,737,713	17,882,200	10,916,963	3,329,763	-	-	3,635,475
2042	3,050,000	1,342,813	490,000	123,000	6,110,000	4,439,588	15,555,400	10,131,288	3,330,013	-	-	2,094,100
2043	3,195,000	1,200,938	515,000	97,875	6,425,000	4,126,213	15,560,025	10,132,913	3,330,138	-	-	2,096,975
2044	1,830,000	1,082,588	540,000	71,500	6,750,000	3,796,838	14,070,925	10,129,538	3,329,888	-	-	611,500
2045	1,925,000	988,713	565,000	43,875	7,100,000	3,450,588	14,073,175	10,130,413	3,333,888	-	-	608,875
2046	2,020,000	890,088	595,000	14,875	7,465,000	3,086,463	14,071,425	10,129,663	3,331,888	-	-	609,875
2047	2,120,000	794,538	-	-	5,795,000	2,747,719	11,457,256	8,126,906	3,330,350	-	-	-
2048	2,210,000	702,525	-	-	6,115,000	2,435,081	11,462,606	8,129,138	3,333,469	-	-	-
2049	2,305,000	606,581	-	-	6,445,000	2,105,381	11,461,963	8,128,119	3,333,844	-	-	-
2050	2,405,000	506,494	-	-	6,790,000	1,757,963	11,459,456	8,128,244	3,331,213	-	-	-
2051	2,510,000	402,050	-	-	7,155,000	1,391,906	11,458,956	8,128,775	3,330,181	-	-	-
2052	2,620,000	293,038	-	-	4,120,000	1,095,938	8,128,975	8,128,975	-	-	-	-
2053	2,735,000	179,244	-	-	4,340,000	873,863	8,128,106	8,128,106	-	-	-	-
2054	2,850,000	60,563	-	-	4,575,000	639,844	8,125,406	8,125,406	-	-	-	-
2055	-	-	-	-	4,820,000	393,225	5,213,225	5,213,225	-	-	-	-
2056	-	-	-	-	5,080,000	133,350	5,213,350	5,213,350	-	-	-	-
	$247,670,000	$79,863,894	$ 7,765,000	$ 4,453,643	$158,980,000	$127,987,007	$626,719,543	$ 371,774,216	$ 86,201,403	$ 9,692,924	$ 20,221	$159,030,780

(1) "Outstanding Debt" does not include lease/purchase obligations. See "TABLE 10 – REVENUES OF WATERWORKS AND SANITARY SEWER SYSTEM USED TO PAY GENERAL OBLIGATION DEBT SERVICE" and "OTHER OBLIGATIONS."
(2) Interest is calculated at an assumed rate for the purpose of illustration. Preliminary, subject to change.
(3) Includes the Certificates. Preliminary, subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2027		$ 13,659,566
Budgeted Interest and Sinking Fund, 9/30/26 [(1)]	$ 4,276,186	
Budgeted Interest and Sinking Fund Collections [(1)]	7,600,000	
Budgeted Sales Tax Collections [(1)]	5,295,000	
Less: Rebates to Tax Increment Zone [(1)]	(210,553)	
Less: Estimated Fees [(1)]	(7,000)	
Budgeted Investment Income / Penalty & Interest [(1)]	260,000	17,213,633
Estimated Balance, 9/30/2027		$ 3,554,067

(1) Information from Proposed 2027 Budget. Subject to change.

TABLE 10 - REVENUES OF WATERWORKS AND SANITARY SEWER SYSTEM USED TO PAY CONTRACT REVENUE DEBT SERVICE

The City has five outstanding contract revenue bonds sold by the Gulf Coast Water Authority ("GCWA") for the benefit of the City. The City is obligated to fund 100.00% of Contract Revenue Bonds (City of League City Project – Southwest Transmission Line), Series 2022 and Contract Revenue Bonds (City of League City Project – Southwest Transmission Line), Series 2021. The final maturity for payment of such GCWA Bonds is August 15, 2042. The City is obligated to fund 49.06% ($1,761,254 of par value) of Contract Revenue Bonds (South Transmission System) Series 2023. The City is obligated to fund 43.39% ($7,126,807 of par value) of Contract Revenue Bonds (Thomas Mackey Water Treatment Plant) Series 2023A and 43.39% ($2,039,330 of par value) of Contract Revenue Bonds (Thomas Mackey Water Treatment Plant) Series 2023B. The contract revenue bonds are payable as an operating expense of the City's waterworks system.

TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT

The City also has certain outstanding general obligation bonds and combination tax and revenue Certificates of obligation of which some of the proceeds were used for projects that generate revenue for subsequent repayment. The debt from these bonds and Certificates of obligation is currently being paid in full or in part from such revenue and is listed below:

Issue	Percent Attributed to Self-Supporting Revenue	Revenue Source Fund	Self-Supporting Debt Due in 2026 Fiscal Year
General Obligation Refunding Bonds, Series 2011A	41%	Waterworks and Sewer System	$ 255,897
General Obligation Refunding Bonds, Series 2014A	100%	PID 3	20,221
General Obligation Refunding Bonds, Series 2015	100%	Waterworks and Sewer System	1,919,000
Combination Tax and Revenue Certificates of Obligation, Series 2015	83%	Waterworks and Sewer System	1,024,344
General Obligation Refunding Bonds, Series 2016	56%	Waterworks and Sewer System	1,964,500
Combination Tax and Revenue Certificates of Obligation, Series 2016	29%	Waterworks and Sewer System	247,075
General Obligation Refunding Bonds, Series 2016A	81%	Waterworks and Sewer System	227,375
Combination Tax and Revenue Certificates of Obligation, Series 2017	50%	Waterworks and Sewer System	642,155
Combination Tax and Revenue Certificates of Obligation, Series 2017	23%	TIRZ 4	361,500
General Obligation Refunding and Improvement Bonds, Series 2019	15%	Waterworks and Sewer System	779,675
General Obligation Refunding and Improvement Bonds, Series 2019	9%	4B Corporation	583,275
General Obligation Refunding Bonds, Series 2020	38%	Waterworks and Sewer System	1,210,150
Combination Tax and Revenue Certificates of Obligation, Series 2021	100%	Waterworks and Sewer System	781,800
General Obligation Refunding Bonds, Series 2021	100%	Waterworks and Sewer System	2,357,000
GCWA Contract Revenue Bonds 2021	100%	Waterworks and Sewer System	418,750
GCWA Contract Revenue Bonds 2022	100%	Waterworks and Sewer System	389,556
Combination Tax and Revenue Certificates of Obligation, Series 2024	100%	Waterworks and Sewer System	2,912,138
			$ 16,094,410

The debt issues described in this table are general obligation debt for which repayment is provided from surplus net revenues of the water and sewer system for the general obligation bonds, payments from the Public Improvement District No. 1 ("PID #1") for General Obligation Refunding Bonds, Series 2014A. It is the City's current policy to provide these payments from such respective sources. There is no assurance that the use of these sources to make these payments will continue in the future. If payments are not made from such sources in the future, the difference will be paid for with ad valorem taxes.

Waterworks and Sewer System Computation	
Net Revenues Available for Debt Service from Waterworks and Sewer System (9/30/2025)	$ 41,005,213
Waterworks and Sewer System Revenue Bond Requirements (9/30/2026)	-
Balance Available	$ 41,005,213
Waterworks and Sewer System General Obligation Bond Requirements (9/30/2026)	14,321,108
Balance	$ 26,684,105
Percentage of Waterworks and Sewer System General Obligation Bonds Self-Supporting	100.00%

4B Industrial Corporation Computation	
Gross Revenues Available for Debt Service from 4B Industrial Corp. (9/30/2025)	$ 5,428,497
4B Industrial Corp. General Obligation Bond Requirements (9/30/2026)	583,275
Balance	$ 4,845,222
Percentage of 4B Industrial Corp. General Obligation Bonds Self-Supporting	100.00%

PID #3 Computation	
Gross Revenues Available for Debt Service from PID #3 Fund (9/30/2025)	$ 61,824
PID #1 Fund General Obligation Bond Requirements (9/30/2026)	20,221
Balance	$ 41,603
Percentage of PID #1 General Obligation Bonds Self-Supporting	100.00%

TIRZ #4 Computation	
Gross Revenues Available for Debt Service from TIRZ #4 Fund (9/30/2025)	$ 1,527,081
TIRZ #4 General Obligation Bond Requirements (9/30/2026)	361,500
Balance	$ 1,165,581
Percentage of TIRZ #4 General Obligation Bonds Self-Supporting	100.00%

TABLE 12 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date of Authorization	Amount Authorized	Issued to Date	Amount Being Issued (1)	Unissued Balance (2)
Public Safety Improvements	9/19/1992	$ 400,000	$ -	$ -	$ 400,000 (3)
Drainage	5/4/2019	73,000,000	47,375,298	5,600,000	20,024,702
Mobility Projects	5/4/2019	72,000,000	49,324,702	2,500,000	20,175,298
		$ 145,400,000	$ 96,700,000	$ 8,100,000	$ 40,600,000

(1) Includes premium charges against voted authorization. Preliminary, subject to change.
(2) Preliminary, subject to change.
(3) The City has no plans on issuing the remaining authorization at this time.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City expects to issue $7,765,000 (Preliminary, subject to change) General Obligation Improvement Bonds, Series 2026 concurrently with the Certificates. The issuance of such bonds is not contingent upon the issuance of the Certificates.

TABLE 13 – OTHER OBLIGATIONS

The City has entered into leae agreement as lessee for the use of land. As of September 30, 2025, the outstanding lease liability was $79,334. The City is required to make monthly payments and the interest rates are based on the incremental borrowing rate of 1.53%. In addition, the City's right-to-use lease assets will be amortized using a straight-line basis over the remaining term of the leases. The value of the right-to-use assets as of the end of the current fiscal year was $139,666 and had accumulated amortization of $58,806.

The future principal payments as of September 30, 2025 for governmental activities are as follows:

Fiscal Year Ending September 30,	Governmental Activities Principal	Interest	Total
2026	$ 15,390	$ 1,210	$ 16,600
2027	15,625	975	16,600
2028	15,863	737	16,600
2029	16,105	495	16,600
2030	16,351	249	16,600
Total	$ 79,334	$ 3,666	$ 83,000

PENSION FUND

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State 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 9).

OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits through the Texas Municipal Retirement System ("TMRS"), the City has opted to provide eligible retired employees with the following post-employment benefits:

- Employees retiring from the City with 20 years of TMRS experience, with the most recent five years with the City, between the ages of 60 and 65, will have premiums paid at 100% by the City.
- Employees are eligible to retire under TMRS as a disability retiree if they have worked with the City for a minimum of five years and have at least 10 years of combined municipal service they are eligible to have a portion of their premium paid by the City based on their age.

The City recognizes its share of the costs of providing these benefits when paid, on a "pay-as-you-go" basis. These payments are budgeted annually. The aggregate total of OPEB expenses for the fiscal year ending September 30, 2025 was $273,127. Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated a being equal to the employer's yearly contributions for retirees.

As of fiscal year 2009, the City implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post- employment Benefits Other Than Pensions." In preparation of GASB 45, the City commissioned an actuarial valuation of its post- retirement benefit liability. (For more information concerning the City's post-employment benefits and a summary of the actuarial results, see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" – Note 10).

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FINANCIAL INFORMATION

TABLE 14 - CHANGE IN NET ASSETS

	For Fiscal Year Ended September 30,				
Revenue:	2025	2024	2023	2022	2021
Program Revenues					
Charges for Services	$ 15,921,864	$ 14,575,714	$ 22,161,595	$ 18,827,222	$ 17,143,326
Operating Grants and Contributions	12,701,885	14,273,228	7,429,747	4,575,898	5,852,877
Capital Grants and Contributions	54,594,223	15,404,254	29,491,297	31,802,045 (1)	2,522,052
General Revenues					
Property Tax	48,953,194	50,037,057	48,617,759	48,623,693	48,703,833
Sales and Uses Taxes	34,601,371	33,678,478	31,301,619	30,334,581	27,992,166
Franchise Tax	7,231,155	7,138,671	7,208,890	7,137,928	6,705,925
Unrestricted Investment Earnings	6,835,550	10,369,054	5,893,746	(1,319,776)	185,165
Gain/Loss on Disposition of Capital Assets[(2)]	200,039	192,078	-	-	-
Miscellaneous	5,372,524	8,096,733	4,411,405	2,999,816	3,384,272
Total Revenue	$ 186,411,805	$ 153,765,267	$ 156,516,058	$ 142,981,407	$ 112,489,616
Expenses:					
General Government	$ 24,204,294	$ 18,853,302	$ 20,974,036	$ 18,651,470	$ 17,804,102
Public Safety	44,921,959	42,377,704	39,360,758	33,663,627	34,123,481
Public Works	33,007,265	32,297,786	31,920,049	30,012,343	26,914,023
Community Services	15,042,893	13,227,912	13,631,802	11,707,900	11,741,041
Interest on Long-Term Debt	3,136,505	5,289,057	3,730,137	3,704,991	4,408,917
Total Expenses	$ 120,312,916	$ 112,045,761	$ 109,616,782	$ 97,740,331	$ 94,991,564
Increase in Net Assets before Transfers	$ 66,098,889	$ 41,719,506	$ 46,899,276	$ 45,241,076	$ 17,498,052
Transfers	5,247,448	4,135,959	4,385,959	4,273,239	4,454,257
Gain/Loss on Disposition of Capital Assets[(2)]	-	-	174,139	4,187	-
Increase (Decrease) in Net Assets	$ 71,346,337	$ 45,855,465	$ 51,459,374	$ 49,518,502	$ 21,952,309
Net Assets at Beginning of Year	523,710,105	477,854,640	426,395,266	376,973,573	355,021,264
Beginning Balance Restatement - GASB 101	(880,480)	-	-	-	-
Net Assets at Beginning of Year	522,829,625 (3)	477,854,640	426,395,266 (4)	376,973,573	355,021,264
Net Assets at End of Year	$ 594,175,962	$ 523,710,105	$ 477,854,640	$ 426,492,075	$ 376,973,573

(1) Increase reflects capital assests that have been completed and transferred to the City by developers.
(2) Change is table is due to new auditor in 2024.
(3) Restated due to adoption of GASB Statement No. 101, resulting in a remeasuremnt and restatement of the liability as of October 1, 2024. A governmental fund reported as a major fund in the prior year no longer meets the major fund criteria in the current year.
(4) Restated.

Source: The City's audited financial statements.

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TABLE 14A – GENERAL FUND REVENUES & EXPENDITURES

	For Fiscal Year Ended September 30,				
Revenues:	2025	2024	2023	2022	2021
Taxes	$ 75,816,256	$ 74,937,704	$ 67,674,249	$ 66,758,805	$ 64,749,118
Licenses & Permits	3,834,046	4,214,952	3,218,058	2,571,046	2,838,015
Fines and Forfeitures	1,958,829	1,986,714	1,613,060	1,361,671	1,147,083
Intergovernmental	15,315,864	14,129,302	1,339,989	467,209	606,344
Charges for Services	1,091,416	618,970	12,791,167	11,979,998	10,272,199
Interest on Investments	1,541,627	2,291,905	842,514	(684,728)	82,511
Other	333,592	403,832	1,248,712	1,518,635	950,019
Total Revenues	$ 99,891,630	$ 98,583,379	$ 88,727,749	$ 83,972,636	$ 80,645,289
Expenditures:					
General Government	$ 20,185,149	$ 18,792,045	$ 17,664,980	$ 15,891,884	$ 14,981,921
Public Safety	41,521,411	32,758,445	35,842,329	32,394,353	30,771,821
Public Works	22,408,751	21,305,477	20,024,818	18,829,350	18,095,880
Community Services	11,161,296	10,531,935	9,830,776	9,097,800	9,318,508
Capital Outlay	884,103	2,018,633	517,432	795,495	913,104
Total Expenditures	$ 96,160,710	$ 85,406,535	$ 83,880,335	$ 77,008,882	$ 74,081,234
Excess (Deficit) of Revenues Over Expenditures	$ 3,730,920	$ 13,176,844	$ 4,847,414	$ 6,963,754	$ 6,564,055
Other Financing sources (Uses):					
Proceeds from Sale of Capital Assets	$ 29,136	$ 39,430	$ 30,698	$ 37,125	$ 12,762
Operating Transfers In	5,350,135	6,701,275	4,712,909	4,283,239	4,361,947
Operating Transfers (Out)	(7,000,000)	(13,775,000)	(7,750,000)	(12,111,968)	(10,209,342)
Total Other Financing Sources (Uses)	$ (1,620,729)	$ (7,034,295)	$ (3,006,393)	$ (7,791,604)	$ (5,834,633)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	$ 2,110,191	$ 6,142,549	$ 1,841,021	$ (827,850)	$ 729,422
Fund Balance, Beginning of Year	34,390,124	28,247,575	26,406,554	27,234,404 (1)	25,743,160
Fund Balance, End of Year	$ 36,500,315	$ 34,390,124	$ 28,247,575	$ 26,406,554	$ 26,472,582

____
(1) Restated.

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TABLE 15 - 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 7, 1994, the voters of the City approved the imposition of an additional one-half of one percent (½ of 1%) for property tax reduction and another one-quarter of one percent (¼ of 1%) for the Section 4B Industrial Development Corporation. The sales tax increase went into effect on October 1, 1994. On May 4, 2019, the voters of the City approved the imposition of an additional one-quarter of one percent (1/4 of 1%) for City Sales and Use Tax. The sales tax increase went into effect on October 1, 2019.

Fiscal Year Ended 9/30	City Sales Tax[1]	4B Corporation Sales Tax [1]	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita [2]
2021	$ 23,313,900	$ 3,795,283	55.61%	0.2589	254
2022	26,001,069	4,333,512	61.93%	0.2573	260
2023	26,829,959	4,471,660	62.12%	0.2454	264
2024	28,867,267	4,811,211	68.53%	0.2529	277
2025	29,658,318	4,943,053	77.36%	0.2813	279

(1) Source: The City.
(2) Population information provided by City staff.

The sales tax breakdown for the City is as follows:

4 B Industrial Development Corporation	1/4 %
Property Tax Relief	1/2 %
City Sales & Use Tax	1 1/4 %
State Sales & Use Tax	6 1/4 %
Total	8 1/4 %

CAPITAL IMPROVEMENT PROGRAM

The City prepares a multi-year capital improvement plan that addresses all major categories of improvements and addresses all forms of funding. The current plan includes FY2027 through FY2031. The approved CIP includes financing plans that account for all capital funding sources, including current year pay-as-you-go cash funded projects, proceeds from prior years' bond sales, and new funds needed from future bond sales. The CIP includes debt service models for tax supported and revenue supported projects to anticipate and demonstrate the affordability of new bonds within revenue streams from existing property tax rates and water and wastewater rates. Projects are not included in the five-year CIP unless financing can be made available through allocation of existing or projected funding sources.

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THE SYSTEM

WATERWORKS SYSTEM

The primary water supply for the City of League City is surface water. This water is obtained from Gulf Coast Water Authority (GCWA). The majority of the water is provided to GCWA from the City of Houston with 10% of the surface water capacity coming from the actual plant at GCWA. Houston's supply is from the Trinity River watershed basin while GCWA is from the Brazos River watershed.

League City also has ground water to supplement the surface water supply. Due to subsidence agreements with the subsidence district only 10% of the annual water supply can be supplemented with ground water without incurring a penalty.

During fiscal year 2024/2025 the City pumped approximately 4.52 billion gallons of water (combined surface and ground). This water was delivered to approximately 39,260 accounts. The estimated population of League City is 125,884 at January 1, 2026.

Existing Water Supply— The City maintains 9 Booster stations throughout the distribution system. These Booster stations are strategically placed to provide the required demand flows throughout the distribution system.

The current water supply from Houston is provided from the Southeast Water Treatment Plant (SEWPP). League City has 22.5 million gallons per day contracted from SEWPP through Gulf Coast Water Authority. In addition, GCWA supplies 5.544 million gallons per day from the Thomas Mackey Plant in Texas City. The total surface water supply volume is 25.044 million plus 12.3 million supplemental from wells.

Highway 3 Booster station is the primary Booster for the entire City. This station receives 17.5 MGD water from SEWPP and boosts it to various parts of the City. The remaining 5 MGD comes to the City through the north side pump station on Grissom Road.

Calder Road Booster station receives 5.544 MGD water from Thomas Mackey Plant in Texas City.

Elevated Storage— The City has 4 operational elevated storage tanks. All three tanks are 2 million-gallon tanks, two located on South Shore Boulevard and the other at Rustic Oaks Subdivision. The fourth is a 400 thousand-gallons tank and is located on Alabama Avenue.

Ground Storage— Ground storage tanks are located at 9 of the Booster station locations with a total capacity of 28.9 million gallons. The combined elevated and ground storage will be 34.9 million gallons.

Groundwater— The City has eight wells with a combined total capacity of approximately 12.3 million gallons per day. The average depth of the wells in the area range from 700-800 feet.

League City is in Area 1 of the Houston Galveston subsidence district. The district requirements stipulate that in order to reduce subsidence in the district only 10% of the annual surface supply can be pumped from ground water.

Distribution System— The City has over 603 miles of water lines from 2 inch up to 42 inch. All transmission lines are 24 inch and larger. Various 12 to 18-inch lines interconnect most major transmission lines. New lines are being planned to create a complete transmission loop around the City.

WASTEWATER SYSTEM

The City's wastewater system consists of over 412 miles of gravity lines from 6 inch to 60-inch, 80 lift stations and 2 treatment plants. The Dallas-Salmon treatment plant was expanded from a 7.5 MGD plant to a 12 MGD plant. This plant serves the majority of the City. The new Southwest Water Reclamation Facility (SWWRF) was completed in 2012 and is rated at 4.0 MGD. It serves the far west service areas of the City and will treat water for reuse on public accessible land. Dallas-Salmon is also a plant producing reuse water which is sold to South Shore Country Club for irrigation of the golf course.

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TABLE 16 – CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended September 30,				
Revenues:	2025	2024	2023	2022	2021
Charges for Services	$ 57,780,638	$ 44,867,323	$ 45,843,710	$ 41,776,868	$ 37,961,242
Interest Earned	1,848,731	2,945,874	1,799,850	- [(1)]	120,246
Gain on Sale of Assets	2,681	18,005	9,613	7,202	10,522
Other Revenues	415,158	9,057,605	5,903,915	3,131,639	4,799,063
Total Revenues	$ 60,047,208	$ 56,888,807	$ 53,557,088	$ 44,915,709	$ 42,891,073
Operating Expenses:					
Personnel	$ 8,827,800	$ 8,031,004	$ 8,055,996	$ 6,133,840	$ 6,089,489
Utilities	1,470,351	1,476,999	1,434,412	1,455,073	1,342,059
Repairs and Maintenance	3,067,787	2,907,061	2,311,514	1,999,487	1,693,346
Supplies	9,341,780	10,350,101	948,820	800,043	637,135
Contractual Services	-	-	9,927,547	7,909,539	7,276,101
Other Operarting Expenses	2,029,716	1,657,936	948,820	800,043	637,135
Gulf Coast Water Authority Debt Service [(2)]	1,538,377	1,533,657	1,090,438	329,547	28,602
	$ 26,275,811	$ 25,956,758	$ 24,717,547	$ 19,427,572	$ 17,703,867
Net Revenue From Operations	$ 33,771,397	$ 30,932,049	$ 28,839,541	$ 25,488,137	$ 25,187,206
Impact Fees	7,233,816	8,771,103	5,664,185	2,092,471	4,637,431
Available for Debt Service	$ 41,005,213	$ 39,703,152	$ 34,503,726	$ 27,580,608	$ 29,824,637
Water Customers	39,260	38,806	36,878	36,514	35,981
Sewer Customers	37,408	36,242	35,437	34,713	35,184

(1) Interest earnings are shown at mark to market. In Fiscal year 2022 there was a book loss however, the City intends to hold the securities to maturity.
(2) Contract Revenue Bonds issued by the Gulf Coast Water Authority that are treated as an operating expense of the System.

TABLE 17 – TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED)

Customer	Type of Industry	Fiscal Year 2025 Water Usage in Gallons	% of Total Water Usage
South Shore Golf Course	Golf Course	95,106,000	20.43%
Westland Ranch Residential	Apartments	18,608,000	4.00%
CAF Victory Owner LLC	Apartments	25,292,000	5.43%
Clear Creek ISD	School	15,618,000	3.35%
UTMB	Business	15,579,000	3.35%
South Shore Harbor Resort	Business	12,895,000	2.77%
Amazon.com Services	Business	11,440,000	2.46%
HEB Grocery Co.	Business	8,083,000	1.74%
South Shore Harbor	Business	3,605,000	0.77%
The Crossings	Apartments	1,755,000	0.38%
		207,981,000	44.68%

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TABLE 18 - HISTORICAL WATER CONSUMPTION (GALLONS)

Year Ended 9/30	Estimated City Population (1)	Number of Customers	Water Usage (MGD) Average Day Usage	Peak Day Usage	Peak Month Usage	Total Usage	Total Water & Sewer Sales
2021	116,834	36,074	11.120	24.625	476.345	4,317.345	39,962,382
2022	118,740	36,514	12.220	21.942	540.962	4,461.494	41,776,868
2023	121,595	36,878	12.280	23.540	617.921	4,518.458	45,910,450
2024	123,910	38,806	11.810	18.776	504.360	3,935.337	44,867,323
2025	125,884	39,260	12.760	18.629	479.540	4,656.066	57,780,638

(1) Population estimated by the City.

FINANCIAL POLICIES

The financial statements of the City are prepared in conformity with the generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following are the City's governmental fund types:

General Fund . . . The General Fund is used to account for all financial transactions which are not accounted for in another fund. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, franchise taxes, licenses and permits, and fines and forfeitures. Expenditures are for general government, public safety, public works and other community services.

Special Revenue Funds . . . Special Revenue Funds are used to account for revenues derived from specific governmental grants or other revenue sources which are legally restricted or designated to finance particular activities of the City. Capital outlays are charged to expenditures in the accounts of these funds and capitalized in the government wide statement, as appropriate.

Debt Service Fund . . . The Debt Service Fund is used to account for the payment of interest and principal on all general long-term debt of the City except for capital leases which are accounted for in the General Fund. The primary source of revenue for the Debt Service Fund is general property taxes.

Capital Projects Funds . . . Capital Projects Funds are used to account for the receipt and expenditure of resources used for acquisition of or improvements to major capital assets. Principal sources of revenues are cash funding, bond sale proceeds, federal grants and interest revenue.

Enterprise Fund . . . The Enterprise Fund is used to account for operations of the water and wastewater division and the construction of related facilities. The fund is financed and operated in a manner similar to private business enterprises; where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), federal grants and impact fees.

Internal Service Fund . . . The Internal Service Fund is used to account for the financing of goods or services by one department to other departments, on a cost reimbursement basis.

General Budget Policies . . . The budget for the City Government shall present a complete financial plan for the ensuing fiscal year. It shall set forth all proposed expenditures for the administration, operation and maintenance of all departments and agencies of the City Government for which appropriations are required to be made or taxes levied by the City. The budget shall also include: (1) the revenues and expenses of the water and sewer system, and such system may be shown in the budget as a self-supporting enterprise; (2) all expenditures for capital projects to be undertaken or executed during the fiscal year; (3) all interest and debt redemption charges during the fiscal year and the actual or estimated operating deficits from prior fiscal years. In addition, the budget shall set forth the anticipated income and other means of financing the total proposed expenditures of the City for the fiscal year.

Basis of Accounting . . . Basis of accounting refers to the time when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statement, regardless of measurement focus applied. Governmental fund types (General, Debt Service, Special Revenue and Capital Projects) are accounted for on a "spending" or "financial resources" measurement focus.

The budget process begins in early spring each year with the preparation of the Long-Range Financial Forecast. The Long-Range Financial Forecast is prepared under the direction of the City Manager and presented to Council. The Long-Range Financial Forecast includes all majors funds; General, Utility and Debt Service Funds of the City. Once the Long-Range Financial Forecast has been presented to Council, city departments present their budgets to the City Manager for review. The budget is prepared under the direction of the City Manager including the Capital Budget which is based on the first year of the five-year Capital Improvement Plan ("CIP"). The Budget and CIP are then presented to Council for review. At least ten (10) days before the beginning of the fiscal year, the Council must approve the budget and enact the appropriation ordinance. As soon thereafter as possible, the City Council passes the tax levy ordinance and such other ordinances as may be required to make the budget effective.

INVESTMENTS

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

Authorized Investments . . . Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share Certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

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

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

Investment Policies . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment.

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

Additional Provisions . . .Under State law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the treasurer, chief financial officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

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TABLE 19 – 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
Cash	1.9%	$ 4,568,292	$ 4,568,292
Lone Star	1.6%	3,805,274	3,805,274
Money Market	7.6%	18,493,834	18,493,834
Portfolio Investments	68.6%	166,696,140	166,198,951
Texas Class	1.7%	4,072,849	4,072,849
Texpool	16.3%	39,602,813	39,602,813
TexStar	2.3%	5,713,108	5,713,108
	100.0%	$ 242,952,310	$ 242,455,121

TAX MATTERS

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

TAX EXEMPTION

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

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

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

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

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates regardless of the ultimate outcome of the audit.

COLLATERAL TAX CONSEQUENCES

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

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

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

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

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM

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

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

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

If the issue price of a maturity of the Certificates is less than the stated redemption price payable at maturity of such Certificates (the "Original Issue Discount Certificates"), the difference between (i) the amount payable at the maturity of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such constitutes original issue discount with respect to such Original Issue Discount Certificate in the hands of any owner who has purchased such Original Issue Discount Certificate in the initial public offering of the Certificates. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Certificate continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Certificates under the captions "TAX MATTERS – TAX EXEMPTION" and "TAX MATTERS – ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS – COLLATERAL TAX CONSEQUENCES" and "—TAX LEGISLATIVE CHANGES" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

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

Under existing law, the original issue discount on each Original Issue Discount Certificate accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Certificate for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Original Issue Discount Certificate.

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

TAX LEGISLATIVE CHANGES

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains an "obligated person" with respect to the Certificates, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS

The City will provide annually to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access system ("EMMA"), within six months after the end of each fiscal year ending in and after September 30, 2026, financial information and operating data with respect to the City of the general type included in the Official Statement provided to the Purchaser in connection with its initial approval of its purchase of the Certificates, being the information included in Tables 1 through 6 and Tables 8 through 19, and in Appendix B if audited financial statements of the City are then available (and if audited financial statements are not available, unaudited financial statements shall be provided within twelve months pursuant to the last sentence of this paragraph and audited financial statements shall be provided if and when audited financial statements become available)). Any financial statements so to be provided will be (1) prepared in accordance with the accounting principles set forth in Appendix B to the Official Statement, or as may otherwise hereafter be established consistent with Texas law or regulation, and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within twelve months after any such fiscal year end, then the City will provide audited financial statements for the applicable fiscal year to the MSRB through EMMA, when and if audited financial statements become available but if such audited financial statements are unavailable the City will provide such financial statements on an unaudited basis within such twelve-month period.

If the City changes its fiscal year, it will notify the MSRB through EMMA of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to the Ordinance.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to the MSRB through EMMA or filed with the United States Securities and Exchange Commission (the "SEC"), or may be provided in any other manner consistent with the Rule.

MATERIAL NOTICES

The City will 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;

(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 Holders 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 will 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 City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and

(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

For the purposes of the event identified in (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and the words used in clauses (15) and (16) in the immediately preceding paragraphs and in the definition of Financial Obligation have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. The Ordinance defines "Financial Obligation" as a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

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

AVAILABILITY OF INFORMATION FROM MSRB

The City has agreed to provide the foregoing information only to the MSRB. The MSRB has made the information available to the public without charge through EMMA at www.emma.msrb.org.

LIMITATIONS, DISCLAIMERS, AND AMENDMENTS

The City will be obligated to observe and perform its continuing 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 notice of any Certificate calls and defeasance that cause the City to be no longer such an "obligated person".

The provisions of this Article are for the sole benefit of the Holders 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 has not undertaken 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 of Texas 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 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 THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH WILL 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 Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this 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 Holders 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 has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City did not connect CUSIPs for the Gulf Coast Water Authority Series 2021 Bonds in FY 2021 nor did it connect CUSIPs for the Gulf Coast Water Authority Bonds, Series 2023A, and 2023B in Fiscal Years 2023, 2024, and 2025. The City has connected these CUSIPS and made adjustments to its internal procedures for future filings. The City has connected these CUSIPs and made adjustments to its internal procedures for future filings.

On May 6, 2022, the City filed with the MSRB an event filing regarding a notice of late filing of the incurrence of a financial obligation ("Original Event Notice "). The financial obligation was regarding $5,985,000 Gulf Coast Water Authority Contract Revenue Bonds (City of League City Project – Southeast Transmission Line) Series 2021 (the "2021 GCWA Bonds "). After filing the Original Event Notice, the City determined that the 2021 GCWA Bonds did not satisfy the definition of financial obligation because the definition specifically excludes "municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule." The official statement for the 2021 GCWA Bonds was timely filed with the MSRB on December 8, 2021 (available here https://emma.msrb.org/P21519743-P21175249-P21591546.pdf) and the City entered into a continuing disclosure undertaking pursuant to the Rule in connection with the issuance of the 2021 GCWA Bonds. As such, the City determined that neither the Original Event Notice nor any other subsequent event notice regarding the incurrence of a financial obligation was required to be filed by the City under its existing continuing disclosure undertakings in connection with the issuance of the 2021 GCWA Bonds.

WEATHER EVENTS

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

EXPOSURE TO OIL AND GAS INDUSTRY

In the past, the greater Houston area has been particularly affected by 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 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.

CYBER SECURITY

The City’s operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. The City has 14 positions devoted to Information Technology. While the City continually assesses and monitors its cybersecurity risks, the city has been (and may be in the future) subject to cyber-attacks from time to time. The City regularly monitors its systems and devices to assess and respond to any cyber-attack to minimize the disruption to City services; it regularly obtains technology improvements to mitigate cybersecurity risks; it has in place cybersecurity training programs for its personnel and it takes other actions it deems appropriate to prepare for and address cybersecurity risks. No assurance can be given that the City will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the City's control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated by criminal activities of individuals or organizations. There have been no recent cyber security incidents.

OTHER INFORMATION

RATINGS

The Certificates and presently outstanding general obligation debt of the City are rated "Aa1" by Moody's Investors Service, Inc. and "AA+" by S&P Global Ratings, a division of S&P Global Inc., without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by (either or both) of such rating companies (company), if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates.

LITIGATION

The City does not believe that there is any pending litigation against the City that would have a material adverse financial impact upon the City's ability to pay debt service on the Certificates.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

LEGAL MATTERS

The 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 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 Bracewell 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" (except the subcaptions "-BOOK-ENTRY-ONLY SYSTEM, " and "-REMEDIES OF HOLDERS OF THE CERTIFICATES"), and "CONTINUING DISCLOSURE OF INFORMATION" (except the subcaption "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 MATTERS" (excluding the fifth paragraph thereof), "OTHER INFORMATION – LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS, " and "OTHER

INFORMATION – REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE" and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein. 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 Jackson Walker 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 opinions to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

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

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

AUDITED FINANCIAL STATEMENTS

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

UNDERWRITING

The Underwriters, have agreed, subject to certain conditions, to purchase the Certificates from the City, a price of ________ (representing the principal amount of the Certificates, plus a [net] original issue premium in the amount of $________, 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.

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, its 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.

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

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

TD Financial Products LLC, one of the Underwriters for the Bonds, has entered into two negotiated dealer agreements (the "TD Dealer Agreements") with Charles Schwab & Co., Inc. ("CS&Co.") and Revere Securities LLC ("Revere") for the retail distribution of certain securities offerings, including the offered Bonds at the original issue prices. Pursuant to the TD Dealer Agreements, CS&Co. and Revere may purchase Bonds from TD Financial Products LLC at the original issues prices less a negotiated portion of the selling concession applicable to any of the Bonds CS&Co. and Revere sells.

Huntington Capital Markets is a trade name under which securities and investment banking products and services of Huntington Bancshares Incorporated and its subsidiaries, including Huntington Securities, Inc. ("HSI"), are marketed. Municipal sales, trading and underwriting services are provided through HSI, which is a broker-dealer registered with the Securities and Exchange Commission.

Huntington Capital Markets, one of the underwriters of the Certificates, has entered into a distribution and fee-sharing agreement with its affiliate The Huntington Investment Company ("HIC") to allow for the distribution of certain municipal securities offerings to HIC's customers. Pursuant to this agreement, if any of the Certificates are allocated to customers of HIC, Huntington Capital Markets will share a portion of the underwriting compensation attributable to such certificates with HIC. Huntington Capital Markets and HIC are both subsidiaries of Huntington Bancshares Incorporated.

In addition, Huntington Capital Markets has entered into a distribution and fee-sharing agreement with Janney Montgomery Scott LLC ("JMS") to allow for the distribution of certain municipal securities offerings to JMS' customers. Pursuant to this agreement, if any of the Certificates are allocated to customers of JMS, Huntington Capital Markets will share a portion of the underwriting compensation attributable to such certificates with JMS.

MISCELLANEOUS

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.

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.

NO-LITIGATION CERTIFICATE

The City will furnish to the Underwriters a certificate, dated as of the date of delivery of the Certificates, executed by appropriate City officials, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Certificates; restraining or enjoining the issuance, execution 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 proceedings for the issuance, execution, or delivery of the Certificates; or affecting the validity of the Certificates.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City is located in the north central part of Galveston County, Texas, and part of Harris County, Texas, five miles south of the city limits of Houston, Texas. The City was incorporated December 9, 1961 and adopted its Home Rule Charter March 27, 1962. The City provides basic municipal services to its citizens including fire and police protection, ambulance service, water, sanitary sewer and garbage services, library, parks and recreational facilities.

ECONOMICS

The City is located 25 miles from the Houston Central Business District, the energy capital of the world. The City is also located approximately 14 to 20 miles from the industrial and petrochemical complexes located in Harris County along the Houston Ship Channel and 10 miles from the petrochemical refineries located in Texas City in Galveston County. The National Aeronautics and Space Administration's ("NASA") Johnson Space Center is located just north of the City in Harris County, and approximately 20% of NASA's employees and contractors live in the City.

The City is the largest community in Galveston County, which hosts operations for more than 25 international companies from countries including Germany, Sweden, Japan, France, Switzerland and Norway. Galveston County's diverse economy, proximity to deep water ports, the Houston economic engine and the overall Texas business climate make Galveston County and the City attractive to new foreign direct investment opportunities. In addition, due to its location on Interstate 45, the City is the popular "gateway" to Galveston Island, which is the fourth busiest cruise port in the United States of America and the seventh busiest cruise homeport in the world.

Healthcare & Social Assistance, Educational Services, Transportation and Warehousing, Entertainment & Recreation, and Retail Trade are significant employment sectors in the local City economy. The current proportion of workers employed in the Healthcare & Social Assistance (13.5 percent) is expected to increase due in large part to the continuing expansion of the University of Texas Medical Branch League City Campus, construction of the 190,000-square foot MD Anderson Cancer Center, 47,000-square foot Memorial Hermann Convenient Care Clinic, 15,000-square foot Kelsey Seybold clinic and 10,000-square foot Houston Methodist-Clear Lake emergency care center.

BUILDING PERMITS

Fiscal Year Ended 9/30	Residential Gross Value	Commercial Gross Value	Total Gross Value
2021	$ 115,297,345	$ 3,645,300	$ 118,942,645
2022	92,361,529	25,282,375	117,643,904
2023	134,906,545	19,569,699	154,476,244
2024	240,847,540	46,155,999	287,003,539
2025	212,514,078	43,340,000	255,854,078

EDUCATION

The City is located primarily within the Clear Creek Independent School District which consists of 27 elementary schools, 10 intermediate schools, and 7 high schools.

Higher education institutions serve the local area, including the University of Houston-Clear Lake, located three miles from the City. The University of Houston-Clear Lake, constructed on a 524-acre site, has an 9,000-student enrollment, and includes four schools: The School of Human Sciences and Humanities, the School of Business, the School of Education, and the School of Sciences and Computer Engineering. These four schools offer undergraduate degrees in 39 fields of study, master's degrees in 45 fields of study and one doctoral degree.

The College of the Mainland, a junior college located on a 200-acre campus in Texas City, is less than ten miles from the City near the intersection of FM1764 and State Highway 3. The College of the Mainland occupies a 27,570 square foot satellite facility in League City to offer an 18-month accelerated Associate of Arts program, plus dual credit, and general education classes.

HEALTHCARE AND FACILITIES

The Greater Houston-Galveston Region is noted for the availability of exceptional hospitals and medical care. The League City – Clear Lake area is served by 3 hospitals with full 24-Hour Emergency Departments. UTMB's League City Campus, which has a master plan calling for future buildout of 3 million square feet, represents over 32 specialties and associated services including a Cancer Center and Infusion Center, cardiac rehabilitation, Surgical Specialty Care Clinic, and birthing suites for obstetric and newborn care. The Clear Lake Regional Medical Center and Memorial Hermann Southeast Hospital, both which offer life flight capability, are located within less than 11 miles from the City. The Houston Methodist-Clear Lake opened in May of 2023 offering an emergency care center. M.D. Anderson Cancer Center opened in 2018 offering cancer treatment and supportive programs to patients.

TRANSPORTATION

The City has convenient access to several interstate and major US highways. Interstate Highway 45 passes directly through the City, providing access to other transportation routes such as Interstate Highway 10, US Highways 59 and 290, and State Highways 288, 225, and 146. The Texas Department of Transportation has plans for the expansion of State Highway 99, which is also known as the "Grand Parkway". The Grand Parkway will be the third and most outer loop encircling the Greater Houston Region and extend the full length of the City.

The region's trucking industry is well-integrated with the Port of Houston, Port of Galveston, Port Freeport, George Bush Intercontinental Airport, William P. Hobby (International) Airport, Ellington Field, Houston Spaceport, and the mainline railroads serving the region. The Port of Houston is the busiest port for foreign waterborne cargo and second busiest by overall tonnage. The Houston Airport system is the 9th largest in the United States. The City is served by the Union Pacific Railroad who operates one main line through the City with daily service.

JOHNSON SPACE CENTER

The Johnson Space Center (JSC) of NASA, which was responsible for NASA's prior space shuttle program and remains the central control point for the space station project, is an important part of the Clear Lake City area economy. The JSC Civil Service workforce consists of about 14,000 employees, the majority of whom are professional engineers and scientists. Of these, approximately 48 are astronauts. The Johnson Space Center is an attraction to over 500 private companies who act as subcontractors to provide contract personnel to JSC.

SPACE CENTER HOUSTON

The $70 million Space Center Houston, a visitor's center designed by Walt Disney Imagineering, opened in the fall of 1992. It is a project of the non-profit Manned Space Flight Education Foundation, Inc. in collaboration with the NASA space center. The project is a "hands-on" experience center presenting the inspirational story of human space exploration and behind-the-scenes tours of the space center complex.

MAJOR EMPLOYERS IN LEAGUE CITY

Employer	Nature of Business	Number of Employees
Clear Creek Independent School District	School District	2,539
UTMB	Health Center	1,388
H.E.B.	Supermarket	1,032
City of League City	Government	680
American National Insurance	Insurance	577
INEOS USA	Manufacturer	499
Walmart	Retail	350
Kroger	Supermarket	315
MD Anderson	Hospital	263
Harborview Care Center	Senior Living	250

Source: The City.

THE COUNTY

The City lies primarily within Galveston County (the "County") which is located on the upper Texas coast of the Gulf of Mexico. The County comprises a land area of 430 square miles, including Galveston Island, the Mainland and Bolivar Peninsula. The official establishment of Galveston County dates back to May 15, 1838, when Sam Houston, the President of the Republic of Texas, approved an article passed by the Congress, establishing the "County of Galveston". The 2020 census population was 350,682, an increase of 20.38% over 2010.

Galveston County has a diversified economy based on manufacturing, oil and gas production, shipping, agriculture, commercial fishing and tourism. The Galveston County Mainland area is the center of one of the most important industrial concentrations on the Gulf Coast of Texas. Major industries located at Texas City and La Marque include BP, Marathon-Ashland Petroleum, Valero Refining, Eastman Chemical, Dow Chemicals, International Specialty Products, and others.

EMPLOYMENT STATISTICS

	June	Average Annual				
	2026	2025	2024	2023	2022	2021
League City						
Civilian Labor Force	62,913	62,651	61,598	61,331	59,180	57,662
Total Employment	60,105	60,265	59,330	59,469	57,049	54,701
Unemployed	2,808	2,386	2,268	1,862	2,131	2,961
Percent of Unemployed	4.5%	3.8%	3.7%	3.0%	3.6%	5.1%
Galveston County						
Civilian Labor Force	183,369	182,365	179,494	175,194	169,058	165,872
Total Employment	173,850	174,309	171,603	168,498	161,647	154,992
Unemployed	9,519	8,056	7,891	6,696	7,411	10,880
Percent of Unemployed	5.2%	4.4%	4.4%	3.8%	4.4%	6.6%

Source: Texas Workforce Commission

APPENDIX B

EXCERPTS FROM THE

CITY OF LEAGUE CITY, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2025

The information contained in this Appendix consists of excerpts from the City of League City, Texas Annual 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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1800 Hughes Landing Blvd, Suite 500
The Woodlands, Texas 77380
713-800-1060

Independent Auditor's Report

The Honorable Mayor
and Members of the City Council
City of League City, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of League City, 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, the discretely presented component unit, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1.G. to the basic financial statements, during the year ended September 30, 2025, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Beginning net position has been restated in the government-wide and proprietary fund financial statements as a result of the implementation of this statement. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

The Honorable Mayor
and Members of the City Council
City of League City, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

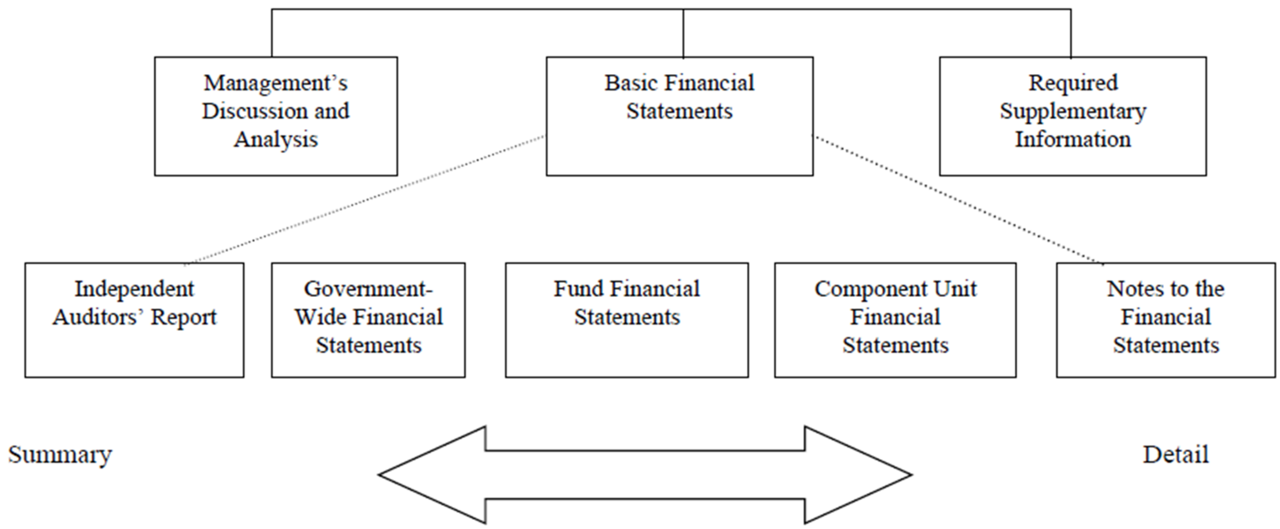
WEAVER AND TIDWELL, L.L.P.

The Woodlands, Texas
March 16, 2026

Management's Discussion and Analysis
(Unaudited)

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of League City, 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 and compares current year results with those of the prior year. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

Components of the Financial Section



Overview of the Financial Statements

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

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

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred 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.

The *statement of activities* presents information showing how the government'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. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, community services, and interest on long-term debt. The business-type activities of the City include water, wastewater and ballpark operations.

The government-wide financial statements include not only the City itself (known as the *primary government)*, but also a legally separate entity (*4B Industrial Development Corporation*) for which the City is financially accountable. Financial information for this *discretely presented component unit* is reported separately from the financial information presented for the primary government itself.

The tax increment reinvestment zones and public improvement districts, although also legally separate, function for all practical purposes as departments of the City and, therefore, have been included as integral parts of the primary government.

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

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

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

The City maintains 52 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 and debt service fund, which are considered to be major funds for reporting purposes. Data from the other 50 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements as noted in the table of contents.

Proprietary Funds. The City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for 1) its water and wastewater system and 2) the League City ballpark operations. The City also uses internal service funds to account for its motor pool services, employee benefit insurance, and capital replacement program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Wastewater Fund, which is considered to be a major fund and the League City Ballpark Fund, which is considered to be a nonmajor fund. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements as noted in the table of contents.

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.

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

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

Government-wide Financial Analysis

Statement of Net Position. As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $970.5 million as of September 30, 2025, for the primary government.

The following table reflects the condensed Statement of Net Position:

City of League City, Texas Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Current and other assets	$ 178,705,754	$ 178,466,357	$ 58,595,710	$ 59,625,260	$ 237,301,464	$ 238,091,617
Capital assets	600,810,686	542,612,337	491,119,603	475,195,158	1,091,930,289	1,017,807,495
Total assets	779,516,440	721,078,694	549,715,313	534,820,418	1,329,231,753	1,255,899,112
Deferred outflows	8,894,126	12,934,850	2,385,005	3,100,691	11,279,131	16,035,541
Total deferred outflows of resources	8,894,126	12,934,850	2,385,005	3,100,691	11,279,131	16,035,541
Long-term liabilities outstanding	171,881,354	186,505,580	163,266,348	176,353,100	335,147,702	362,858,680
Other liabilities	13,193,146	15,145,007	8,369,181	9,127,933	21,562,327	24,272,940
Total liabilities	185,074,500	201,650,587	171,635,529	185,481,033	356,710,029	387,131,620
Deferred inflows	9,160,104	8,652,852	4,162,465	3,420,987	13,322,569	12,073,839
Total deferred inflows of resources	9,160,104	8,652,852	4,162,465	3,420,987	13,322,569	12,073,839
Net position:						
Net investment in capital assets	488,368,169	423,802,325	349,326,132	322,412,844	837,694,301	746,215,169
Restricted	24,038,089	23,535,787	4,215,209	4,259,903	28,253,298	27,795,690
Unrestricted	81,769,704	76,371,993	22,760,983	22,346,342	104,530,687	98,718,335
Total net position	$ 594,175,962	$ 523,710,105	$ 376,302,324	$ 349,019,089	$ 970,478,286	$ 872,729,194

The largest portion of the City's net position, 86 percent, reflects its investments in capital assets (e.g., land, buildings and improvements, equipment, right-to-use assets, construction in progress, and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net 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.

A portion of the primary government's net position, $28.3 million or 3 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, $104.5 million or 11 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

Statement of Activities. The City's total net position increased by $98.8 million from current operations and decreased by $1.0 million from adoption of GASB 101 during the current fiscal year. This included an increase of $71.3 million in governmental activities and an increase of $27.4 million in business-type activities.

The following table reflects a summary of the City's Statement of Activities:

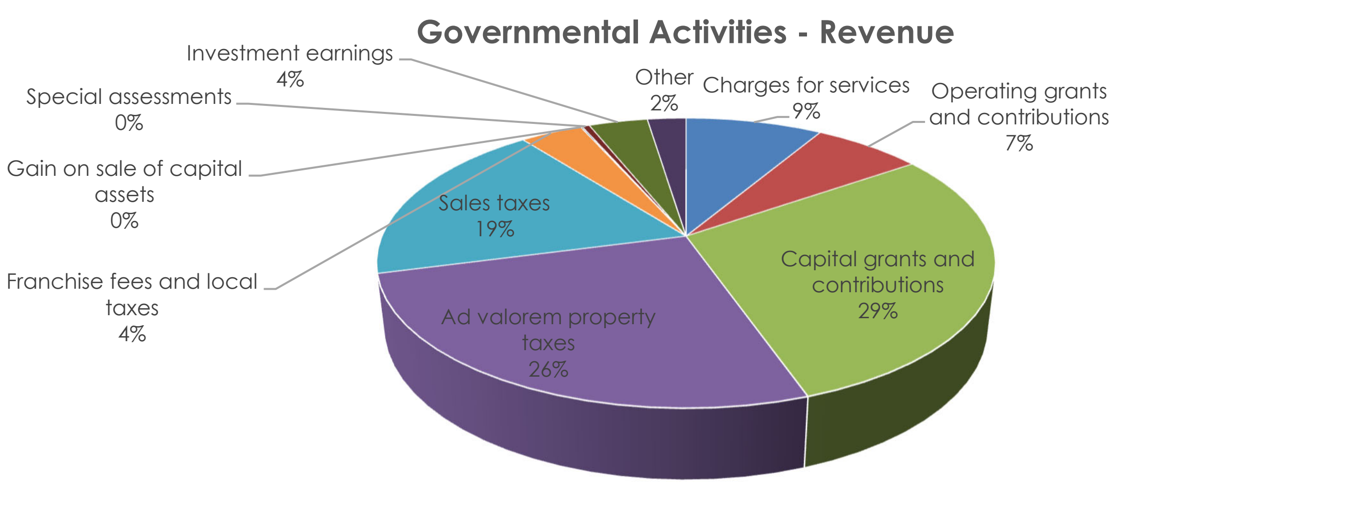
City of League City, Texas Change in Net Position

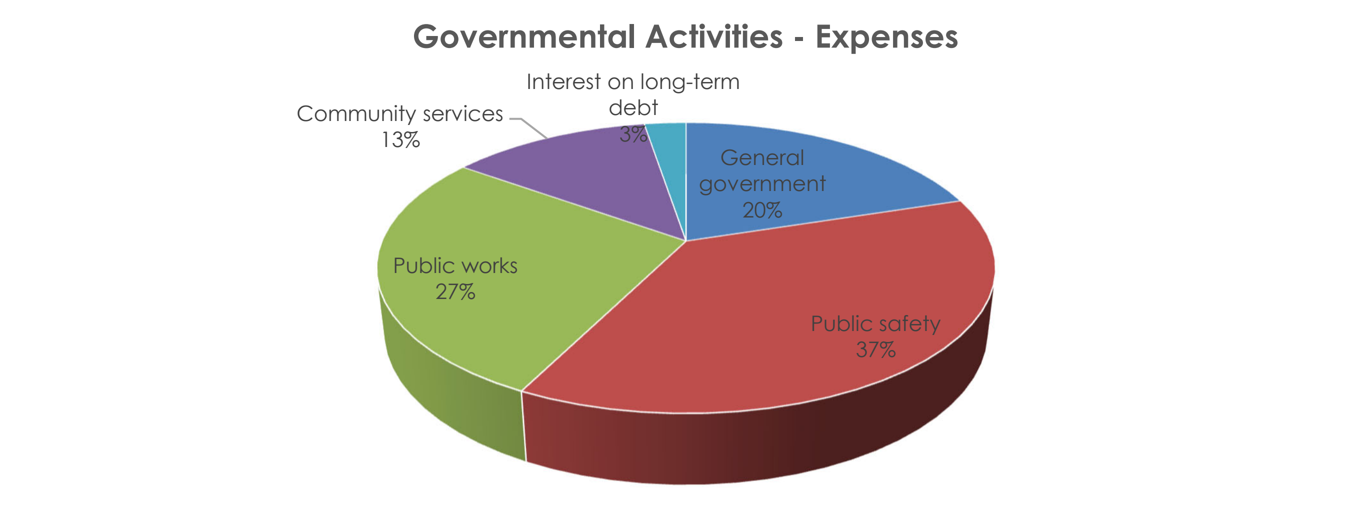
	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	$ 15,921,864	$ 14,575,714	$ 62,553,568	$ 56,428,362	$ 78,475,432	$ 71,004,076
Operating grants and contributions	12,701,885	14,273,228	49,836	-	12,751,721	14,273,228
Capital grants and contributions	54,594,223	15,404,254	14,028,156	4,060,978	68,622,379	19,465,232
General revenues:						
Ad valorem property taxes	48,953,194	50,037,057	-	-	48,953,194	50,037,057
Sales taxes	34,601,371	33,678,478	-	-	34,601,371	33,678,478
Franchise fees and local taxes	7,231,155	7,138,671	-	-	7,231,155	7,138,671
Gain on sale of capital assets	200,039	192,078	2,681	21,447	202,720	213,525
Special assessments	869,458	865,783	-	-	869,458	865,783
Investment earnings	6,835,550	10,369,054	1,900,162	3,015,668	8,735,712	13,384,722
Other	4,503,066	7,230,950	415,448	286,502	4,918,514	7,517,452
Total revenues	186,411,805	153,765,267	78,949,851	63,812,957	265,361,656	217,578,224
Expenses:						
General government	24,204,294	20,518,882	-	-	24,204,294	20,518,882
Public safety	44,921,959	42,377,704	-	-	44,921,959	42,377,704
Public works	33,007,265	32,297,786	-	-	33,007,265	32,297,786
Community services	15,042,893	13,227,912	-	-	15,042,893	13,227,912
Interest on long-term debt	3,136,505	3,623,477	-	-	3,136,505	3,623,477
Water and wastewater	-	-	43,117,006	41,033,122	43,117,006	41,033,122
League City ballpark	-	-	3,165,915	4,792,832	3,165,915	4,792,832
Total expenses	120,312,916	112,045,761	46,282,921	45,825,954	166,595,837	157,871,715
Change in net position before transfers	66,098,889	41,719,506	32,666,930	17,987,003	98,765,819	59,706,509
Transfers	5,247,448	4,135,959	(5,247,448)	(4,135,959)	-	-
Change in net position	71,346,337	45,855,465	27,419,482	13,851,044	98,765,819	59,706,509
Net position - beginning, as previously reported	523,710,105	477,854,640	349,019,089	335,168,045	872,729,194	813,022,685
Beginning balance restatement - GASB 101	(880,480)	-	(136,247)	-	(1,016,727)	-
Net position - beginning, restated	522,829,625	477,854,640	348,882,842	335,168,045	871,712,467	813,022,685
Net position - ending	$ 594,175,962	$ 523,710,105	$ 376,302,324	$ 349,019,089	$ 970,478,286	$ 872,729,194

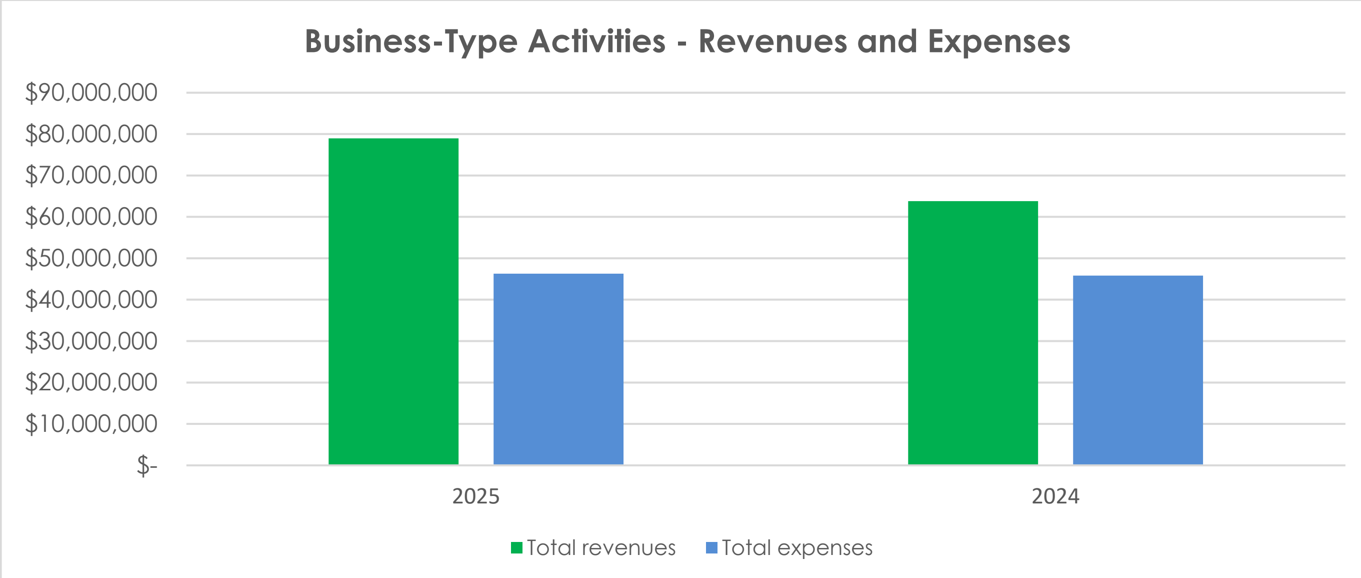
Governmental Activities. Overall, governmental activity revenues increased by $32.6 million from the prior year. This net increase can be largely seen in the change in capital grants and contributions and investment earnings. Capital grants and contributions increased $39.2 million due to more capital contribution activity from local developers. Investment earnings decreased $3.5 million due to lower fair value gains and interest rates sustained during the current year. Governmental activities expenses increased by $8.3 million, or 7 percent, primarily due to increases in payroll-related expenses.

Business-Type Activities. Overall, business-type activity revenues increased by $15.1 million from the prior year. This can be attributed primarily to the net effect of an increase of $10.0 million in capital grants and contributions and an increase of $6.1 million in charges for services. Capital grants and contributions increased due to more capital contribution activity from local developers. Charges for services increased due to a rise in water and sewer rates that became effective April 2025 combined with increased water usage, as well as reporting an increased $2.0 million of operating revenue for 2nd year of operations for the League City Ballpark Fund. Business-type activities expenses increased by $0.5 million or 1 percent. This increase is largely flat due to 1) $1.5 million increase in depreciation expense offset by 2) $1.7 million decrease in payroll expense largely due to decreased pension liability and related accruals.

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







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. Unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $145.3 million, an increase of $2.0 million over the prior year. Approximately 24.7% of this total amount, $35.9 million, is unassigned fund balance, 33.2%, or $48.3 million, is restricted fund balance, 41.7%, or $60.5 million, is committed fund balance and less than 1%, or $0.1 million is assigned fund balance. The remaining fund balance is in nonspendable form and comprises less than 1% of the total.

The General Fund is the chief operating fund of the City. Fund balance in the General Fund increased from the prior year by $2.1 million, resulting in an ending fund balance of $36.5 million at year end. The unassigned fund balance of $35.9 million represents 98.3% of total fund balance and 37.3% of total General Fund expenditures. Total general fund revenues increased $1.3 million from the prior year, of which property tax revenues decreased $0.1 million due to increases taxable values offset by a decrease in the M&O tax rate and sales tax revenues increased $0.8 million as a result of anticipated growth in the local population and tax base. Charges for services increased $1.2 million due to rate increases for solid waste collection and increased EMS activity. Total general fund expenditures increased $10.8 million, or 12.6%, due primarily to a $9.6 million increase in payroll cost resulting from wage increases in the current year and use of $5.8 million in Coronavirus State and Local Fiscal Recovery Funds (ARPA) in 2024 that was no longer available in 2025.

The Debt Service Fund has a total fund balance of $4.4 million at year end, all of which is restricted for the payment of future debt service obligations. The net decrease in fund balance during the current year in the Debt Service Fund was $0.7 million, due primarily to a decrease in the interest and sinking tax rate due to a decrease in debt service requirements in the current year.

The General Obligation Improvement Bonds 2023 Fund no longer meets the criteria under GASB 34 to be reported as a major fund and was therefore moved to the nonmajor governmental funds reporting unit during 2025.

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

The Water and Wastewater Fund has a total net position of $375.6 million at year end, of which $22.9 million is unrestricted. The League City Ballpark Fund has a total net position of $0.7 million at year end, of which $0.1 million is reported as an unrestricted deficit due to its first full year of operations.

Other factors concerning the finances of the City's Proprietary Funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The general fund amended budget for 2025 included a planned decrease in fund balance in the amount of $1.0 million. Actual fund balance for the year increased by $2.1 million, a favorable variance of $3.1 million.

General fund revenues were more than the amended budget by a net $0.7 million. Charges for services and investment earnings were more than anticipated in the amended budget.

General fund expenditures were less than the amended budget by $2.6 million. Departments over budget at year-end were addressed in the fourth quarter budget amendment from savings in other departments in the General Fund. The positive variance was primarily the result of 1) personnel services due to vacancies in budgeted positions; 2) savings due to windstorm insurance and workers' compensation costs performing under budget and 3) savings in capital outlay due to the delay in completion of a Motorola radio project.

Capital Assets and Long-term Liabilities

Capital Assets. At the end of current fiscal year 2025, the City's governmental activities and business-type activities had invested $1.1 billion in a variety of capital assets and infrastructure (net of accumulated depreciation and amortization). This represents a net increase of $74.1 million from the prior year.

City of League City, Texas Capital Assets
(net of depreciation and amortization)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Land	$ 25,557,416	$ 24,987,780	$ 4,256,652	$ 4,148,769	$ 29,814,068	$ 29,136,549
Construction in progress	65,331,508	68,638,361	28,176,948	31,488,566	93,508,456	100,126,927
Infrastructure	438,941,068	376,939,208	384,233,507	362,148,531	823,174,575	739,087,739
Water rights	-	-	72,985,008	76,680,525	72,985,008	76,680,525
Buildings and improvements	50,593,297	52,737,969	146,282	96,205	50,739,579	52,834,174
Machinery and equipment	20,306,537	19,213,459	1,321,206	632,562	21,627,743	19,846,021
Right-to-use lease - machinery and equipment	80,860	95,560	-	-	80,860	95,560
Totals	$ 600,810,686	$ 542,612,337	$ 491,119,603	$ 475,195,158	$ 1,091,930,289	$ 1,017,807,495

Major capital asset events and capital projects during the year included the following:

- Developer contributions of infrastructure in the amount of $57,459,827
- The Meadows Subdivision drainage improvements for $1,031,965
- Hometown Heroes pool renovation for $1,547,175
- Asphalt street rehabilitation for $1,851,163
- Reconstruction of Turner and Butler for $2,162,445
- North Landing extension for $2,510,081
- SH3 and SH96 intersection improvements for $1,110,447
- SH3 and FM518 intersection improvements for $2,644,393
- Waterline replacement Pecan Forest, Highland Terrace, and Clear Creek Heights for $1,200,444
- East Main 24-inch force main replacement for $3,675,161
- East Main lift station conversion for $1,588,618
- MGD Expansion of Southwest Water Reclamation Facility for $2,649,226

More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

Long-Term Liabilities. At the end of the current fiscal year, the City reported total long-term liabilities of $335.1 million. The City had bonds payable of $271.8 million ($247.7 million, net of premiums). Of this amount, $156.0 million was general obligation debt and $91.6 million represents certificates of obligation. The City's other long-term liabilities include its contractual obligations, leases payable, self-insurance claims payable, compensated absences, and net pension and other postemployment benefits liabilities.

City of League City, Texas Long-term Liabilities Outstanding

	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Certificates of obligation	$ 19,850,000	$ 21,485,000	$ 71,780,000	$ 73,920,000	$ 91,630,000	$ 95,405,000
General obligation bonds	102,625,000	111,466,603	53,415,000	60,668,397	156,040,000	172,135,000
Unamortized premiums	12,744,423	14,189,532	11,380,616	12,961,585	24,125,039	27,151,117
Contractual obligations	-	-	20,266,451	20,866,714	20,266,451	20,866,714
Leases payable	79,334	94,493	-	-	79,334	94,493
Self insurance claims payable	528,912	720,652	-	-	528,912	720,652
Compensated absences*	8,831,853	7,515,796	1,037,307	863,935	9,869,160	8,379,731
Net pension liability	19,417,045	23,307,342	3,842,472	5,311,693	23,259,517	28,619,035
Net OPEB liability	7,804,787	7,726,162	1,544,502	1,760,776	9,349,289	9,486,938
Total	$ 171,881,354	$ 186,505,580	$ 163,266,348	$ 176,353,100	$ 335,147,702	$ 362,858,680

*Compensated absences was restated as of October 1, 2024, to conform with adoption of GASB Statement 101, *Compensated Absences*. See Note 15.

More detailed information about the City's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors and Next Year's Budget

Like the region, the City has been characterized by steady long-term growth and is considered a highly attractive location to families and businesses alike. In 2025, the City is continuing to see new construction of all types of property and is anticipated at 1,000 new homes in 2026.

Energy remains the region's predominant economic specialty due to its proximity to the petrochemical plants in surrounding communities. The local economy is strong but could easily be affected by national and international factors that potentially could drive the demand for oil to higher levels, sending the energy-driven boom into an expansion of the local economy.

The City is strategically located at the nexus of I-45 and the future Grand Parkway between Houston and Galveston that provides access to four major ports - Houston, Freeport, Texas City, and Galveston - Hobby International Airport, and the Houston Spaceport, the only spaceport located within a major metropolitan area of the United States of America. The City benefits from its strong relationships with medical, professional services, global logistics, and tourism industries, making the City an attractive community for medical, engineering, and aerospace professionals and their families.

Sales taxes continue to be systematically compared with water customers, energy employment, local business conditions, and growth in the local retail base to better understand current trends in this volatile revenue source. For the sixteenth year in a row, a five-year operating forecast (Long Range Financial Forecast or LRFF) was prepared, clarifying the impact of economic change and program demands on the operating budget. The LRFF also included a study of debt capacity using conservative growth and interest rate assumptions, used to provide a complete financing plan for the five-year capital improvement plan.

To date, revenue and expenditure trends are tracking closely with budget assumptions. The fiscal year 2026 adopted budget projected sales tax revenue at 4.5 percent over fiscal year 2025 year-end estimates and 6.4 percent over fiscal year 2025 actuals. As of January 2026 receipts, which represent November 2025 sales, collections are trending at one percent above the fiscal year 2026 budgeted amount. Other major revenue sources are generally on budget and expenditures appear to be within budget.

Contacting The City's Financial Management

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to the Office of the Finance Director, 300 West Walker, League City, TX, 77573, telephone 281-554-1359; or for general City information, visit the City's website at www.leaguecitytx.gov .

City of League City, Texas

Statement of Net Position

September 30, 2025

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	4B Industrial Development Corporation
ASSETS				
Cash and cash equivalents	$ 41,660,132	$ 3,634,213	$ 45,294,345	$ 2,346,616
Restricted cash and cash equivalents	-	9,167,335	9,167,335	-
Investments	117,661,981	18,571,249	136,233,230	9,499,727
Restricted investments	-	15,102,698	15,102,698	-
Receivables, net of allowance	17,658,127	9,814,338	27,472,465	910,694
Lease receivables	1,081,646	1,713,598	2,795,244	-
Inventories	98,064	299,082	397,146	-
Prepaid Items	545,804	293,197	839,001	-
Capital assets - nondepreciable	90,888,924	32,433,600	123,322,524	-
Capital assets - depreciable, net	509,921,762	458,686,003	968,607,765	-
Total assets	779,516,440	549,715,313	1,329,231,753	12,757,037
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding bonds	592,610	745,873	1,338,483	-
Pensions	7,493,316	1,481,983	8,975,299	-
Other post employment benefits	808,200	157,149	965,349	-
Total deferred outflows of resources	8,894,126	2,385,005	11,279,131	-
Total assets and deferred outflows of resources	788,410,566	552,100,318	1,340,510,884	12,757,037
LIABILITIES				
Accounts payable	9,036,173	3,747,828	12,784,001	256,424
Accrued liabilities	3,511,690	1,229,737	4,741,427	623,928
Accrued interest payable	583,341	677,071	1,260,412	-
Deposits payable	18,250	2,615,934	2,634,184	-
Unearned revenue	43,692	98,611	142,303	-
Noncurrent liabilities:				
Due within one year	15,741,997	10,480,991	26,222,988	-
Due in more than one year	156,139,357	152,785,357	308,924,714	-
Total liabilities	185,074,500	171,635,529	356,710,029	880,352
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding bonds	1,881,471	1,004,669	2,886,140	-
Pensions	2,088,641	663,526	2,752,167	-
Other post employment benefits	4,202,500	866,811	5,069,311	-
Leases	987,492	1,627,459	2,614,951	-
Total deferred inflows of resources	9,160,104	4,162,465	13,322,569	-
Total liabilities and deferred inflows of resources	194,234,604	175,797,994	370,032,598	880,352
NET POSITION				
Net investment in capital assets	488,368,169	349,326,132	837,694,301	-
Restricted for				
Debt service	4,147,929	4,215,209	8,363,138	-
Municipal court	116,219	-	116,219	-
Hotel occupancy tax	2,217,751	-	2,217,751	-
Public access channel	1,275,752	-	1,275,752	-
Grants	4,073,466	-	4,073,466	-
Tax increment reinvestment zone	8,268,331	-	8,268,331	-
Public improvement district	3,270,375	-	3,270,375	-
Opioid settlement	118,418	-	118,418	-
Special projects	549,848	-	549,848	-
Unrestricted	81,769,704	22,760,983	104,530,687	11,876,685
TOTAL NET POSITION	$ 594,175,962	$ 376,302,324	$ 970,478,286	$ 11,876,685

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

City of League City, Texas

Statement of Activities

For the Fiscal Year Ended September 30, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities				
General government	$ 24,204,294	$ 396,242	$ 6,017,305	$ -
Public safety	44,921,959	4,021,868	2,989,961	-
Public works	33,007,265	10,262,949	3,693,610	43,431,671
Community services	15,042,893	1,240,805	1,009	11,162,552
Interest on long-term debt	3,136,505	-	-	-
Total governmental activities	120,312,916	15,921,864	12,701,885	54,594,223
Business-type activities				
Water and wastewater	43,117,006	57,780,638	49,836	14,028,156
League City ballpark	3,165,915	4,772,930	-	-
Total business-type activities	46,282,921	62,553,568	49,836	14,028,156
Total primary government	$ 166,595,837	$ 78,475,432	$ 12,751,721	$ 68,622,379
COMPONENT UNIT				
4B Industrial development corporation	7,244,552	-	-	-
Total component unit	$ 7,244,552	$ -	$ -	$ -

GENERAL REVENUES

Taxes:

Ad valorem property taxes

Sales taxes

Franchise fees and local taxes

Gain on sale of capital assets

Special assessments

Investment earnings

Other

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year, as previously reported

Restatement of beginning balance - change in accounting principle - GASB 101 (Note 15)

NET POSITION, beginning of year - restated

NET POSITION, end of year

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	4B Industrial Development Corporation
$ (17,790,747)	$ -	$ (17,790,747)	$ -
(37,910,130)	-	(37,910,130)	-
24,380,965	-	24,380,965	-
(2,638,527)	-	(2,638,527)	-
(3,136,505)	-	(3,136,505)	-
(37,094,944)	-	(37,094,944)	-
-	28,741,624	28,741,624	-
-	1,607,015	1,607,015	-
-	30,348,639	30,348,639	-
$ (37,094,944)	$ 30,348,639	$ (6,746,305)	$ -
-	-	-	(7,244,552)
$ -	$ -	$ -	$ (7,244,552)
48,953,194	-	48,953,194	-
34,601,371	-	34,601,371	4,943,053
7,231,155	-	7,231,155	-
200,039	2,681	202,720	-
869,458	-	869,458	-
6,835,550	1,900,162	8,735,712	485,444
4,503,066	415,448	4,918,514	-
5,247,448	(5,247,448)	-	-
108,441,281	(2,929,157)	105,512,124	5,428,497
71,346,337	27,419,482	98,765,819	(1,816,055)
523,710,105	349,019,089	872,729,194	13,692,740
(880,480)	(136,247)	(1,016,727)	-
522,829,625	348,882,842	871,712,467	13,692,740
$ 594,175,962	$ 376,302,324	$ 970,478,286	$ 11,876,685

City of League City, Texas
Balance Sheet - Governmental Funds
September 30, 2025

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 9,004,875	$ 1,922,897	$ 26,175,233	$ 37,103,005
Investments	21,237,406	2,507,039	81,472,563	105,217,008
Receivables, net of allowance	12,364,076	302,159	4,774,504	17,440,739
Lease receivables	1,081,646	-	-	1,081,646
Due from other funds	803,166	-	-	803,166
Prepaid Items	504,164	-	41,640	545,804
TOTAL ASSETS	$ 44,995,333	$ 4,732,095	$ 112,463,940	$ 162,191,368
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 3,085,423	$ 825	$ 4,921,746	$ 8,007,994
Accrued liabilities	2,151,217	-	1,332,002	3,483,219
Deposits payable	14,725	-	3,525	18,250
Due to other funds	-	-	803,166	803,166
Unearned revenue	-	-	43,692	43,692
Total liabilities	5,251,365	825	7,104,131	12,356,321
DEFERRED INFLOWS OF RESOURCES				
Leases	987,492	-	-	987,492
Unavailable revenue - property taxes	931,063	288,108	415	1,219,586
Unavailable revenue - grants	-	-	184,609	184,609
Unavailable revenue - court fines and warrants	1,325,098	-	-	1,325,098
Unavailable revenue - other	-	-	779,148	779,148
Total deferred inflows of resources	3,243,653	288,108	964,172	4,495,933
FUND BALANCES				
Nonspendable:				
Prepaid items	504,164	-	41,640	545,804
Restricted:				
Debt service	-	4,443,162	-	4,443,162
Municipal court	-	-	116,219	116,219
Hotel occupancy tax	-	-	2,217,751	2,217,751
Public access channel	-	-	1,275,752	1,275,752
Grants	-	-	3,888,857	3,888,857
Tax increment reinvestment zone	-	-	8,268,331	8,268,331
Public improvement district	-	-	3,270,375	3,270,375
Opioid settlement	-	-	118,418	118,418
Special projects	-	-	549,848	549,848
Capital projects	-	-	24,145,101	24,145,101
Committed:				
Special projects	-	-	3,390,464	3,390,464
Capital projects	-	-	57,147,674	57,147,674
Assigned:				
City manager severance	109,027	-	-	109,027
Unassigned	35,887,124	-	(34,793)	35,852,331
Total fund balances	36,500,315	4,443,162	104,395,637	145,339,114
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 44,995,333	$ 4,732,095	$ 112,463,940	$ 162,191,368

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

City of League City, Texas

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2025

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 145,339,114
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources, and therefore are not reported in the governmental funds balance sheet.		
Capital assets, cost	$ 899,877,626	
Capital assets, accumulated depreciation and amortization	(310,373,557)	589,504,069
Unavailable revenues, which will be collected subsequent to year-end, are not available soon enough to pay expenditures of the current period and, therefore, are deferred in the funds.		
Unavailable revenue - property taxes	$ 1,219,586	
Unavailable revenue - grants	184,609	
Unavailable revenue - court fines and warrants	1,325,098	
Unavailable revenue - other	779,148	3,508,441
Deferred charge and gain on issuance of refunding bonds is not recorded in the fund financial statements but is recorded as a deferred outflow or inflow of resources on the statement of net position.		
Deferred charge on refunding bonds	$ 592,610	
Deferred gain on refunding bonds	(1,881,471)	(1,288,861)
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the fund financial statements. The components of long-term liabilities are:		
Bonds payable, par	$ (122,475,000)	
Bonds payable, premiums	(12,744,423)	
Leases payable	(79,334)	
Accrued interest payable	(583,341)	
Compensated absences payable	(8,831,853)	
Net pension liability	(19,417,045)	
Net OPEB liability	(7,804,787)	(171,935,783)
The deferred outflows and inflows of resources related to the net pension liability and the total OPEB liability are recognized on the statement of net position:		
Deferred outflows - pensions	$ 7,493,316	
Deferred outflows - OPEB	808,200	
Deferred inflows - pensions	(2,088,641)	
Deferred inflows - OPEB	(4,202,500)	2,010,375
Internal service funds are used by management to charge the cost of certain activities, such as motor pool, employee benefits and capital replacement, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.		27,038,607
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		$ 594,175,962

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

City of League City, Texas

Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Fiscal Year Ended September 30, 2025

	General Fund	Debt Service Fund	General Obligation Improvement Bonds 2023 Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Ad valorem property tax	$ 40,124,481	$ 7,608,468	$ -	$ 1,187,487	$ 48,920,436
Sales tax	29,658,318	-	-	4,943,053	34,601,371
Franchise fees	5,532,119	-	-	205,671	5,737,790
Other taxes	501,338	-	-	992,027	1,493,365
Special assessments	-	-	-	869,458	869,458
Licenses and permits	3,834,046	-	-	-	3,834,046
Fines and forfeitures	1,958,829	-	-	145,256	2,104,085
Charges for services	15,315,864	-	-	4,524,000	19,839,864
Intergovernmental	1,091,416	-	-	4,706,727	5,798,143
Contributions	-	-	-	2,147,722	2,147,722
Investment earnings	1,541,627	218,691	-	4,347,849	6,108,167
Other	333,592	-	-	4,169,474	4,503,066
Total revenues	99,891,630	7,827,159	-	28,238,724	135,957,513
EXPENDITURES					
Current:					
General government	20,185,149	250,000	-	1,864,139	22,299,288
Public safety	41,521,411	-	-	678,382	42,199,793
Public works	22,408,751	-	-	622,632	23,031,383
Community services	11,161,296	-	-	1,978,893	13,140,189
Debt service:					
Principal	-	9,706,603	-	785,159	10,491,762
Interest and fiscal charges	-	4,594,999	-	228,524	4,823,523
Capital outlay	884,103	-	-	22,348,324	23,232,427
Total expenditures	96,160,710	14,551,602	-	28,506,053	139,218,365
Excess (deficiency) of revenues over (under) expenditures	3,730,920	(6,724,443)	-	(267,329)	(3,260,852)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	29,136	-	-	-	29,136
Transfers in	5,350,135	6,000,000	-	7,000,000	18,350,135
Transfers out	(7,000,000)	-	-	(6,102,687)	(13,102,687)
Total other financing sources (uses)	(1,620,729)	6,000,000	-	897,313	5,276,584
Net change in fund balances	2,110,191	(724,443)	-	629,984	2,015,732
Fund balances, beginning of year, as previously reported	34,390,124	5,167,605	5,724,177	98,041,476	143,323,382
Adjustment of beginning balance - change in reporting entity (Note 15)	-	-	(5,724,177)	5,724,177	-
Fund balances, beginning of year - as adjusted	34,390,124	5,167,605	-	103,765,653	143,323,382
FUND BALANCES, END OF YEAR	$ 36,500,315	$ 4,443,162	$ -	$ 104,395,637	$ 145,339,114

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

City of League City, Texas

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended September 30, 2025

Net change in fund balances - total governmental funds		$ 2,015,732
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation/ amortization expense. This is the amount of capital asset additions recorded in the current period.		23,232,427
Depreciation and amortization expense on capital assets is reported in the statement of activities, but does not require the use of current financial resources. Therefore, depreciation/amortization expense is not reported as expenditures in the governmental funds.		(15,671,129)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, transfers, non-cash capital contributions) is not reported in the governmental funds.		
Non-cash capital contributions	48,611,904	
Sales, disposals, transfers and other	-	48,611,904
Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered available and are deferred in the governmental funds. Deferred inflows increased (decreased) by this amount this year.		914,963
The issuance of long term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and other debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items was:		
Amortization of premium on bonds payable	$ 1,445,109	
Amortization of deferred loss on refunding	(115,652)	
Amortization of deferred gain on refunding	294,281	
Accrued interest payable decreased	63,280	
Principal paid on bonds and other debt	10,491,762	12,178,780
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The following long-term liabilities (increased) / decreased:		
Compensated absences	$ (435,577)	
Net pension liability	3,890,297	
Net OPEB liability	(78,625)	3,376,095
Some deferred outflows and deferred inflows reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds. The following deferred outflows and deferred inflows of resources changed:		
Deferred outflows of resources - pensions	$ (3,684,170)	
Deferred outflows of resources - OPEB	(240,902)	
Deferred inflows of resources - pensions	(1,350,603)	
Deferred inflows of resources - OPEB	487,506	(4,788,169)
An internal service fund is used by management to charge the cost of certain activities, such as fleet management and health benefits, to individual funds. The change in the net position of the internal service funds is included in governmental activities in the statement of activities.		1,475,734
Change in net position - governmental activities		$ 71,346,337

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

City of League City, Texas

Statement of Net Position

Proprietary Funds

September 30, 2025

	Business-type Activities			Governmental Activities
	Water and Wastewater Fund	League City Ballpark Fund	Total Enterprise Funds	Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	$ 3,468,967	$ 165,246	$ 3,634,213	$ 4,557,127
Restricted cash and cash equivalents - customer deposits	2,615,934	-	2,615,934	-
Restricted cash and cash equivalents - capital projects	4,167,838	-	4,167,838	-
Restricted cash and cash equivalents - debt service	2,383,563	-	2,383,563	-
Investments	17,148,515	1,422,734	18,571,249	12,444,973
Restricted investments - capital projects	12,593,981	-	12,593,981	-
Restricted investments - debt service	2,508,717	-	2,508,717	-
Receivables, net of allowance	9,780,867	33,471	9,814,338	217,388
Lease receivables	1,713,598	-	1,713,598	-
Inventories	299,082	-	299,082	98,064
Prepaid Items	256,380	36,817	293,197	-
Total current assets	56,937,442	1,658,268	58,595,710	17,317,552
Noncurrent assets:				
Capital assets:				
Capital assets - nondepreciable	32,433,600	-	32,433,600	-
Capital assets - depreciable, net	457,827,288	858,715	458,686,003	11,306,617
Net capital assets	490,260,888	858,715	491,119,603	11,306,617
Total noncurrent assets	490,260,888	858,715	491,119,603	11,306,617
Total assets	547,198,330	2,516,983	549,715,313	28,624,169
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding bonds	745,873	-	745,873	-
Pensions	1,260,248	221,735	1,481,983	-
Other post employment benefits	146,387	10,762	157,149	-
Total deferred outflows of resources	2,152,508	232,497	2,385,005	-
Total assets and deferred outflows of resources	549,350,838	2,749,480	552,100,318	28,624,169
LIABILITIES				
Current liabilities				
Accounts payable	$ 3,572,771	$ 175,057	$ 3,747,828	$ 1,028,179
Accrued liabilities	845,223	384,514	1,229,737	28,471
Accrued interest payable	677,071	-	677,071	-
Deposits payable	2,615,934	-	2,615,934	-
Unearned revenue	70,486	28,125	98,611	-
Claims payable, current	-	-	-	528,912
Compensated absences, current	593,983	16,212	610,195	-
Bonds and contractual obligations, current	9,870,796	-	9,870,796	-
Total current liabilities	18,246,264	603,908	18,850,172	1,585,562
Noncurrent liabilities				
Compensated absences	418,488	8,624	427,112	-
Net pension liability	3,267,962	574,510	3,842,472	-
Net OPEB liability	1,313,575	230,927	1,544,502	-
Bonds and contractual obligations	146,971,271	-	146,971,271	-
Total noncurrent liabilities	151,971,296	814,061	152,785,357	-
Total liabilities	170,217,560	1,417,969	171,635,529	1,585,562
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding bonds	1,004,669	-	1,004,669	-
Pensions	201,649	461,877	663,526	-
Other post employment benefits	721,395	145,416	866,811	-
Leases	1,627,459	-	1,627,459	-
Total deferred inflows of resources	3,555,172	607,293	4,162,465	-
Total liabilities and deferred inflows of resources	173,772,732	2,025,262	175,797,994	1,585,562
NET POSITION				
Net investment in capital assets	348,467,417	858,715	349,326,132	11,306,617
Restricted for debt service	4,215,209	-	4,215,209	-
Unrestricted (deficit)	22,895,480	(134,497)	22,760,983	15,731,990
TOTAL NET POSITION	$ 375,578,106	$ 724,218	376,302,324	$ 27,038,607

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

City of League City, Texas

Statement of Revenues, Expenses, and Changes
in Net Position - Proprietary Funds
For the Fiscal Year Ended September 30, 2025

	Business-type Activities			Governmental Activities
	Water and Wastewater Fund	League City Ballpark Fund	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES				
Charges for services	$ 57,780,638	$ 4,772,930	$ 62,553,568	$ 16,380,878
Other	415,158	290	415,448	73,516
Total operating revenues	58,195,796	4,773,220	62,969,016	16,454,394
OPERATING EXPENSES				
Personnel services	8,827,800	689,285	9,517,085	888,700
Materials, supplies and contracted services	9,341,780	1,468,857	10,810,637	1,370,079
Utilities	1,470,351	275,995	1,746,346	5,501
Repairs and maintenance	3,067,787	168,039	3,235,826	1,037,276
Other operating expenses	2,029,716	479,541	2,509,257	14,738
Depreciation and amortization	13,679,496	84,198	13,763,694	1,777,360
Self insurance claims	-	-	-	10,783,292
Total operating expenses	38,416,930	3,165,915	41,582,845	15,876,946
Operating income	19,778,866	1,607,305	21,386,171	577,448
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	1,848,731	51,431	1,900,162	727,383
Intergovernmental	49,836	-	49,836	-
Gain (loss) on disposal of capital assets	2,681	-	2,681	170,903
Interest and fiscal charges	(4,700,076)	-	(4,700,076)	-
Total nonoperating revenues (expenses)	(2,798,828)	51,431	(2,747,397)	898,286
Income before transfers and capital contributions	16,980,038	1,658,736	18,638,774	1,475,734
Capital contributions	14,028,156	-	14,028,156	-
Transfers out	(5,247,448)	-	(5,247,448)	-
Change in net position	25,760,746	1,658,736	27,419,482	1,475,734
Net position, beginning of year, as previously reported	349,948,749	(929,660)	349,019,089	25,562,873
Restatement of beginning balance - GASB 101 (Note 15)	(131,389)	(4,858)	(136,247)	-
Net position, beginning of year - restated	349,817,360	(934,518)	348,882,842	25,562,873
NET POSITION, END OF YEAR	$ 375,578,106	$ 724,218	$ 376,302,324	$ 27,038,607

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

City of League City, Texas

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended September 30, 2025

	Business-type Activities			Governmental Activities
	Water and Wastewater Fund	League City Ballpark Fund	Total Enterprise Funds	Internal Service Fund
OPERATING ACTIVITIES				
Receipts from customers	$ 56,511,222	$ 4,826,735	$ 61,337,957	$ -
Receipts from interfund charges	-	-	-	16,256,791
Other receipts	-	-	-	73,516
Payments to suppliers and service providers	(15,769,379)	(2,246,328)	(18,015,707)	(2,271,509)
Payments to employees for salaries and benefits	(9,015,592)	(1,705,094)	(10,720,686)	(883,773)
Payments for claims	-	-	-	(10,975,032)
Net cash provided by operating activities	31,726,251	875,313	32,601,564	2,199,993
NONCAPITAL FINANCING ACTIVITIES				
Intergovernmental	49,836	-	49,836	-
Transfers to other funds	(5,247,448)	-	(5,247,448)	-
Net cash used for noncapital financing activities	(5,197,612)	-	(5,197,612)	-
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(15,632,677)	(781,114)	(16,413,791)	(3,629,318)
Proceeds from sale of capital assets	6,599	-	6,599	301,082
Principal paid on long-term debt	(9,993,660)	-	(9,993,660)	-
Interest paid on long-term debt	(6,451,815)	-	(6,451,815)	-
Net cash used for capital and related financing activities	(32,071,553)	(781,114)	(32,852,667)	(3,328,236)
INVESTING ACTIVITIES				
Interest received	1,825,044	67,404	1,892,448	605,248
Investment purchases	(11,707,767)	-	(11,707,767)	(5,561,762)
Investment sales / maturities	12,593,000	-	12,593,000	3,500,000
Net cash provided by (used for) investing activities	2,710,277	67,404	2,777,681	(1,456,514)
Net change in cash and cash equivalents	(2,832,637)	161,603	(2,671,034)	(2,584,757)
Cash and cash equivalents, beginning of year	15,468,939	3,643	15,472,582	7,141,884
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 12,636,302	$ 165,246	$ 12,801,548	$ 4,557,127
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION				
Cash and cash equivalents	$ 3,468,967	$ 165,246	$ 3,634,213	$ 4,557,127
Restricted cash and cash equivalents	9,167,335	-	9,167,335	-
CASH AND CASH EQUIVALENTS	$ 12,636,302	$ 165,246	$ 12,801,548	$ 4,557,127

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

City of League City, Texas
Statement of Cash Flows - Continued
Proprietary Funds
For the Fiscal Year Ended September 30, 2025

	Business-type Activities			Governmental Activities
	Water and Wastewater Fund	League City Ballpark Fund	Total Enterprise Funds	Internal Service Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	$ 19,778,866	$ 1,607,305	$ 21,386,171	$ 577,448
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	13,679,496	84,198	13,763,694	1,777,360
(Increase) decrease in assets and deferred outflows				
Receivables, net				
Accounts receivable	(1,849,003)	32,006	(1,816,997)	-
Leases receivable	(587,164)	-	(587,164)	-
Other receivables	-	-	-	(124,087)
Inventory	(43,329)	-	(43,329)	(26,246)
Prepaid items	(18,285)	4,598	(13,687)	-
Deferred outflows of resources - pension and OPEB	769,981	(187,730)	582,251	-
Increase (decrease) in liabilities and deferred inflows				
Accounts payable	201,869	199,332	401,201	183,756
Accrued liabilities	(570,070)	18,502	(551,568)	3,502
Deposits payable	180,320	(6,616)	173,704	-
Unearned revenue	-	28,125	28,125	-
Due to other funds	-	(57,826)	(57,826)	-
Compensated absences	26,164	10,961	37,125	-
Claims payable	-	-	-	(191,740)
Pension and OPEB liability	(410,346)	(1,275,149)	(1,685,495)	-
Deferred inflows of resources - pension and OPEB	(3,521)	417,607	414,086	-
Deferred inflows of resources - leases	571,273	-	571,273	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 31,726,251	$ 875,313	$ 32,601,564	$ 2,199,993
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions from developers	$ 14,028,156	$ -	$ 14,028,156	$ -
Capital asset purchases on account	749,890	-	749,890	250,743

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

City of League City, Texas

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2024

	Retiree Health OPEB Trust Fund
ASSETS	
Current assets:	
Investments	$ 280,617
Total assets	280,617
LIABILITIES	
Current liabilities:	
Accounts payable	-
Total liabilities	-
NET POSITION	
Restricted for beneficiaries	280,617
TOTAL NET POSITION	$ 280,617

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

City of League City, Texas

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended December 31, 2024

	Retiree Health OPEB Trust Fund
ADDITIONS	
Contributions	$ 648,166
Investment earnings (loss)	(5,671)
Total additions	642,495
DEDUCTIONS	
Beneficiaries	361,878
Total deductions	361,878
Change in net positon	280,617
Net position, beginning of year	-
NET POSITION, END OF YEAR	$ 280,617

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

CITY OF LEAGUE CITY

CHARTERED
1962

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Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City of League City, Texas (the "City") was incorporated in May 1962 and adopted a "Home Rule Charter" which provided for a "Mayor-Council" form of government. In May 2010, the voters of the City approved various amendments to the City charter, including adoption of the "Council Manager" form of government and the creation of the office of the City Manager. A Mayor and seven Council members are elected by voters of the City at large for four-year terms.

The City Council is the principal legislative and administrative body of the City. Subject to confirmation of the City Council, the Mayor has the power to appoint all boards, commissions, agencies, and officers provided for in the charter or by ordinance. The Mayor is the presiding officer of the City Council.

The City Manager is the head of the administrative departments of the City and is the supervisor of all administrative officers, employees, directors, and department heads. Departments and agencies of the City submit budget requests to the City Manager.

The City provides the following services: public safety (police, fire, and emergency management services), public works, water and sewer services, solid waste collection and disposal (contract), community services, and general government.

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. The component units as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City's financial statements as part of the 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 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.

Discretely Presented Component Unit

The governmental discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

1. City of League City Section 4B Industrial Development Corporation

All powers of the 4B Industrial Development Corporation (the "Corporation") are vested in a Board consisting of seven persons who are appointed by the City Council. The Board acts on behalf of the City in administering the provisions of Section 4B, Article 5190.6, of the Development Act of 1979, State of Texas. The Corporation is funded by a one-quarter percent local sales and use tax approved by local voters. The Corporation is fiscally dependent on the City because the capital budgets are approved by City Council. In addition, the Corporation is prohibited from issuing bonded debt without approval of the City Council. The projects developed by the Corporation serve the citizens of the City.

Blended Component Units

The following blended component units are presented with the primary government:

1. City of League City Tax Increment Reinvestment Zone (TIRZ) No. Four – Westwood

Six of the nine members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The other three board members are represented by a County of Galveston appointee, the State Senator for the area or designee, and the State Representative for the area or designee. This entity was created to provide the financing and management tool needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs.

2. City of League City Public Improvement District (PID) No. One – Magnolia Creek

City Council approved an ordinance to terminate TIRZ No. One on August 14, 2010. However, the TIRZ Board continues to oversee the operations of the PID created in conjunction with the TIRZ. The PID was created to assist in the financing of the residential costs of a master planned community. The revenues are derived from an assessment levied against each residential lot and reused to reimburse the developer for infrastructure costs. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

3. City of League City Public Improvement District (PID) No. Two – Victory Lakes

City Council approved an ordinance to terminate TIRZ No. Two on August 22, 2023. However, the TIRZ Board continues to oversee the operations of the PID created in conjunction with the TIRZ. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

4. City of League City Public Improvement District (PID) No. Three – CenterPointe

City Council approved an ordinance for the expiration of TIRZ No. Three in 2020. However, the TIRZ Board oversees the operations of the PID created in conjunction with the TIRZ. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

5. City of League City Public Improvement District (PID) No. Five – Park on Clear Creek

This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 25 years. The City Council has dissolved the Board and now functions on its behalf.

Each of the blended component units above have been included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City appoints a majority of these organizations' boards or oversees the activities directly and is either able to impose its will on them, impose a financial benefit or burden, or the component unit is fiscally dependent on the City. More specifically, each of the TIRZs and PIDs have been blended as each of these component units exclusively, or almost exclusively, benefits the City.

TIRZ No. One, Two and Three, previously component units of the City, were dissolved during fiscal year 2010, 2023 and 2020, respectively. The remaining funds from these component units are to be used by the City to complete certain infrastructure improvements within the TIRZ.

Fiduciary Component Unit
The following fiduciary component unit is presented in the fiduciary fund financial statements:

1. Retiree Health OPEB Trust Fund
The City established an irrevocable trust in August 2024 to fund activities of the City's retiree medical program. The contributions and benefits associated with the program are governed by City Council and activities are reported through the trust with a fiscal year end of December 31.

Complete financial statements of the individual component units can be obtained by contacting the Office of the Finance Director, 300 West Walker, League City, TX, 77573.

Not included as part of the City's reporting entity are municipal utility districts (MUDs) located within the City's jurisdiction. The MUDs' Boards of Directors are elected officials, and the City exercises no control over the Boards of Directors. The MUDs construct utility system infrastructure and issue bonds to finance such infrastructure. The MUDs then release their security interest in the facilities to the City, and the City operates and maintains the systems. The City may enter into agreements to rebate MUDs a percent of taxes levied and collected within the MUDs, but does not guarantee the debt of the MUDs. Galveston County MUD #13 was dissolved during fiscal year 2017. Galveston County MUD #3, South Shore Harbour MUD #2, and South Shore Harbour MUD #3 were dissolved during fiscal years 2014, 2012, and 2011, respectively. The City has taken over the debt of these entities.

Also, not included as part of the reporting entity is the Westwood Management District. This development district is funded through a property tax with no City rebate. The initial Board was appointed by the City Council, but the City does not exercise control over the Board nor does the City guarantee the debt of the District.

B. Government-Wide Financial Statements

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

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

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.

C. Fund Financial Statements

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

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund and is used to account for all financial transactions not required to be reported in other funds. The principal sources of revenues include local property taxes, sales taxes, franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and community services. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for the payment of interest and principal on all general obligation bonds and other 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.

The *general obligation improvement bonds 2023 fund* is used to account for the expenditures of resources accumulated from the sale of the 2023 general obligation improvement bonds and related interest earnings for capital improvement projects. This fund no longer meets the criteria under GASB 34 to be reported as a major fund and was therefore moved to the nonmajor governmental funds reporting unit during 2025.

In addition, the City reports the following nonmajor governmental funds:

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

The *capital projects funds* are used to account for the expenditures of resources accumulated from the sale of long-term debt and related interest earnings for capital improvement projects.

The City reports the following major proprietary fund:

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

The City reports the following nonmajor proprietary funds:

The *League City ballpark fund* is used to account for the operations of the Ballpark at League City, a multi-purpose sports and events facility. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The league city ballpark fund is considered a nonmajor enterprise fund for reporting purposes.

Internal service funds account for services provided to other departments or agencies of the primary government, or to other governments, on a cost reimbursement basis. The City's internal service funds are used to account for motor pool services and the capital replacement of vehicles and equipment for the City's fleet, which are financed from systematic transfers from general governmental and enterprise funds, and to account for premiums paid on a group health insurance plan, which provides coverage for City employees.

The City reports the following fiduciary funds:

The *Retiree Health OPEB Trust fund* is used to account for the activities of the City's Retiree Medical Program (the "Program"), a fiduciary component unit of the City.

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

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

D. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and *the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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.

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

1. Cash and Cash Equivalents

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

The City maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "cash and equity in pooled cash." For cash management purposes, the City has a sweep arrangement with the bank to transfer cash balances to a money market mutual fund account each day. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

2. 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
Obligations of the State or its agencies
Fully collateralized certificates of deposit
Money market mutual funds that meet certain criteria
Bankers' acceptances
Statewide investment pools

3. Receivables
Receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the water and wastewater fund are recognized at the end of each fiscal year on a pro rata basis, based on billings during the month following the close of the fiscal year.

4. Inventories and Prepaid Items
Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and 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.

5. Restricted Assets
Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the water and wastewater fund are restricted for customer deposits, bond covenants for repayment of debt service and to finance capital projects.

6. 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 five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Description	Estimated Useful Life
Buildings and improvements	30 years
Equipment	5 years
Heavy equipment	20 years
Water rights	50 years
Water and sewer system	50 years
Infrastructure	50 years
Right-to-use lease	Shorter of lease term or useful life

7. Compensated Absences

The City recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee benefit account) during or upon separation from employment. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. Vacation accrual rates for all eligible employees hired after August 1, 2015, varies from 10-20 days per year (10-38 days for eligible employees hired before August 1, 2015) depending on employee classification and length of service. Unused vacation accumulated, up to certain amounts, may be paid to employees upon termination of employment. Vacation leave accruals in excess of two years' accrual will be forfeited at the end of the calendar year. Maximum vacation carryover hours are provided as follows:

Maximum Vacation Leave Accrual - Hired After August 1, 2015

Length of Service (Years)	Non Civil Service	Civil Service	Emergency Medical Service
1-4 years	160 hours	240 hours	200 hours
5-9 years	240 hours	240 hours	300 hours
Over 10 years	320 hours	320 hours	320 hours

Maximum Vacation Leave Accrual - Hired Before August 1, 2015

Length of Service (Years)	Non Civil Service	Civil Service	Emergency Medical Service
1-4 years	160 hours	240 hours	200 hours
5-9 years	240 hours	240 hours	300 hours
10-14 years	320 hours	320 hours	400 hours
15-19 years	400 hours	400 hours	500 hours
Over 20 years	480 hours	480 hours	600 hours

Regular full-time non-Civil Service employees will accrue sick leave at the rate of four hours per pay period for 24 pay periods per year which equates to 12 days per year. Non-Civil Service employees with ten years of completed service will, upon separation of employment, receive the cash value of accrued sick leave, up to a cap of 360 hours. Employees employed prior to August 1, 2015, who officially retire from City employment, will receive the cash value of accrued sick leave, up to a cap of 720 hours. Civil Service employees will accrue sick leave at the rate of five hours per pay period for 24 pay periods per year which equates to 15 days per year and will be paid sick leave up to a maximum of 720 hours upon separation.

A liability for the estimated value of leave benefits that will be paid upon separation of service or used by employees as time off is included in the liability for compensated absences.

8. 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. Bond issuance costs are expensed as incurred.

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.

9. Leases

Lessee

The City is a lessee for noncancellable leases for land. The City recognizes a lease liability, reported with long-term debt, and an intangible right-to-use lease asset (lease asset), reported with other capital assets. The City recognizes lease liabilities with an initial, individual value of at least $5,000 or more.

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

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

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, purchase option price that the City is reasonably certain to exercise, lease incentives receivable from the lessor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

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

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

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

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

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

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee, variable payments from the lessee that are fixed in substance or that depend on an index or a rate, residual value guarantee payments from the lessee that are fixed in substance, and any lease incentives that are payable to the lessee.

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

10. Subscription-Based Information Technology Arrangements (SBITAs)
The City has noncancellable contracts with SBITA vendors for the right to use information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). The City recognizes a liability (the "subscription liability") and an intangible, right-to-use subscription asset (the "subscription asset") for governmental and business-type activities. The City recognizes a subscription liability, reported with long-term debt, and a right-to-use subscription asset (an intangible asset), reported with other capital assets, in the government-wide and proprietary fund financial statements. The City recognizes subscription liabilities with an initial, individual value of $5,000 or more.

The City's SBITAs to report are immaterial to the financial statements as a whole and are not recognized as a subscription liability or a subscription asset.

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

12. Other Postemployment Benefits
The City offers two OPEB plans, a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF) administered by TMRS and a single-employer defined benefit OPEB plan, known as the Retiree Medical Program (the "Program") administered by the City. Total OPEB liability, deferred outflows of resources and deferred inflows of resources related to total OPEB liability, and total OPEB expense have been determined on the same basis as they are reported by the SDBF and the Program. For this purpose, the SDBF and the Program recognize benefit payments when due and payable in accordance with the benefit terms.

13. Estimates
The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, 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.

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

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/total OPEB liability during the measurement period in which the contributions were made.
- A deferred charge/gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred inflows related to leases are amortized over the terms of the leases.

At the fund level, the City has several items, which arise 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, court fines and warrants, grants and interlocal reimbursements. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

15. Net Position Policies

Net position within the government-wide and proprietary fund financial statements is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City classifies net position as follows:

Net investment in capital assets – the component of net position that reports capital assets, net of accumulated depreciation and amortization, and net of related debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted - the component of net position that is constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation.

Unrestricted - the component of net position that includes the residual difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources that is not classified in the categories mentioned above.

16. 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.

17. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City classifies governmental fund balances as follows:

Nonspendable – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid items and inventories, when applicable.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or grantors, or amounts restricted due to constitutional provisions or enabling legislation.

Committed – includes amounts that are constrained for specific purposes that are internally imposed by the City through 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 action or adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by City Council action, or the ordinance remains in place until a similar action is taken (the action or adoption of another ordinance) to remove or revise the limitation.

Assigned – includes fund balance amounts that are self-imposed by the City to be used for specific purposes, but do not meet the criteria to be classified as non-spendable, restricted or committed. City Council has, by policy, authorized the City Manager or his/her designee to assign fund balance. 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 exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above-mentioned categories. The general fund should be the only fund that reports a positive unassigned fund balance. Unassigned fund balance may also include deficit balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The City has adopted a policy to maintain a minimum fund balance assigned for operating reserves in the general fund of 110 days of the current year operating expenditures.

18. 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.

F. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property values are determined by the County Appraisal District as of January 1 of each year. Prior to October 1 of each year, the City must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes are levied on October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

G. Implementation of New Accounting Standards

GASB Statement No. 101, *Compensated Absences* (GASB 101), improves the information needs of financial statements users by updating the recognition and measurement guidance for compensated absences under a unified model and amending certain previously required disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2023, with earlier application encouraged. GASB 101 was implemented in the City's fiscal year 2025 financial statements with an adjustment of $880,480 to governmental activities and $136,247 to business-type activities net position as of October 1, 2024, to reflect the changes adopted to conform to the new standard. See Note 15 for additional details.

GASB Statement No. 102, *Certain Risk Disclosures* (GASB 102), improves financial reporting by providing users of financial statements with essential information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. The requirements of this statement are effective for reporting periods beginning after June 15, 2024, with earlier application encouraged. GASB 102 was implemented in the City's fiscal year 2025 financial statements with no impact to amounts or disclosures previously reported.

H. Upcoming Accounting Pronouncements

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

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

GASB Statement No. 105, *Subsequent Events* (GASB 105), improves financial reporting related to subsequent events by 1) clarifying the subsequent events time frame and the subsequent events that constitute recognized and non-recognized events and 2) specifies the information items that are required to be disclosed about subsequent events. The requirements of this statement are effective for reporting periods beginning after June 15, 2026, with earlier application encouraged. GASB 105 will be implemented in the City's fiscal year 2027 financial statements and the impact has not yet been determined.

Note 2. Stewardship, Compliance, and Accountability

The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget, as defined by the charter, is at the department level for all funds. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2025.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund and the following special revenue funds:

- Police activity fund
- Municipal court building security fund
- Municipal court technology fund
- Library gift fund
- Hotel occupancy tax fund
- Tree preservation fund
- Animal control donation fund
- Public access channel fund
- 4B Park maintenance and operations fund
- Public safety technology fund
- Technology fund
- EMS/Fire donation fund

Annual budgets are not adopted for capital projects funds and the remaining special revenue funds, which adopt project length budgets.

Encumbrances represent the estimated amount of expenditures ultimately to result when unperformed contracts (in progress at year end) are completed. Such encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. Encumbrance accounting is not utilized by the City.

Note 3. Deposits and Investments

Cash Deposits

The City's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas Public Funds Collateral Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the City's and the depository banks' agent bank. The pledged securities shall be in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Custodial Credit Risk - Cash 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. As of September 30, 2025, the City's bank balances were not exposed to custodial credit risk because they were fully insured and collateralized.

Cash, Cash Equivalents and Investments

As of September 30, 2025, the City had the following cash, cash equivalents and investments:

Investment Type	Primary Government	4B Industrial Development Corporation	Fair Value Significant Other Observable Inputs (Level 2)	Weighted Average Maturity (Years)	Credit Risk Rating S&P
Investments measured at fair value:					
U.S. Government Agency Bonds/Notes	$ 85,639,435	$ 4,526,570	$ 90,166,005	0.77	Aaa-Aa1
U.S. Treasury Bonds/Notes	65,696,493	4,973,157	70,669,650	2.13	Aa1
Total investments, including restricted	$ 151,335,928	$ 9,499,727	$ 160,835,655		
Portfolio weighted average maturity				1.36	
Cash equivalents measured at amortized cost or net asset value:					
External investment pools:					
TexPool	$ 18,978,121	$ 2,336,745			AAAm
TexSTAR	5,555,004	-			AAAm
TexasCLASS	3,962,601	-			AAAm
Lone Star	3,699,985	-			AAAm
Cash deposits and on hand	22,265,969	9,871			
Total cash and cash equivalents, including restricted	$ 54,461,680	$ 2,346,616			

Fair Value Measurements

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

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

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

U.S. government agency and treasury bonds and notes are classified in Level Two of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The City monitors interest rate risk utilizing weighted average maturity analysis and specific identification. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities. During the year ended September 30, 2025, the City did not invest in any securities which were highly sensitive to interest rate fluctuations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City's policy requires that investment pools must be rated no lower than "AAA" or "AAAm". The minimum rating required by the Public Funds Investment Act for local government investment pools is AAA or AAAm. Obligations of federal, state or local government securities and must be rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. During the year ended September 30, 2025, the City was not significantly exposed to credit risk, and its investment pools, and U.S. agency and treasury bonds met the minimum required rating as noted in the preceding table.

Concentration of Credit Risk

The investment policy of the City requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Custodial Credit Risk – Investments
For an investment, this is the risk that the City will not be recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The City's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

Local Government Investment Pools
Local government investment pools are considered cash equivalents and are measured at either amortized cost or net asset value (NAV), depending on the valuation policies of the underlying portfolio.

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

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

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

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

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

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

Lone Star
Lone Star is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, a subsidiary of the Texas Association of School Boards, and managed by Mellon Investments Corporation and American Beacon Advisors. State Street Bank and Trust Company is the custodial bank.

The investment pool has a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

The objective of the Lone Star Government Overnight Fund is to provide safety of principal, daily liquidity, and the highest possible rate of return. The fund seeks to maintain a net asset value of one dollar, and its dollar-weighted average maturity is 60 days or fewer. The fund may invest in obligations of the U.S. or its agencies and instrumentalities; other obligations guaranteed or insured by the U.S. or its agencies and instrumentalities; fully collateralized repurchase agreements having a defined termination date and secured by obligations of the U.S. or its agencies and instrumentalities; reverse repurchase agreements authorized under the Public Funds Investment Act; and SEC-regulated no-load money market mutual funds.

Note 4. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general fund, the debt service fund, the nonmajor governmental funds in the aggregate, the enterprise funds, and the internal service funds in the aggregate, including the applicable allowances for uncollectible accounts:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Property taxes	$ 1,373,879	$ 459,366	$ 1,102	$ 1,834,347
Sales and other taxes	6,540,367	-	1,111,755	7,652,122
Accounts	11,552,229	-	1,533,746	13,085,975
Interest	159,236	14,052	244,384	417,672
Intergovernmental	228,419	-	663,659	892,078
Other	206,512	-	1,240,455	1,446,967
Less: allowance	(7,696,566)	(171,259)	(20,597)	(7,888,422)
Totals	$ 12,364,076	$ 302,159	$ 4,774,504	$ 17,440,739

	Water and Wastewater Fund	League City Ballpark Fund	Total Enterprise Funds	Internal Service Fund	4B Industrial Development Corporation
Sales and other taxes	$ -	$ -	$ -	$ -	$ 819,855
Accounts	10,368,528	5,500	10,374,028	8,591	-
Interest	126,127	27,971	154,098	54,471	90,839
Other	-	-	-	160,675	-
Less: allowance	(713,788)	-	(713,788)	(6,349)	-
Totals	$ 9,780,867	$ 33,471	$ 9,814,338	$ 217,388	$ 910,694

Leases Receivable

The City has entered into several lease agreements (the "Agreements") as a lessor for the use of their towers and land located throughout the City with the lessee monitoring communication signals on the towers. The City has also entered into lease agreements for the use of their recreational athletic facility. The Agreements range from 180 to 600 months after extension options in which it is reasonably certain that these options will be exercised. As of September 30, 2025, the value of the leases receivable is $1,081,646 for governmental activities and $1,713,598 for business-type activities. The interest rate on the leases receivable is based on the City's incremental borrowing rate for the terms of the agreements and ranges from 0.26% to 2.40%. The lease revenue that was recorded with charges for services for fiscal year 2025 was $85,106 for governmental activities and $149,512 for business-type activities, which includes lease interest and amounts that were amortized for deferred inflows of resources for leases in the current year. The remaining principal and interest payments from the Agreements are as follows:

Year Ending	Governmental Activities			Business-Type Activities		
September 30,	Principal	Interest	Total	Principal	Interest	Total
2026	$ 42,673	$ 22,721	$ 65,394	$ 146,916	$ 16,649	$ 163,565
2027	45,512	21,843	67,355	153,646	14,827	168,473
2028	48,470	20,906	69,376	160,583	12,943	173,526
2029	51,548	19,908	71,456	167,821	10,912	178,733
2030	54,754	18,846	73,600	175,282	8,813	184,095
2031-2035	323,297	75,919	399,216	649,406	16,612	666,018
2036-2040	215,680	44,103	259,783	259,944	1,680	261,624
2041-2045	64,338	33,114	97,452	-	-	-
2046-2050	88,708	24,266	112,974	-	-	-
2051-2055	118,739	12,229	130,968	-	-	-
2056-2057	27,927	671	28,598	-	-	-
Total	$ 1,081,646	$ 294,526	$ 1,376,172	$ 1,713,598	$ 82,436	$ 1,796,034

Note 5. Capital Assets

A summary of changes in capital assets for governmental activities for the year ended September 30, 2025, is as follows:

	Governmental Activities				
	Beginning Balance	Increases	Decreases	Reclass and Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated or amortized:					
Land	$ 24,987,780	$ -	$ -	$ 569,636	$ 25,557,416
Construction in progress	68,638,361	27,236,535	-	(30,543,388)	65,331,508
Total capital assets, not being depreciated or amortized	93,626,141	27,236,535	-	(29,973,752)	90,888,924
Capital assets, being depreciated or amortized:					
Infrastructure	604,869,120	43,431,672	-	29,911,612	678,212,404
Buildings and improvements	96,850,612	-	-	-	96,850,612
Machinery and equipment	57,967,869	5,056,188	(2,197,745)	62,140	60,888,452
Right-to-use lease - land	139,666	-	-	-	139,666
Total capital assets, being depreciated or amortized	759,827,267	48,487,860	(2,197,745)	29,973,752	836,091,134
Less accumulated depreciation and amortization for:					
Infrastructure	(227,929,912)	(11,341,424)	-	-	(239,271,336)
Buildings and improvements	(44,112,643)	(2,144,672)	-	-	(46,257,315)
Machinery and equipment	(38,754,410)	(3,947,696)	2,120,191	-	(40,581,915)
Right-to-use lease - land	(44,106)	(14,700)	-	-	(58,806)
Total accumulated depreciation and amortization	(310,841,071)	(17,448,492)	2,120,191	-	(326,169,372)
Total depreciable capital assets, net	448,986,196	31,039,368	(77,554)	29,973,752	509,921,762
Governmental activities capital assets, net	$ 542,612,337	$ 58,275,903	$ (77,554)	$ -	$ 600,810,686

Depreciation and amortization was charged to governmental activities as follows:

Governmental activities:	
General government	$ 1,866,801
Public safety	2,753,749
Public works	10,918,328
Community services	1,909,614
Total governmental activities depreciation/amortization expense	$ 17,448,492

A summary of changes in capital assets for business-type activities for the year ended September 30, 2025, is as follows:

	Business-Type Activities				
	Beginning Balance	Increases	Decreases	Reclass and Transfers	Ending Balance
Business-type activities:					
Capital assets, not being depreciated or amortized:					
Land	$ 4,148,769	$ -	$ -	$ 107,883	$ 4,256,652
Construction in progress	31,488,566	14,686,134	-	(17,997,752)	28,176,948
Total capital assets, not being depreciated or amortized	35,637,335	14,686,134	-	(17,889,869)	32,433,600
Capital assets, being depreciated or amortized:					
Infrastructure	474,611,996	14,028,153	-	17,889,869	506,530,018
Water rights	87,548,226	-	-	-	87,548,226
Building and improvements	590,953	-	-	59,282	650,235
Machinery and equipment	7,717,761	977,770	(16,984)	(59,282)	8,619,265
Total capital assets, being depreciated or amortized	570,468,936	15,005,923	(16,984)	17,889,869	603,347,744
Less accumulated depreciation and amortization for:					
Infrastructure	(112,463,465)	(9,833,046)	-	-	(122,296,511)
Water rights	(10,867,701)	(3,695,517)	-	-	(14,563,218)
Building and improvements	(494,748)	(9,205)	-	-	(503,953)
Machinery and equipment	(7,085,199)	(225,926)	13,066	-	(7,298,059)
Total accumulated depreciation / amortization	(130,911,113)	(13,763,694)	13,066	-	(144,661,741)
Total depreciable capital assets, net	439,557,823	1,242,229	(3,918)	17,889,869	458,686,003
Business-type activities capital assets, net	$ 475,195,158	$ 15,928,363	$ (3,918)	$ -	$ 491,119,603

Depreciation and amortization was charged to business-type activities as follows:

Business-type activities:	
Water and wastewater fund	$ 13,679,496
League City ballpark fund	84,198
Total business-type activities depreciation/amortization expense	$ 13,763,694

Note 6. Long-Term Debt

Changes in Long-Term Liabilities

The City's long-term liabilities consist of bond indebtedness, contractual obligations, leases payable, compensated absences, self insurance claims, net pension liability and net OPEB liability.

Certificates of obligation and general obligation bonds are issued to acquire and construct major capital facilities or to legally defease previously issued bonded debt. The debt service requirements for the certificates and general obligation bonds are paid through the Debt Service Fund from tax revenues and reserves from the Water and Wastewater Fund. Contractual obligations are accounted for and serviced through the Water and Wastewater Fund. Self insured claims are accounted for and serviced in the Internal Service Fund. Other long-term liabilities are typically liquidated by the General Fund (Governmental Activities) and the Enterprise Funds (Business-Type Activities).

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 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.

The following is a summary of changes in the City's total long-term liabilities for the year ended September 30, 2025.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds payable					
General obligation bonds	$ 111,466,603	$ -	$ (8,841,603)	$ 102,625,000	$ 8,495,000
Certificates of obligation	21,485,000	-	(1,635,000)	19,850,000	1,675,000
Unamortized premiums	14,189,532	-	(1,445,109)	12,744,423	-
Bonds payable, net	147,141,135	-	(11,921,712)	135,219,423	10,170,000
Leases payable	94,493	-	(15,159)	79,334	15,390
Compensated absences*	8,396,276	435,577	-	8,831,853	4,984,760
Self insured health claims	720,652	10,591,552	(10,783,292)	528,912	528,912
Net pension liability	23,307,342	21,001,556	(24,891,853)	19,417,045	-
Net OPEB liability	7,726,162	1,070,418	(991,793)	7,804,787	42,935
Total governmental activities	$ 187,386,060	$ 33,099,103	$ (48,603,809)	$ 171,881,354	$ 15,741,997
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 60,668,397	$ -	$ (7,253,397)	$ 53,415,000	$ 6,700,000
Certificates of obligation	73,920,000	-	(2,140,000)	71,780,000	2,545,000
Unamortized premiums	12,961,585	-	(1,580,969)	11,380,616	-
Bonds payable, net	147,549,982	-	(10,974,366)	136,575,616	9,245,000
Contractual obligations	20,866,714	-	(600,263)	20,266,451	625,796
Compensated absences*	1,000,182	37,125	-	1,037,307	610,195
Net pension liability	5,311,693	4,038,010	(5,507,231)	3,842,472	-
Net OPEB liability	1,760,776	173,423	(389,697)	1,544,502	-
Total business-type activities	$ 176,489,347	$ 4,248,558	$ (17,471,557)	$ 163,266,348	$ 10,480,991

*Compensated absences are reported as a net change for the year as allowed under the provisions of GASB 101, Paragraph 30.
Compensated absences was restated as of October 1, 2024, to conform with adoption of GASB Statement 101, *Compensated Absences*. See Note 15.

Bonds Payable and Contractual Obligations

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities (streets, drainage, public safety, water, and wastewater) and equipment for general government and enterprise fund activities. These instruments include general obligation bonds, certificates of obligation, and contractual obligations. Future ad valorem tax revenues and water and sewer system revenues secure these debt obligations.

The Gulf Coast Water Authority (GCWA) issued Revenue Bonds to improvement and expand the capacity of transmission lines and water treatment plants (City of League City Project – Southeast Transmission Line, City of League City Project - South Transmission System, City of League City – Thomas S. Mackey Water Treatment Plant Expansion) which help ensure the transmission capacity to supply the future water needs of the City. The City executed contracts with GCWA under which the City is required to make monthly principal and interest payments to the GCWA until the debt obligation is satisfied.

A summary of the terms of general obligation bonds, certificates of obligation and contractual obligations as of fiscal year end follows:

Series	Original Issue	Final Maturity	Interest Rate	Balance
Governmental activities:				
General obligation bonds:				
2011A General obligation refunding bonds	$ 6,975,000	2028	2.00% to 5.00%	$ 510,000
2013 General obligation refunding bonds	13,819,988	2033	2.00% to 4.00%	2,150,000
2016 General obligation refunding bonds	12,900,000	2029	3.00% to 5.00%	5,110,000
2016A General obligation refunding bonds	2,835,000	2030	2.00% to 5.00%	1,455,000
2019 General obligation refunding* and improvement bonds	28,770,000	2039	3.75% to 5.00%	19,980,000
2020 General obligation improvement bonds	27,125,000	2040	2.00% to 4.00%	22,000,000
2020 General obligation refunding bonds	22,610,312	2033	3.00% to 5.00%	13,750,000
2021 General obligation improvement bonds	22,455,000	2041	3.00% to 5.00%	19,325,000
2023 General obligation improvement bonds	19,550,000	2043	4.00% to 5.00%	18,325,000
Direct placement:				
2013A general obligation refunding bonds*	2,190,000	2026	2.21%	20,000
Total general obligation bonds				102,625,000
Certificates of obligation:				
2015 Tax and revenue certificates of obligation	3,020,000	2035	3.00% to 5.00%	1,805,000
2016 Tax and revenue certificates of obligation	8,970,000	2036	2.13% to 5.00%	5,805,000
2017 Tax and revenue certificates of obligation	8,730,000	2037	3.00% to 5.00%	5,005,000
2018 Tax and revenue certificates of obligation	11,165,000	2038	3.13% to 5.00%	7,235,000
Total certificates of obligation				19,850,000
Total governmental activities bonds payable				$ 122,475,000

* This general obligation debt is supported by a general property tax pledge; however, the repayment of all or a portion of this general obligation debt is expected to be paid from revenues other than ad valorem tax revenues, including payments from TIRZs and payments from the 4B Industrial Development Corporation. Those payments may not be legally pledged to the obligations to which their payments are expected to be dedicated, but are contractually obligated to be paid to the City for that purpose.

Series	Original Issue	Final Maturity	Interest Rate	Balance
Business-type activities:				
General obligation bonds:				
2011A General obligation refunding bonds	$ 4,705,000	2028	2.00% to 5.00%	$ 710,000
2015 General obligation refunding bonds	17,605,000	2028	2.00% to 5.00%	4,645,000
2016 General obligation refunding bonds	16,355,000	2030	3.00% to 5.00%	8,520,000
2016A General obligation refunding bonds	12,155,000	2034	2.00% to 5.00%	8,740,000
2019 General obligation refunding* and improvement bonds	6,845,000	2031	3.00% to 5.00%	3,950,000
2020 General obligation refunding bonds	13,719,688	2032	3.00% to 5.00%	7,400,000
2021 General obligation refunding bonds	24,185,000	2031	3.38% to 5.00%	19,450,000
Total general obligation bonds				53,415,000
Certificates of obligation:				
2015 Tax and revenue certificates of obligation	14,425,000	2035	3.00% to 5.00%	8,650,000
2016 Tax and revenue certificates of obligation	3,645,000	2036	2.13% to 5.00%	2,360,000
2017 Tax and revenue certificates of obligation	7,905,000	2037	3.00% to 5.00%	4,570,000
2021 Tax and revenue certificates of obligation	11,330,000	2041	3.00% to 5.00%	9,755,000
2024 Tax and revenue certificates of obligation	47,095,000	2054	4.25% to 6.00%	46,445,000
Total certificates of obligation				71,780,000
Contractual obligations:				
2021 GCWA Contractual obligations	5,985,000	2041	3.00% to 4.00%	5,115,834
2021 GCWA Contractual obligations	5,210,000	2042	3.50% to 6.00%	4,690,833
2023 GCWA Contractual obligations	1,761,254	2052	4.00% to 5.00%	1,682,349
2023A GCWA Contractual obligations	7,126,808	2052	4.00% to 5.00%	6,817,293
2023B GCWA Contractual obligations	2,039,330	2052	5.25% to 5.50%	1,960,142
Total contractual obligations				20,266,451
Total business-type activities bonds payable and contractual obligations				$ 145,461,451

* This general obligation debt is supported by a general property tax pledge; however, the repayment of all or a portion of this general obligation debt is expected to be paid from surplus revenues of the water and sewer system. Water and sewer revenues are pledged to pay certificates of obligation on a subordinate basis, but it is the historic policy of the City to pay a portion of the listed general obligation refunding bonds from surplus revenues of the water and sewer system.

Debt Service Requirements

The annual debt service requirements to maturity for general obligation bonds, certificates of obligation and contractual obligations outstanding at September 30, 2025, are as follows:

Fiscal Year Ending September 30,	General Obligation Bonds – Governmental Activities Principal	Governmental Activities Interest	Governmental Activities Total	Business-type Activities Principal	Business-type Activities Interest	Business-type Activities Total
2026	$ 8,495,000	$ 3,658,349	$ 12,153,349	$ 6,700,000	$ 2,013,597	$ 8,713,597
2027	8,420,000	3,272,644	11,692,644	7,050,000	1,690,731	8,740,731
2028	8,735,000	2,895,466	11,630,466	7,545,000	1,365,691	8,910,691
2029	8,865,000	2,503,444	11,368,444	7,860,000	1,012,138	8,872,138
2030	8,025,000	2,138,700	10,163,700	8,100,000	648,994	8,748,994
2031-2035	28,315,000	7,193,994	35,508,994	16,160,000	608,437	16,768,437
2036-2040	26,060,000	2,985,275	29,045,275	-	-	-
2041-2043	5,710,000	278,800	5,988,800	-	-	-
Totals	$ 102,625,000	$ 24,926,672	$ 127,551,672	$ 53,415,000	$ 7,339,588	$ 60,754,588

Fiscal Year Ending September 30,	Certificates of Obligation – Governmental Activities Principal	Governmental Activities Interest	Governmental Activities Total	Business-type Activities Principal	Business-type Activities Interest	Business-type Activities Total
2026	$ 1,675,000	$ 669,029	$ 2,344,029	$ 2,545,000	$ 3,062,511	$ 5,607,511
2027	1,715,000	587,429	2,302,429	2,645,000	2,940,736	5,585,736
2028	1,755,000	516,369	2,271,369	2,405,000	2,825,593	5,230,593
2029	1,780,000	455,998	2,235,998	2,505,000	2,716,549	5,221,549
2030	1,805,000	396,110	2,201,110	2,715,000	2,598,989	5,313,989
2031-2035	8,390,000	1,149,144	9,539,144	16,145,000	11,086,906	27,231,906
2036-2040	2,730,000	119,384	2,849,384	11,550,000	8,188,910	19,738,910
2041-2045	-	-	-	9,495,000	5,848,865	15,343,865
2046-2050	-	-	-	11,060,000	3,500,226	14,560,226
2051-2054	-	-	-	10,715,000	934,895	11,649,895
Totals	$ 19,850,000	$ 3,893,463	$ 23,743,463	$ 71,780,000	$ 43,704,180	$ 115,484,180

Fiscal Year Ending September 30,	Contractual Obligations – Business-type Activities Principal	Interest	Total
2026	$ 625,796	$ 876,710	$ 1,502,506
2027	654,851	846,166	1,501,017
2028	684,771	815,513	1,500,284
2029	720,902	781,768	1,502,670
2030	756,561	746,553	1,503,114
2031-2035	4,342,943	3,171,201	7,514,144
2036-2040	5,288,186	2,231,384	7,519,570
2041-2045	3,242,810	1,277,149	4,519,959
2046-2050	2,765,845	671,230	3,437,075
2051-2052	1,183,786	80,389	1,264,175
Totals	$ 20,266,451	$ 11,498,063	$ 31,764,514

Prior Defeased Debt
In prior years, the City legally defeased certain bonds and certificates of obligation by placing cash and/or proceeds of refunding bond issues in an irrevocable trust to provide for all future debt services payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of September 30, 2025, there were no outstanding balances of defeased bonds.

Authorized But Unissued Bonds
As of September 30, 2025, the City has $48,700,000 of authorized but unissued general obligation bonds remaining from previous bond elections.

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 IRS rules and regulations. The City did not report arbitrage liability as of September 30, 2025.

Leases Payable
The City has entered into lease agreements as lessee for the use of land. As of September 30, 2025, the outstanding lease liability was $79,334. The City is required to make monthly payments and the interest rates are based on the incremental borrowing rate of 1.53%. In addition, the City's right-to-use lease assets will be amortized using a straight-line basis over the remaining term of the leases. The value of the right-to-use assets as of the end of the current fiscal year was $139,666 and had accumulated amortization of $58,806.

The future principal and interest payments as of September 30, 2025 are as follows:

Fiscal Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2026	$ 15,390	$ 1,210	$ 16,600
2027	15,625	975	16,600
2028	15,863	737	16,600
2029	16,105	495	16,600
2030	16,351	249	16,600
Totals	$ 79,334	$ 3,666	$ 83,000

Note 7. Interfund Transactions

Interfund Receivables and Payables

The composition of interfund balances as of year-end were as follows:

Due to	Due from	Amounts
General fund	Nonmajor governmental funds	$ 803,166
Total		$ 803,166

Outstanding balances between funds result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These amounts may also include balances of working capital loans made to other funds, which the general fund expects to collect in the subsequent year.

Interfund Transfers

Transfers between the governmental and proprietary funds during the year were as follows:

	Transfers Out			
	Governmental Funds		Proprietary Fund	
Transfers In	General Fund	Nonmajor Governmental Funds	Water and Wastewater Fund	Total
General fund	$ -	$ 102,687	$ 5,247,448	$ 5,350,135
Debt service fund	-	6,000,000	-	6,000,000
Nonmajor governmental funds	7,000,000	-	-	7,000,000
Total	$ 7,000,000	$ 6,102,687	$ 5,247,448	$ 18,350,135

The general fund made transfers to nonmajor governmental funds to provide additional resources for various capital improvements. Transfers from nonmajor governmental funds to the debt service fund are for debt service contributions from the sales tax capital projects fund. Transfers from the nonmajor governmental funds and water and wastewater fund to the general fund are for annual subsidy payments.

Note 8. Commitments and Contingencies

A. Risk Management

Property Damage / General Liability
The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years. In addition, the City purchased windstorm insurance from highly rated private carriers to cover City property for that specific loss.

Workers' Compensation
The City participates in the Texas Municipal League's Intergovernmental Risk Pool (the Pool) for workers' compensation. In accordance with an interlocal agreement, the Pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums and claims above the City's deductibles. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three years.

B. Contingent Liabilities

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

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

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

C. Construction Commitments

The city has active construction projects as of September 30, 2025. A majority of these projects are for drainage improvements, street improvements, and improvements to the water and wastewater systems.

Construction in progress and remaining commitments under related construction contracts for governmental activities construction projects at year end were as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Contract
Governmental activities:			
Bay Ridge Flood Reduction Phase 4	$ 5,631,948	$ 1,026,652	$ 4,605,296
The Meadows Subdivision Drainage Improvements	2,438,749	2,256,516	182,233
Magnolia Creek & Cedar Gully Channel Improvements	1,400,300	1,188,800	211,500
Clear Creek Tributaries	1,007,142	934,052	73,090
Countryside Subdivision Drainage Improvements	78,205	72,731	5,474
Bayridge Subdivision Phase 1	1,420,928	926,090	494,838
Bay Ridge Flood Reduction Phase 1	9,444,781	9,433,739	11,042
Benson Bayou & Mitigation Pond	444,735	187,811	256,924
Hurricane Harvey Drainage Project - FEMA (Gauge)	1,048,387	789,010	259,377
Hurricane Harvey Drainage Project - FEMA (Magnolia Creek)	197,903	171,647	26,256
FM 518 & Wesley Drive Drainage Improvements	461,783	461,633	150
Oaks of Clear Creek Northwest Detention Pond	1,748,902	1,652,232	96,670
Hughes Ln- W. Deats Rd Culvert Modification	432,131	330,155	101,976
Historic District Drainage Improvements	2,132,004	1,238,005	893,999
Targeted Homeowner Buyout	201,350	57,190	144,160
CDBG-MIT Admin Costs	754,730	440,680	314,050
Clear Creek and Dickinson Bayou	523,980	244,940	279,040
FM 518 & Wesley Drive Drainage Improvements, Phase 2	463,306	261,981	201,325
Master Drainage Plan Update	723,405	375,295	348,110
Master Drainage Plan Update for the Historic District	355,735	273,051	82,684
Drainage Improvements within the Interurban Watershed	746,407	277,980	468,427
Robinson Bayou Watershed Drainage Study	148,410	109,533	38,877
Main Street/Downtown	7,202,913	7,178,810	24,103
League City Development District	761,959	744,677	17,282
Generators for City Facilities	617,364	538,999	78,365
Fire Station 7	24,400	23,492	908
Hike & Bike Trails Way- Signage, Phase 2	255,801	84,270	171,531
FM270 Boat Ramp	227,690	194,306	33,384
Bayridge Park Parking Lot	164,498	143,945	20,553
Kansas Ave Kayak Launch Sites	182,654	143,562	39,092
Nature Center Kayak Launch Site	1,339,976	954,730	385,246
Pat Hallisey Park	4,039,639	3,470,232	569,407
Memorial at Pat Hallisey Park	31,000	28,606	2,394
Kilgore Davis Tract Parkland	464,867	60,425	404,442
Lobit Park	896,311	506,593	389,718
Heritage Signature Trail	198,095	23,059	175,036
Newport Park Redevelopment	113,661	89,351	24,310
5K Loop Parking Access	159,000	34,400	124,600
Grissom Reconstruction	8,288,841	8,287,165	1,676
FM 518 Park Ave Rebuild Signal	92,133	80,780	11,353
RE1704F - Material Asphalt - Street Crew	457,908	432,369	25,539
Asphalt Street Rehab	207,425	158,085	49,340
Phase 2 - Reconstruction of Turner and Butler	7,434,773	3,058,509	4,376,264
Monument Entry Signage	8,000	7,500	500
Clear Creek Ave Reconstruction	80,607	66,384	14,223
Walker St Corridor Upgrades (TIRZ 2)	5,142,475	4,455,430	687,045
League City Parkway at Walker Intersection Improvements	659,476	607,332	52,144
North Landing Extension	30,208,765	30,007,898	200,867
SH3 at LCP Intersection	1,740,450	1,726,610	13,840
SH3 and FM518 Intersection Improvements	3,112,139	3,032,536	79,603
LCP Right Turn Lane Calder to Butler	1,841,780	794,301	1,047,479
Hobbs Road Extension to FM 517	773,660	602,967	170,693
TxDOT Soundwall	65,275	64,719	556
ST2206D FM646 to Edmunds Way	247,228	204,859	42,369
FM 2094 at Enterprise, Lakeside, & Twin Oaks Intersection Study	29,964	27,935	2,029
Maple Leaf and League City Parkway	179,750	138,400	41,350
18 School Flasher Assemblies	168,156	141,426	26,730
FM 518 at Bay Area Blvd Intersection Improvements	149,170	66,362	82,808
SH96 at Columbia Memorial PKWY & SH96 at FM270 Intersection Improvements	256,000	81,000	175,000
Traffic Signal Timing	474,680	461,906	12,774
League City Parkway Corridor Signalization	2,032,889	2,032,739	150
Total governmental activities	$ 112,136,593	$ 93,466,392	$ 18,670,201

Construction in progress and remaining commitments under related construction contracts for business-type activities projects at year end were as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Contract
Business-type activities:			
36" WL from SH3 to SSH Booster Station	$ 21,846,688	$ 21,844,270	$ 2,418
West Side Well & Booster Pump Station	1,098,298	637,598	460,700
SH3 1MG GST	88,027	53,996	34,031
South Shore & Brittany Bay	266,200	80,712	185,488
Meadowbend BPS, Walker ST Well BPS, 3rd St Well BPS	122,600	48,350	74,250
FM518 Waterline Upgrade - I45 to Landing Ditch	2,518,732	2,496,732	22,000
FM 518 WL Replacement - Landing to Palomino	211,465	195,505	15,960
FM518 WL Replacement (SH to FM270)	639,517	289,563	349,954
Mary Ln and Tallow Forest Service Area Connection	695,567	682,771	12,796
12-inch WL along FM 2092 from Davis Rd to Signature Point	213,995	27,250	186,745
Beacon Island_Harbor Island Back Feed 12-inch WL	203,584	35,500	168,084
New Well & BPS LC Pkwy	543,961	378,064	165,897
Transmission WL Assessment	246,372	213,538	32,834
Sewer System Evaluation	4,027,199	4,017,904	9,295
Davis Road - Crows Nest 15" Sanitary Sewer Replacement	55,264	22,225	33,039
Sanitary Sewer Annual Rehab- Manhole Rehab	92,500	32,130	60,370
E Main Lift Station Conversion	2,240,402	2,006,219	234,183
Landing Lift Station Improvements	180,380	81,266	99,114
Constellation Lift Station	119,500	59,599	59,901
DSWWTP Relift Pump Addition	822,271	623,210	199,061
DSWWTP Influent Wet Well Rehab	591,949	439,406	152,543
Belt Filter Press Rehab	395,700	306,700	89,000
4.0 MGD Expansion to SWWRF	6,791,505	6,274,736	516,769
Harbour Park 1 Lift Station Expansion to 3MGD	246,760	191,810	54,950
Re-Route 18-inch Bay Colony 14-15 FM to SWWRF	601,913	420,038	181,875
DSWWTP UV System Replacement	410,700	396,000	14,700
Total business-type activities	$ 45,271,049	$ 41,855,092	$ 3,415,957

Note 9. Pension Plan

Plan Description

The City participates as one of 938 plans in the defined benefit cash-balance pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for 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; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report that can be obtained at www.tmrs.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the member (employee's) contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total member's 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. A summary of plan provisions for the City is as follows:

	Plan Year 2025	Plan Year 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 retirement eligibility		
(expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

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	341
Inactive employees entitled to, but not yet receiving, benefits	437
Active employees	635
Total	1,413

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 15.94% and 15.09% in calendar years 2025 and 2024, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2025 were $7,814,440, 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 total pension liability in the December 31, 2024, actuarial valuation was determined using the following actuarial assumptions:

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

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 active members, healthy retirees, and beneficiaries are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements.

For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied for males and females, respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

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

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 weighing 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 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Global equity	35.0%	7.10%
Core fixed income	6.0%	5.00%
Non-core fixed income	6.0%	6.80%
Hedge funds	5.0%	6.40%
Private equity	13.0%	8.50%
Private debt	13.0%	8.20%
Real estate	12.0%	6.70%
Infrastructure	6.0%	6.00%
Other private markets	4.0%	7.30%
Total	100%	

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2023	$ 213,973,170	$ 185,354,135	$ 28,619,035
Changes for the year:			
Service cost	8,386,584	-	8,386,584
Interest	14,433,691	-	14,433,691
Difference between expected and actual experience	1,508,617	-	1,508,617
Contributions - employer	-	7,198,722	(7,198,722)
Contributions - employee	-	3,339,369	(3,339,369)
Net investment income	-	19,276,725	(19,276,725)
Benefit payments, including refunds of employee contributions	(8,668,019)	(8,668,019)	-
Administrative expense	-	(123,517)	123,517
Other changes	-	(2,889)	2,889
Net changes	15,660,873	21,020,391	(5,359,518)
Balance at December 31, 2024	$ 229,634,043	$ 206,374,526	$ 23,259,517

Sensitivity of the Net Pension Liability

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability (asset)	$ 57,940,250	$ 23,259,517	$ (4,931,585)

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2025, the City recognized pension expense of $8,519,717.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 2,869,686	$ -
Changes in actuarial assumptions	-	553,774
Differences between projected and actual investment earnings	-	2,198,393
Contributions subsequent to the measurement date	6,105,613	-
Totals	$ 8,975,299	$ 2,752,167

$6,105,613 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30,	Pension Expense
2026	$ 1,425,362
2027	2,694,568
2028	(2,649,354)
2029	(1,353,057)
Totals	$ 117,519

Note 10. Other Postemployment Benefit Plans

The City recognized the following as of and for the fiscal year ended September 30, 2025, related to the City's other postemployment benefit (OPEB) plans:

	OPEB Liability	Deferred Outflows	Deferred Inflows	OPEB Expense
TMRS Supplemental Death Benefits Fund (SDBF)	$ 1,476,726	$ 137,847	$ 442,463	$ 65,949
Postemployment Healthcare Plan	7,872,563	827,502	4,626,848	207,178
Total	$ 9,349,289	$ 965,349	$ 5,069,311	$ 273,127

TMRS Supplemental Death Benefits Fund (SDBF)

Plan Description

The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan administered by TMRS 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.

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 the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan.

Benefits Provided

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.

Plan Membership

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

Inactive employees or beneficiaries currently receiving benefits	252
Inactive employees entitled to, but not yet receiving, benefits	98
Active employees	635
Total	985

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

The retiree portion of contribution rates to the SDBF for the City was 0.09% in calendar years 2025 and 2024. The City's contributions to the SDBF for the year ended September 30, 2025 were $44,665, and were equal to the required contributions.

Total OPEB Liability

The City's total OPEB liability of $1,476,726 was measured as of December 31, 2024 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Assumptions

The total OPEB liability in the December 31, 2024, actuarial valuation was determined using the following actuarial assumptions and other inputs:

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 pension trust and accounted for under reporting requirements of GASB Statement No. 68
Mortality rates-service retirees	2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Mortality rates-disabled retirees	2019 Municipal Retirees of Texas mortality tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2024.

The actuarial assumptions used in the December 31, 2024, valuation were based on the results of an actuarial experience study for the period December 31, 2018 to December 31, 2022.

Changes in the Total OPEB Liability

		Total OPEB Liability
Beginning balance	$	1,470,900
Changes for the year:		
Service cost		76,328
Interest		56,082
Difference between expected and actual experience		(1,225)
Changes of assumptions		(82,424)
Benefit payments*		(42,935)
Net changes		5,826
Ending balance	$	1,476,726

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

The discount rate increased from 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%)	Discount Rate (4.08%)	1% Increase in Discount Rate (5.08%)
City's total OPEB liability	$ 1,767,297	$ 1,476,726	$ 1,250,094

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB
For the year ended September 30, 2025, the City recognized OPEB expense of $65,949. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 45,273
Changes in actuarial assumptions	103,373	397,190
Contributions subsequent to the measurement date	34,474	-
Total	$ 137,847	$ 442,463

$34,474 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. Other amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending September 30,	OPEB Expense
2026	$ (99,456)
2027	(130,681)
2028	(93,177)
2029	(8,592)
2030	(7,184)
Totals	$ (339,090)

Postemployment Healthcare Plan

Plan Description
The City administers a single-employer defined benefit OPEB plan (the "Program"). The Program offers medical and dental insurance benefits to eligible retirees and their spouses. Retiree medical coverage levels for retirees are the same as coverage provided to active City employees. Upon the death of the retiree, the spouse is eligible for coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA).

The Program has assets that are accumulated in a trust that meet the criteria in paragraph 4 of GASB 75. These assets are reported in the City's fiduciary fund financial statements as the Retiree Health OPEB Trust Fund. The Program does not issue separate stand-alone financial statements.

Benefits Provided

Retiree medical coverage includes one medical plan option, the mid-plan, which is the same mid-plan coverage provided to active City employees in accordance with the terms and conditions of the Program. Retirees may purchase retiree health care coverage for eligible spouses and dependents at their own expense. Surviving spouses and dependents of deceased retired members may continue retiree healthcare coverage for up to 36 months through COBRA. Retirees are eligible for dental and vision coverage at 100% of cost. Retirees are required to enroll in Medicare once eligible (age 65). The City does not provide Medicare supplement health benefits coverage after the date that the person becomes eligible for Medicare benefits.

Employees are eligible for TMRS retirement with five years of service and age 60 or with 20 years of service and any age. If an employee retires at age 60 or older, with 20 years of TMRS experience and the most recent five years with the City, the City currently will pay the retiree (not dependent) cost of continued coverage at 100% until the age 65. Employees eligible to retire under TMRS as a disability retiree, if they have worked with the City for a minimum of five years and have at least ten years of combined service with all municipalities, are eligible for a portion of their health insurance based on their age.

The following table provides a summary of the number of participants in the plan as of December 31, 2024:

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to, but not yet receiving, benefits	-
Active employees	571
Total	591

Contributions

Contributions to the Program are not required by statute and are not actuarially or contractually determined. The City funds the Program on a pay-as-you go basis and any additional contributions to the Program trust fund are based on available funds budgeted by the City during its annual budget process. The City’s additional contributions to the Program for the year ended September 30, 2025, were $275,000.

Net OPEB Liability

The City’s Net OPEB Liability (NOL) of $7,872,563 was measured as of December 31, 2024, and the Total OPEB Liability (TOL) used to calculate the NOL was determined by an actuarial valuation as of December 31, 2023, rolled forward to December 31, 2024.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2023, actuarial valuation, rolled forward to December 31, 2024, was determined using the following actuarial assumptions and other inputs:

Inflation	2.50%
Salary increases	3.60% to 11.85% including inflation
Discount rate	4.27%
Actuarial cost method	Individual entry-age
Demographic assumptions	Based on the experience study covering the four-year period ending December 31, 2022 as conducted for the TMRS.
Mortality	For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP-2021 table to account for future mortality improvements.
Healthcare trend rates	Initial rate of 7.10% declining to an ultimate rate of 4.25% after 15 years.
Participation rates	0% for pre-50 retirees with any years of service; 25% for 50-64 years of age retirees with less than 20 years of service; 20% for 50-54 years of age retirees with more than 20 years of service; 45% for 55-59 years of age retirees with more than 20 years of service; 90% for eligible retirees that are at least 60 years old at retirement with more than 20 years of service.

The demographic assumptions are based on the assumptions that were developed for the defined benefit plan in which the City participates (TMRS). The assumptions are based on the 2023 experience study conducted for the Texas Municipal Retirement System (TMRS). The demographic assumptions that are specific to OPEB are based on the plan's individual experience and are revisited during each full valuation. The healthcare trend assumption is based on the framework developed in the Society of Actuaries' Getzen Model.

Plan assets are managed by a 3rd party through the trust administrator, Public Agency Retirement Services, and the City can elect a variety of investment strategies to meet the needs of the Program. The target allocation for each major asset class in the City's current elected strategy is cash 0-20%, equity 5-20% and fixed income 60-95%.

Discount Rate

The expected rate of return on OPEB plan investments is 4.50%; the municipal bond rate is 4.08% (based on the daily rate closest to but not later than the measurement date of the Bond Buyer "20-Bond GO Index"); and the resulting single discount rate used to measure the total OPEB liability is 4.27%. The projection of cash flows used to determine the discount rate assumed that City's OPEB trust contributions would remain at $275,000 each year. It was also assumed that the City would continue to pay benefit payments using its own assets. Based on those assumptions, the last year in the single discount rate projection period for which projected benefit payments are fully funded is 2044.

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Beginning balance	$ 8,016,038	$ -	$ 8,016,038
Changes for the year:			
Service cost	578,209	-	578,209
Interest	306,282	-	306,282
Difference between expected and actual experience	27,723	-	27,723
Contributions - employer	-	648,166	(648,166)
Net investment loss	-	(5,671)	5,671
Changes of assumptions	(413,194)	-	(413,194)
Benefit payments	(361,878)	(361,878)	-
Net changes	137,142	280,617	(143,475)
Ending balance	$ 8,153,180	$ 280,617	$ 7,872,563

Change in assumption reflected a change in the discount rate from 3.77% as of December 31, 2023, to 4.27% 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 net OPEB liability during the measurement period.

Sensitivity of Net OPEB Liability to the Discount Rate

Regarding the sensitivity of the Program's net OPEB liability, the following presents the net OPEB liability of the City, as well as what the City's net 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 (3.27%)	Discount Rate (4.27%)	1% Increase in Discount Rate (5.27%)
City's net OPEB liability	$ 8,722,652	$ 7,872,563	$ 7,113,775

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

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

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
City's net OPEB liability	$ 6,924,239	$ 7,872,563	$ 8,995,714

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

For the year ended September 30, 2025, the City recognized OPEB expense of $207,178. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 57,377	$ 1,568,179
Changes in actuarial assumptions	510,914	3,058,669
Differences between projected and actual investment earnings	9,690	-
Contributions subsequent to the measurement date	249,521	-
Total	$ 827,502	$ 4,626,848

$249,521 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 net OPEB liability for the fiscal year ending September 30, 2026.

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

Year Ending September 30,	OPEB Expense
2026	$ (706,211)
2027	(706,049)
2028	(614,377)
2029	(674,659)
2030	(728,281)
Thereafter	(619,290)
Totals	$ (4,048,867)

Note 11. Healthcare Coverage

During 2016, the City began to provide employees with traditional prescription and health care insurance that covers hospitalization and major medical expenses within specified limits under a plan that is self-funded by the City and administered by a third-party administrator (the "Administrator"). The City pays the Administrator a monthly fixed fee for various claim administration services on a per enrolled employee basis.

The City pays all claims. The Administrator submits monthly check registers for all processed claims. The City issues payment to the Administrator who in turn issues individual claim checks. The City carries stop-loss insurance against catastrophic losses. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expense regardless of whether allocated to specific claims. The premiums for these policies are billed monthly by the Administrator on a per enrolled employee basis. The claims liability reported in the fund at September 30, 2025, was estimated by the Administrators. It is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for unpaid claims cost, including estimates of costs relating to incurred but not reported claims, be reported. Costs relating to the plan are recorded in an internal service fund.

Changes in health claims for the years ended September 30, 2025 and 2024 are as follows:

	2025	2024
Health claim liability, beginning of year	$ 720,652	$ 696,875
Claims and changes in estimates	10,591,552	8,722,469
Claim payments	(10,783,292)	(8,698,692)
Health claim liability, end of year	$ 528,912	$ 720,652

Note 12. Contracts

Summaries of the City's significant contracts are as follows:

Municipal Utility Districts

The City has entered into utility agreements with several MUDs whose boundaries overlap the boundaries of the City. The MUDs construct water, sanitary sewer, and drainage facilities to serve the areas within the MUDs and issue bonds to finance such facilities. The MUDs release their security interests in the facilities to the City, and the City operates and maintains the systems.

Galveston County Water Control and Improvement District No. One

The City entered into an agreement dated March 10, 1983 with Galveston County Water Control and Improvement District No. One (the "District") providing for an inter-connect to be built between the City and the District by the Gulf Coast Water Authority (GCWA). The City agreed to buy one million gallons of water per day on a take-or-pay basis. Under a revised water supply agreement effective January 1, 1987, the annual volume of water to be paid for by the City on a take-or-pay basis was reduced to a minimum of 150,000 gallons per day, to be adjusted annually to an amount equal to the prior year's average usage, but not to exceed one million gallons per day. The cost to the City will vary depending on the cost to the District to fulfill its obligation. On December 8, 2009, the water supply agreement was revised to adjust the price and the obligation for delivery of water. GCWA shall sell and deliver 150,000 gallons per day of water with a maximum of 1,000,000 gallons per day provided GCWA has excess water available, or for emergency use only.

Gulf Coast Water Authority

The City and the GCWA approved the Fourth Amended and Restated Water Supply Contract (the "Water Supply Contract"), dated November 18, 2021. Pursuant to this Water Supply Contract, the GCWA issued its Contract Revenue Bonds (City of League City Project – Southeast Transmission Line), Series 2021 (the "Series 2021 Bonds") dated December 1, 2021, to fund (i) a portion of the cost of capacity in a larger diameter water transmission line (the "Southeast Transmission Line") in order to help ensure sufficient transmission capacity to supply the future water needs of the City from the City of Houston's (Houston) Southeast Water Purification Plant as it may be expanded from time to time, (ii) a debt service reserve fund (the "Reserve Fund"), and (iii) the costs of issuance of the Series 2021 Bonds. The Series 2021 Bonds are secured with pledged revenues, which consist primarily of certain fixed charge payments to be made by the City to the GCWA. The Water Supply contract unconditionally obligates the City to pay principal and interest of the Series 2021 Bonds and any other additional bonds which may be issued, fees and other charges associated with payment of principal and interest on the bonds as well as other costs as described in the Water Supply Contract. All payments required to be paid by the City to the GCWA under the Water Supply Contract are payable from revenue and income received by the City from the ownership and operation of its water and sewer system, but may also be made from other revenue sources, at the City's sole discretion. The GCWA pays the principal and interest on the bonds, and in turn, the GCWA bills the City monthly for amounts equal to the next debt service payment due.

In addition, the GCWA has entered into the Southeast Transmission Line Cost Sharing Agreement (the "SETL Cost Sharing Agreement') with the City of Houston and other participants (the "Participants") for the Southeast Transmission Line Project (the "SETL Project"). The City will pay the GCWA for costs incurred for the SETL Project in accordance with the SETL Cost Sharing Agreement. The GCWA will disburse funds to Houston for costs of design, construction, acquisition, equipment, and operation of the SETL project for the cost share allocated to the GCWA. The SETL Cost Sharing Agreement requires payment of the cost share in accordance with a series of cash calls. In order to receive the reserved capacity being acquired by the GCWA for the benefit of the City, the GCWA must deposit is proportionate cost share by the cash call due date. The current cost estimate of the cost share for the reserved capacity being required for the benefit of the City is approximately sixty million, which is subject to adjustment from time to time, to reflect changes in the project schedule or budget, including changes to address unforeseen conditions requiring additional funds, in accordance with the SETL Cost Sharing Agreement.

The GCWA entered into a Plant Cost Sharing Agreement (the "Plant Cost Sharing Agreement") with other participants (the "Participants") for the purpose of providing for the arrangements with Houston to provide surface water to the City through the GCWA. The City will pay its proportionate share of costs attributable to production, plus costs attributable to pumping and distribution, as well as acquire production capacity and/or pumping capacity in any expansion of the plant. Pursuant to the SETL Cost Sharing Agreement, Houston delivers 31.5 million gallons per day (MGD) of untreated surface water to the GCWA. The GCWA desires to obtain an additional 20 MGD of untreated surface water (the "Contract Quantity") from Houston for the benefit of the City. Houston and the GCWA entered into an Untreated Water Reservation Contract (the "Capacity Reservation Contract") of which the GCWA must pay a capacity reservation fee each year to secure the reservation of the Contract Quantity. After the SETL Project and the plant expansion are complete, the GCWA will pay Houston for the Contract Quantity as part of the GCWA's yearly operations and maintenance expense. The City further agrees to pay for the Contract Quantity under provisions of the Capacity Reservation Contract and the Plant Cost Sharing Agreement.

The City paid the Authority $9.3 million during fiscal year 2025 for various costs related to these projects.

Note 13. Tax Abatements and Economic Incentives

The City will consider entering into economic development agreements to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales and hotel occupancy tax, and enhance the property tax base and economic vitality of the City. These programs may include tax abatement, property tax and/or sales tax rebates, incentive payments, and/or reductions in permits and fees. The City's economic development agreements are authorized under Chapter 380 of the Texas Local Government Code Chapter 311 (Tax Increment Financing Act) and 312 (Property Redevelopment and Tax Abatement Act) of the Texas Tax Code.

Recipients may be eligible to receive economic assistance based upon the number of jobs to be created and/or retained, economic impact, fiscal impact, and community impact of the proposed project. Recipients receiving assistance generally commit to creating and/or retaining jobs, building or remodeling real property and related infrastructure, demolishing and redeveloping outdated properties, expanding operations, renewing facility leases, increasing the City's tax base, and/or bringing targeted businesses to the City. Agreements generally contain performance criteria which are required to be attained before the payment of any public tax dollars may be made. Furthermore, the same economic development agreements may contain recapture provisions that require repayment of public funds, or termination of the agreement, if the recipients do not meet the required provisions of the agreement.

The City has three categories of economic development agreements:

- Tax Abatements – Tax abatements under Chapter 312 of the Texas Code allow the City to designate tax reinvestment zones and negotiate tax abatements with applicants for both new facilities and structures and the expansion or modernization of existing facilities or structures. These abatement agreements authorize the appraisal districts to reduce the assessed value of the taxpayer's property by a percentage specified in the agreement, and the taxpayer will pay taxes on the lower assessed value during the term of the agreement. The City does not currently have any tax abatements; so property taxes abated under this program were $0 in fiscal year 2025.

- General Economic Development – The City may consider entering into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. Agreements may include rebates for a portion of the increased property taxes and/or sales tax received by the City, fee reductions such as utility charges or building inspection fees, and/or payments to offset the cost of targeted infrastructure, full-time primary jobs, full-time primary job training, site improvements, other related improvements, commercial land, commercial buildings, commercial equipment, commercial facilities, and/or other expenditures. For fiscal year 2025, the City rebated $90,550 in property taxes and $96,043 in sales taxes under these agreements.

- Tax Increment Financing – The City has adopted two Tax Increment Financing zones (TIFs) under Chapter 311 of the Texas Tax Code. The City will consider entering into economic development and infrastructure reimbursement agreements which earmark TIF revenues for payment to developers and represent obligations over the life of the TIF or until all terms of the agreements have been met. These obligations are more fully described in Note 1. Additionally, the City may consider entering into general economic development agreements under Chapter 380 of the Texas Local Government Code which are funded with TIF resources.

Note 14. Deficit Balances

The City reported a deficit fund balance of $34,793 in the CDBG Fund, a nonmajor governmental fund, as of September 30, 2025, due to a difference in the timing of recognition of expenditure and when the expenditure meets the eligibility criteria for reimbursement. This will be reimbursed through a grant award in a subsequent period.

The City reported a deficit unrestricted net position of $134,497 in the League City Ballpark Fund, a nonmajor enterprise fund, as of September 30, 2025, due to its first full year of operation. The operations of the fund are intended to be self-sustaining in subsequent periods, and the City will provide operating transfers as deemed necessary.

Note 15. Adjustments to and Restatement of Beginning Balances

During fiscal year 2025, the following resulted in an adjustment to or restatement of beginning balances for the City:

- The City adopted GASB Statement No. 101, *Compensated Absences* (GASB 101), resulting in a remeasurement and restatement of the liability as of October 1, 2024;
- A governmental fund reported as a major fund in the prior year no longer meets major fund criteria in the current year, resulting in a change to or within the financial reporting entity.

Reporting Units Affected by Adjustments to and Restatements of Beginning Balances

	Government Wide		Governmental Funds		Proprietary Funds	
	Governmental Activities	Business-Type Activities	General Obligation Improvement Bonds 2023 Fund	Nonmajor Governmental Funds	Water and Wastewater Fund	League City Ballpark Fund
Beginning balance (deficit), as previously reported	$ 523,710,105	$ 349,019,089	$ 5,724,177	$ 98,041,476	$ 349,948,749	$ (929,660)
Change in accounting principle - GASB 101	(880,480)	(136,247)	-	-	(131,389)	(4,858)
Change from major to nonmajor fund	-	-	(5,724,177)	5,724,177	-	-
Beginning balance (deficit), restated	$ 522,829,625	$ 348,882,842	$ -	$ 103,765,653	$ 349,817,360	$ (934,518)

Note 16. Subsequent Events

The City has evaluated subsequent events through March 16, 2026, the date which the financial statements were available to be issued, and did not identify any significant events or transactions that warranted recognition or additional disclosure.

APPENDIX C

FORM OF BOND COUNSEL OPINION

BRACEWELL

[CLOSING DATE]

$[_______________]
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris Counties, Texas)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026

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

> CITY OF LEAGUE CITY, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026, dated September 1, 2026, in the aggregate principal amount of $[_____________] (the "Certificates").

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

We have represented the City as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and the excludability of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein. Capitalized terms used herein and not otherwise defined are used with the meanings assigned to such terms in the Ordinance.

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

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

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

1. The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Certificates constitute valid and legally binding obligations of the City.

2. A continuing ad valorem tax upon all taxable property within the City of League City, Texas, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for such purposes, within the limits prescribed by law. In addition, the Certificates are further secured by a limited pledge of a subordinate lien on the Net Revenues of the City's waterworks and sewer system in an amount not to exceed $1,000, as provided in the Ordinance.

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

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

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

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

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