

**NOTICE OF SALE
AND
BIDDING INSTRUCTIONS
ON**

\$9,900,000*

CITY OF HORSESHOE BAY, TEXAS

(A political subdivision of the State of Texas located Burnet and Llano Counties)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

Sealed Bids Due Tuesday, May 20, 2025 at 10:00 AM, CDT

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

THE SALE

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BIDDING . . . The City of Horseshoe Bay, Texas (the “City”), is offering for sale its \$9,900,000* Combination Tax and Revenue Certificates of Obligation, Series 2025 (the “Certificates”).

ADDRESS OF BIDS . . . Signed, sealed bids, plainly marked “Bid for Certificates,” should be addressed to “Mayor and City Council, City of Horseshoe Bay, Texas,” and delivered to the City Manager at City Hall, 1 Community Drive, Horseshoe Bay, Texas, 78657 prior to 10:00 AM, CDT, on the date of the bid opening. All bids must be submitted on the Official Bid Form, without alteration or interlineation.

ELECTRONIC BIDDING PROCEDURE . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY. Subscription to the i-Deal LLC’s BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Certificates on the terms provided in this Notice of Sale and Bidding Instructions, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, PARITY, the use of such facilities being the sole risk of the prospective bidder.

If any provisions of this Notice of Sale and Bidding Instructions shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Notice of Sale and Bidding Instructions shall control. Further information about PARITY, including any fee charged, may be obtained from Parity Customer Support, 40 West 23rd Street, 5th Floor, New York, New York 10010, (212) 404-8102.

For purposes of both the written sealed bid process and the electronic bidding process, the time as maintained by PARITY shall constitute the official time. For information purposes only, bidders are requested to state in their electronic bids the net interest cost to the City, as described under “CONDITIONS OF THE SALE – BASIS OF AWARD” below. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and Bidding Instructions and the Official Bid Form.

BIDS BY TELEPHONE OR FACSIMILE . . . Bidders must submit SIGNED Official Bid Forms to Jennifer Ritter, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, and submit their bid by telephone or facsimile (fax) on the date of the sale.

Telephone bids will be accepted at (512) 275-7300, between 9:30 AM and 10:00 AM, CDT.

Fax bids must be received between 9:30 AM and 10:00 AM, CDT, on the date of the bid opening at (512) 275-7305, attention Jennifer Ritter.

Specialized Public Finance Inc. (the “Financial Advisor”) will not be responsible for submitting any bids received after the above deadlines.

Specialized Public Finance Inc. assumes no responsibility or liability with respect to any irregularities associated with the submission of bids if telephone or fax options are exercised.

SIGNED OFFICIAL BID FORM . . . The bidder whose bid is the winning bid in accordance with this Notice of Sale will be notified immediately and must submit via email a Signed Official Bid Form in connection with the sale, by 10:30 AM CDT on the date of the sale to Monica Melvin, Specialized Public Finance Inc. at monica@spfmuni.com.

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS.” Preliminary, subject to change.

PLACE AND TIME OF BID OPENING . . . The bids for the Certificates will be publicly opened and read in the City Hall Conference Room at 1 Community Drive, Horseshoe Bay, Texas at 3:00 PM, CDT, on Tuesday, May 20, 2025.

AWARD OF THE CERTIFICATES . . . The City Council will take action to award the Certificates (or reject all bids) at a meeting scheduled to convene at 3:00 PM, CDT, on the date of the bid opening, and adopt an ordinance authorizing the Certificates and approving the Official Statement (the “Ordinance”).

THE CERTIFICATES

DESCRIPTION . . . The Certificates will be dated June 11, 2025 (the “Date of Initial Delivery”). Interest will accrue from the Date of Initial Delivery and will be due on August 15, 2025, and each February 15 and August 15 thereafter until the earlier of maturity or prior redemption. The Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. The Certificates will mature on August 15 in each year as follows:

MATURITY SCHEDULE*

Maturity (8/15)	Principal Amount	Maturity (8/15)	Principal Amount
2025	\$ 460,000	2036	\$ 450,000
2026	515,000	2037	480,000
2027	295,000	2038	500,000
2028	305,000	2039	525,000
2029	325,000	2040	550,000
2030	340,000	2041	580,000
2031	355,000	2042	605,000
2032	375,000	2043	635,000
2033	390,000	2044	670,000
2034	410,000	2045	705,000
2035	430,000		

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS.” Preliminary, subject to change.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having a stated maturity on and after August 15, 2035, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof before their respective scheduled maturity dates, on August 15, 2034, or any date thereafter, such redemption date or dates to be fixed by the City, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date of redemption.

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES . . . Bidders may provide that all of the Certificates be issued as serial Certificates (the “Serial Certificates”) or may provide that any two or more consecutive annual principal amounts be combined into one or more term Certificates (the “Term Certificates”).

MANDATORY SINKING FUND REDEMPTION . . . If the successful bidder elects to convert principal amounts of the Serial Certificates into Term Certificates, such Term Certificates shall be subject to mandatory redemption on the first August 15 next following the last maturity for Serial Certificates, and annually thereafter on each August 15 until the stated maturity for the Term Certificates at the redemption prices of par plus accrued interest to the date of redemption. The principal amounts of the Term Certificates to be redeemed on each mandatory redemption date will be the principal amounts that would have been due and payable in the Maturity Schedule shown above had no conversion to Term Certificates occurred. At least 45 days prior to each mandatory redemption date, the Paying Agent/Registrar (hereinafter defined) will select, by lot or any other customary method that results in a random selection, a principal amount of Term Certificates equal to the aggregate principal amount of such Term Certificates to be redeemed, shall call such Term Certificates for redemption on such scheduled mandatory redemption date, and shall cause a notice of redemption to be given in the manner provided in the Ordinance and described in the Preliminary Official Statement.

The principal amount of the Term Certificates required to be redeemed on any mandatory redemption date shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least forty-five (45) days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

A final Official Statement will incorporate the mandatory redemption provisions for the Certificates in the event the successful bidder elects to convert serial maturities into one or more Term Certificates.

BOOK-ENTRY-ONLY SYSTEM . . . The City intends to utilize the book-entry-only system of The Depository Trust Company (“DTC”). See “THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM” in the Preliminary Official Statement.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar shall be BOKF, N.A., Dallas, Texas. See “THE CERTIFICATES – PAYING AGENT/REGISTRAR” in the Preliminary Official Statement.

SOURCE OF PAYMENT . . . The Certificates are direct obligations of the City, payable out of the receipts from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and a limited pledge of \$1,000 of the surplus revenues of the City’s water and wastewater system, after payment of all operation and maintenance expenses and all debt service, reserve and other requirements in connection with all of the City’s revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or any part of the revenues of the City’s water and wastewater system, as provided in the Ordinance.

Further details regarding the Certificates are set forth in the Preliminary Official Statement.

CONDITIONS OF THE SALE

TYPE OF BIDS AND INTEREST RATES . . . **The Certificates will be sold in one block on an “All or None” basis, and at a price of not less than 102% of their par value and not more than 110% of their par value.** Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/100 of 1% and the net effective interest rate must not exceed 15%. The highest rate bid may not exceed the lowest rate bid by more than 2.5% in rate. The maximum coupon rate shall not exceed 5.00%. For Certificates having stated maturities on and after August 15, 2035, no reoffering yield producing a dollar price less than 97.5% for any individual maturity will be accepted. The high bidder will be required to submit reoffering yields and dollar prices prior to award. No limitation is imposed upon bidders as to the number of rates or changes which may be used. All Certificates of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS FOR AWARD . . . Subject to the City’s right to reject any or all bids and to waive any irregularities except time of filing, the sale of the Certificates will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form (the “Purchaser”) making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate to the City. The True Interest Cost rate is that rate which, when used to compute the total present value as of the Date of Initial Delivery (defined herein) of all debt service payments on the Certificates on the basis of semiannual compounding, produces an amount equal to the sum of the par value of the Certificates plus any premium bid. In the event of a bidder’s error in interest cost rate calculations, the interest rates and premium, if any, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Purchaser will be required to provide the City with a breakdown of its “underwriting spread” among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

POST BID MODIFICATION OF PRINCIPAL AMOUNTS . . . After selecting the winning bid, the aggregate principal amount of the Certificates and the principal amortization schedule may be adjusted as determined by the City and its Financial Advisor in \$5,000 increments to reflect the actual interest rates. Such adjustments will not change the aggregate principal amount of the Certificates by more than 15% from the amount set forth herein. The dollar amount bid for the Certificates by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Certificates finally determined to be issued. The City will use its best efforts to communicate to the winning bidder any such adjustment within three (3) hours after the opening of bids. Purchasers’ compensation will be based upon the final par amount after any adjustment thereto, subsequent to the receipt and tabulation of the winning bid, within the aforementioned parameters.

In the event of any adjustment of the maturity schedule for the Certificates as described above, no rebidding or recalculation of the proposals submitted will be required or permitted. The bid price for such an adjustment will reflect changes in the dollar amount of par amount of the Certificates from the selling compensation that would have been received based on the purchase price in the winning bid and the initial reoffering terms. Any such adjustment of the aggregate principal amount of the Certificates and/or the maturity schedule for the Certificates made by the City or its Financial Advisor shall be subsequent to the award of the Certificates to the winning bidder as determined pursuant to “CONDITIONS OF THE SALE – BASIS OF AWARD” herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

OBLIGATION OF THE CITY TO RECEIVE INFORMATION FROM WINNING BIDDER . . . Pursuant to Texas Government Code, Section 2252.908 (the “Interested Party Disclosure Act”), unless a bidder represents and verifies in the Official Bid Form that the bidder is a publicly traded business entity, or a wholly owned subsidiary of a publicly traded business entity (an “Exempt Entity”), the City

may not award the Certificates to a bidder unless the bidder submits a Certificate of Interested Parties Form 1295 (the “Disclosure Form”) to the City as prescribed by the Texas Ethics Commission (“TEC”) at the time the bidder submits its Official Bid Form.

In the event that the bidder’s bid for the Certificates conforms to the specifications herein and is the best bid received, the City, acting through its financial advisor, will promptly notify the bidder. That notification will serve as the conditional verbal acceptance of the bid and the winning bidder must promptly file the materials described below. The apparent winning bidder and each syndicate member listed on the Official Bid Form must have submitted either (1) a completed Disclosure Form, as described below, or (2) a written representation that it is an Exempt Entity, not later than one hour after the deadline for the submission of bids in order for City to complete the formal award. If the apparent winning bidder and each syndicate member listed on the Official Bid Form fails to file the Disclosure Form or written representation that it is an Exempt Entity within the time period described in the previous sentence, the City reserves the right to notify the apparent winning bidder that their bid has been rejected and award the sale to the next lowest bidder.

WRITTEN REPRESENTATION REGARDING EXEMPTION . . . If a bidder is claiming an exemption from the filing requirement under Section 2252.908(c)(4), the written representation that the Bidder is not required to file a Form 1295 must state that it is publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity and identify the publicly traded business entity that allows them to utilize the exception.

PROCESS FOR COMPLETING THE DISCLOSURE FORM . . . The Disclosure Form can be found at <https://www.ethics.state.tx.us/filinginfo/1295/>, and reference should be made to the following information in order to complete it: (a) item 2 – name of governmental entity (“City of Horseshoe Bay, Texas”), (b) item 3 – the identification number (“Horseshoe Bay 2025 CO”), and (c) item 3 – description of the goods or services assigned to this contract by the City (“Purchase of Certificates”).

If completing the Disclosure Form, the bidder must (i) complete the Disclosure Form electronically at the TEC’s “electronic portal,” and (ii) print, sign and deliver to the City and Bond Counsel at the email addresses below a copy of the Disclosure Form that is generated by the TEC’s “electronic portal.”

SUBMISSION OF WRITTEN REPRESENTATION REGARDING EXEMPTION OR COMPLETED DISCLOSURE FORM . . . The completed Disclosure Form or the written representation regarding the exemption from the Form 1295 filing requirements must be delivered electronically to the City, at mcardenas@horseshoe-bay-tx.gov and Bond Counsel, at glenn.opel@bracewell.com no later than one hour after the deadline for the submission of bids on the Sale Date.

Time will be of the essence in submitting the completed Disclosure Form or written representation regarding the exemption from the filing requirements to the City, and no bid will be accepted by the City unless a completed Disclosure Form or written representation regarding exemptions is received on time.

Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form or written representation, and neither have an obligation nor undertake responsibility for advising any bidder with respect to the proper completion of the Disclosure Form or the written representation. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed Disclosure Form or written representation promptly upon notification from the City that its bid is the conditional winning bid.

GOOD FAITH DEPOSIT . . . A Good Faith Deposit, payable to the “City of Horseshoe Bay, Texas,” in the amount of \$198,000, is required. Such Good Faith Deposit shall be a wire transfer, bank cashier’s check or certified check (which is to be retained uncashed by the City pending the Purchaser’s compliance with the terms of the bid and this Notice of Sale and Bidding Instructions). The Good Faith Deposit may be provided to the City via wire transfer (the City will provide wire instructions to the Purchaser), or in the form of a certified or cashier’s check. The Good Faith Deposit will be retained by the City and: (a) (i) if the Purchaser utilizes a cashier’s check as its Good Faith Deposit, said cashier’s check will be returned to the Purchaser after delivery of the Certificates, (ii) if the Purchaser utilizes a wire transfer method for its Good Faith Deposit, said wire transfer will be applied to the purchase price at the delivery of the Certificates or (b) will be retained by the City as liquidated damages, except as provided under the caption “CONDITIONS OF THE SALE – VERIFICATIONS OF STATUTORY REPRESENTATIONS AND COVENANTS,” if the Purchaser defaults with respect to its purchase of the Certificates in accordance with its bid or (c) will be returned to the Purchaser if the Certificates are not issued by the City for any reason which does not constitute a default by the Purchaser.

VERIFICATIONS OF STATUTORY REPRESENTATIONS AND COVENANTS . . . By submission of a bid for the Certificates, each bidder makes the following representations and covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code (the “Government Code”), as heretofore amended. As used herein, “affiliate” means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. If the bidder’s bid is accepted, then liability for breach of any such verification during the term of the contract for purchase and sale of the Certificates created thereby (the “Agreement”) shall survive until barred by the applicable statute of limitations and shall not be liquidated or otherwise limited by any provision of the bid or this Official Notice of Sale, notwithstanding anything herein or therein to the contrary.

A. **Not a Sanctioned Company:** Each bidder represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller

of Public Accounts under Section 2252.153, Government Code, or Section 2270.0201, Government Code. The foregoing representation excludes the bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

B. No Boycott of Israel: Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, if its bid is accepted, will not boycott Israel during the term of the Agreement. As used in the foregoing verification, “boycott Israel” has the meaning provided in Section 2271.001, Government Code.

C. No Discrimination Against Firearm Entities: Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and, if its bid is accepted, will not discriminate against a firearm entity or firearm trade association during the term of the Agreement. As used in the foregoing verification, “discriminate against a firearm entity or firearm trade association” has the meaning provided in Section 2274.001(3), Government Code.

D. No Boycott of Energy Companies: Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and, if its bid is accepted, will not boycott energy companies during the term of the Agreement. As used in the foregoing verification, “boycott energy companies” has the meaning provided in Section 2276.001(1), Government Code.

REPRESENTATION REGARDING TEXAS ATTORNEY GENERAL STANDING LETTER AND BRINGDOWN VERIFICATION . . . By submission of a bid for the Certificates, each bidder represents and verifies that it is aware of the Office of the Texas Attorney General’s (the “Texas Attorney General”) All Bond Counsel Letter, dated November 1, 2023, that is available on the website of the Texas Office of the Texas Attorney General using the following link: (<https://www.texasattorneygeneral.gov/sites/default/files/files/divisions/public-finance/ABCLetter-11-01-2023.pdf>) and the Texas Attorney General’s supplemental All Bond Counsel Letter, dated November 16, 2023, that is available on the website of the Texas Attorney General using the following link: (<https://texasattorneygeneral.gov/sites/default/files/files/divisions/public-finance/ABCLetter-11-06-2023.pdf>). Each bidder represents and verifies that the bidder has (i) on file a standing letter (“Standing Letter”) acceptable to the Texas Attorney General addressing the representations and verifications described under the heading “Verifications of Statutory Representations and Covenants,” and (ii) will, upon request of the City or Bond Counsel on behalf of the City, provide the City and Bond Counsel with a copy of its Standing Letter. Each bidder further represents and verifies that its Standing Letter remains in effect as of the date of this Agreement and that the Texas Attorney General has not notified the bidder that a determination has been made that the bidder boycotts energy companies or has a policy that discriminates against firearm entities or firearm trade associations under the laws of the State of Texas. Upon request of the City or Bond Counsel on the City’s behalf, each bidder shall provide additional written certifications to the City and Bond Counsel (which may be by email) to the effect that the Texas Attorney General may continue to rely on the Standing Letter and the statutory representations and covenants contained in the Agreement through the Date of Initial Delivery (the “Bringdown Verification”). The City reserves the right, and each bidder hereby expressly authorizes the City, to provide such Bringdown Verifications to the Texas Attorney General.

ESTABLISHING THE ISSUE PRICE FOR THE CERTIFICATES

GENERAL . . . In order to provide the City with information that enables it to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”), relating to the excludability of interest on the Certificates from gross income for federal income tax purposes, the winning bidder will be required to complete, execute, and deliver to the City or to the Financial Advisor, at least five business days before the delivery date of the Certificates, a certification as to the Certificates’ “issue price” (the “Issue Price Certificate”) substantially in one of the forms and to the effect attached hereto or accompanying this Notice of Sale. In the event the winning bidder will not reoffer any maturity of the Certificates for sale to the Public (as defined herein) by the delivery date of the Certificates, the Issue Price Certificate may be modified in a manner approved by the City and Bracewell LLP, Austin, Texas, as Bond Counsel for the City (“Bond Counsel”). Each bidder, by submitting its bid, agrees to complete, execute, and timely deliver prior to delivery of the Certificates the appropriate Issue Price Certificate, if its bid is accepted by the City. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts as are necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

DEFINED TERMS . . . For purposes of this section of this Notice of Sale:

- (i) “Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.
- (ii) “Related Party” means any two or more persons who are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests

of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(iii) “Sale Date” means the date that the Certificates are awarded by the City to the winning bidder.

(iv) “Underwriter” means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public).

All actions to be taken by the City under this Notice of Sale to establish the issue price of the Certificates may be taken on behalf of the City by the Financial Advisor, and any notice or report to be provided to the City may be provided to the Financial Advisor.

The City will consider any bid submitted pursuant to this Notice of Sale to be a firm offer for the purchase of the Certificates, as specified in the bid.

THREE BID REQUIREMENT . . . The City intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) for purposes of establishing the issue price of municipal bonds, which requires, among other things, that the City receives bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (the “Three Bid Requirement”). In the event that the Three Bid Requirement is not satisfied, Treasury Regulations permit the issue price for any maturity of the Certificates to be determined based upon either (i) the first price at which 10% of such maturity is sold to the Public (the “10% Test”) or (ii) if the requirements of the “Hold-the-Offering-Price Rule” described below are met, the initial offering price to the Public as of the Sale Date. For purposes hereof, if different interest rates apply within a maturity, each separate CUSIP number will be treated separately.

In the event that the Three Bid Requirement is satisfied, the sale of the Certificates will be awarded to the bidder making a bid that conforms to the specifications herein. In the event that the Three Bid Requirement is not satisfied, the City will notify the prospective winning bidder to that effect, and the prospective winning bidder will advise the City any maturity of the Certificates that satisfies the 10% Test. For any maturity of the Certificates that does not meet the 10% Test, it is the City’s intention to apply the “Hold-the-Offering-Price Rule” to any maturity of the Certificates, as described below.

HOLD-THE-OFFERING-PRICE RULE . . . If the “Hold-the-Offering-Price Rule” is applied to any maturity of the Certificates (each, a “Held Maturity”), the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Certificates, that each Underwriter will neither offer nor sell any Held Maturity to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of the following:

- (1) the close of the fifth business day after the Sale Date; or
- (2) the date on which the Underwriters have satisfied the 10% Test with respect to that Held Maturity at a price that is no higher than the initial offering price to the Public.

The winning bidder shall promptly advise the City when the Underwriters have satisfied the 10% Test with respect to each Held Maturity at a price that is no higher than the initial offering price to the Public, if that occurs prior to the close of the fifth business day after the Sale Date. On or after the sixth business day after the Sale Date, if requested by the City, the winning bidder will confirm that the Underwriters have complied with the Hold-the-Offering-Price-Rule. If at any time the winning bidder becomes aware of any noncompliance by an Underwriter with respect to the Hold-the-Offering-Price Rule, the winning bidder will promptly report such noncompliance to the City.

ADDITIONAL REQUIREMENTS . . . By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the Public the unsold Certificates of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Certificates of that maturity or all Certificates of that maturity have been sold to the Public and (B) comply with the Hold-the-Offering-Price Rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Certificates to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Certificates to the Public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the Public the unsold Certificates of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Certificates of that maturity or all Certificates of that maturity have been sold to the Public and (B) comply with the Hold-the-Offering-Price Rule, if applicable, in each case if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wires.

DELIVERY OF THE CERTIFICATES AND ACCOMPANYING DOCUMENTS

CUSIP NUMBERS . . . It is anticipated that CUSIP identification numbers will appear on the Certificates, but neither the failure to print or type such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. The Financial Advisor will obtain CUSIP identification numbers from CUSIP Global Services prior to the date of sale. CUSIP identification numbers will be made available to the Purchaser at the time the Certificates are awarded or as soon thereafter as practicable. All expenses in relation to the assignment, printing or typing of CUSIP numbers on the Certificates shall be paid by the City.

DELIVERY OF CERTIFICATES . . . Delivery will be accomplished by the issuance of one Initial Certificate (also called the “Certificate” or “Certificates”), either in typed or printed form, in the aggregate principal amount of \$9,900,000*, payable in stated installments to the Purchaser, signed by the Mayor and City Secretary, approved by the Attorney General of Texas, and registered and manually signed by the Comptroller of Public Accounts of the State of Texas. Upon delivery of the Initial Certificate, it shall be immediately cancelled and one definitive Certificate for each maturity will be registered and delivered only to Cede & Co., and deposited with DTC in connection with DTC’s book-entry-only system. Delivery will be at the principal office of the Paying Agent/Registrar. Payment for the Certificates must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days’ notice of the time fixed for delivery of the Certificates. It is anticipated that delivery of the Certificates can be made on or about June 11, 2025, and it is understood and agreed that the Purchaser will accept delivery of and make payment for the Certificates by 10:00 AM, CDT, on June 11, 2025, or thereafter on the date the Initial Certificate is tendered for delivery, up to and including June 25, 2025. If for any reason the City is unable to make delivery on or before June 25, 2025, the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend its offer for an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates.

CONDITIONS TO DELIVERY . . . The obligation of the Purchaser to take up and pay for the Certificates is subject to the Purchaser’s receipt of (a) the legal opinion of Bond Counsel and (b) the no-litigation certificate, all as further described in the Preliminary Official Statement. The Purchaser will be required to deliver the Issue Price Certificate to the City prior to delivery of the Certificates, as described above.

LEGAL OPINIONS . . . The Certificates are offered when, as and if issued, subject to the approval of the Attorney General of Texas. Delivery of and payment for the Certificates are subject to the receipt by the Purchaser of an opinion of Bond Counsel in substantially the form attached to the Preliminary Official Statement as APPENDIX C.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the City to deliver the Certificates and of the Purchaser to accept delivery of and pay for the Certificates are subject to the financial condition that at the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition of the City from those set forth in or contemplated by the “Preliminary Official Statement” as it may have been supplemented or amended through the date of sale.

NO-LITIGATION CERTIFICATE . . . On the date of delivery of the Certificates to the Purchaser, the City will deliver to the Purchaser a certificate, as of the same date, to the effect that to the City’s knowledge no litigation is pending or, to the certifying officials’ knowledge or belief, threatened against the City, contesting or affecting the issuance of the Certificates; restraining or enjoining the authorization, execution, or delivery of the Certificates; affecting the provision 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 or the title of the present officials of the City.

RULE G-32 REQUIREMENTS . . . It is the responsibility of the Purchaser to comply with the Municipal Securities Rulemaking Board’s Rule G-32 within the required time frame. The Purchaser must send two copies of the Official Statement along with two complete Form G-32’s to the appropriate address.

GENERAL

FINANCIAL ADVISOR . . . Specialized Public Finance 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. Specialized Public Finance Inc. may **NOT** submit a bid for the Certificates, either independently or as a member of a syndicate organized to submit a bid for the Certificates. Specialized Public Finance Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS.” Preliminary, subject to change.

BLUE SKY LAWS . . . By submission of its bid, the Purchaser represents that the sale of the Certificates in states other than the State will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Certificates in accordance with the securities law of the states in which the Certificates are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Certificates or obtaining an exemption from registration in any state where such action is necessary; provided, however, that the City shall not be obligated to qualify as a foreign corporation or to execute a general or special consent to service of process in any such jurisdiction.

NOT AN OFFER TO SELL . . . This Notice of Sale and Bidding Instructions does not alone constitute an offer to sell the Certificates, but is merely notice of the sale of the Certificates. The offer to sell the Certificates is being made by means of this Notice of Sale and Bidding Instructions, the Official Bid Form and the Preliminary Official Statement. Prospective purchasers are urged to carefully examine the Preliminary Official Statement to determine the investment quality of the Certificates.

ISSUANCE OF ADDITIONAL DEBT . . . The City does not anticipate issuing additional ad valorem tax supported debt within the next twelve months.

RATING . . . The Certificates and outstanding debt of the City have been rated "AA+" by S&P Global Ratings ("S&P") without regard to credit enhancement.

THE OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15C2-12 . . . The City has prepared the accompanying Preliminary Official Statement and, for the limited purpose of complying with Securities and Exchange Commission ("SEC") Rule 15c2-12, deems such Preliminary Official Statement to be final as of its date within the meaning of such Rule for the purpose of review prior to bidding. To the knowledge and belief of the City, the Preliminary Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates.

The City will furnish to the Purchaser, acting through a designated senior representative, in accordance with instructions received from the Purchaser, within seven (7) business days from the sale date copies of the Preliminary Official Statement reflecting interest rates and other terms relating to the initial reoffering of the Certificates. The cost of any Preliminary Official Statement in excess of the number specified shall be prepared and distributed at the cost of the Purchaser. The Purchaser shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award. Except as noted above, the City assumes no responsibility or obligation for the distribution or delivery of any copies of the Preliminary Official Statement in connection with the offering or reoffering of the subject securities.

CONTINUING DISCLOSURE AGREEMENT . . . The City will agree in the Ordinance to provide certain periodic information and notices of material events in accordance with SEC Rule 15c2-12, as described in the Preliminary Official Statement under "CONTINUING DISCLOSURE OF INFORMATION." The Purchaser's obligation to accept and pay for the Certificates is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements.

ADDITIONAL COPIES OF NOTICE, BID FORM AND STATEMENT . . . A limited number of additional copies of this Notice of Sale and Bidding Instructions, the Official Bid Form and the Preliminary Official Statement, as available over and above the normal mailing, may be obtained at the offices of Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, Financial Advisor to the City.

The City Council has approved the form and content of this Notice of Sale and Bidding Instructions, the Official Bid Form and Preliminary Official Statement, and authorized the use thereof in its initial offering of the Certificates. On the date of the sale, the City Council will, in the Ordinance authorizing the issuance of the Certificates, confirm its approval of the form and content of the Preliminary Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Certificates by the Purchaser.

/s/ ELSIE THURMAN

Mayor
City of Horseshoe Bay, Texas

ATTEST:

/s/ KERRI CRAIG

City Secretary
City of Horseshoe Bay, Texas

May 12, 2025

OFFICIAL BID FORM

Honorable Mayor and City Council
City of Horseshoe Bay, Texas
1 Community Drive
Horseshoe Bay, Texas 78657

May 20, 2025

Members of the City Council:

Reference is made to your Preliminary Official Statement and Notice of Sale and Bidding Instructions, dated May 12, 2025, of \$9,900,000* CITY OF HORSESHOE BAY, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025, both of which constitute a part hereof.

For your legally issued Certificates, in the aggregate principal amount of \$9,900,000*, we will pay you a price of \$_____, representing approximately _____% of the par value. Such Certificates mature August 15, in each of the years and in the amounts and bearing interest at the rates shown below:

Maturity (August 15)	Principal Amount*	Interest Rate	Maturity (August 15)	Principal Amount*	Interest Rate
2025	\$ 460,000	%	2036	\$ 450,000	%
2026	515,000	%	2037	480,000	%
2027	295,000	%	2038	500,000	%
2028	305,000	%	2039	525,000	%
2029	325,000	%	2040	550,000	%
2030	340,000	%	2041	580,000	%
2031	355,000	%	2042	605,000	%
2032	375,000	%	2043	635,000	%
2033	390,000	%	2044	670,000	%
2034	410,000	%	2045	705,000	%
2035	430,000	%			

Of the principal maturities set forth in the table above, term certificates have been created as indicated in the following table (which may include multiple term certificates, one term certificate or no term certificate if none is indicated). For those years which have been combined into a term certificate, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term certificate maturity date shall mature in such year. The term certificates created are as follows:

Term Certificate Maturing August 15	Year of First Mandatory Redemption	Principal Amount	Interest Rate
		\$	%
		\$	%
		\$	%
		\$	%
		\$	%

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TRUE INTEREST COST _____%

The Initial Certificate shall be registered in the name of _____, which will, upon payment for the Certificates, be cancelled by the Paying Agent/Registrar. The Certificates will then be registered in the name of Cede & Co., as nominee for The Depository Trust Company "(DTC)" under its book-entry-only system and credited to the DTC account of the Purchaser.

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS." Preliminary, subject to change.

A wire transfer or a cashiers or certified check to the City in the amount of \$198,000 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Certificates in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the City as complete liquidated damages against us. Please check the box below to designate your Good Faith Deposit option.

We agree to accept delivery of the Certificates utilizing the book-entry-only system through DTC and make payment for the Initial Certificate in immediately available funds to BOKF, N.A., Dallas, Texas, not later than 10:00 AM, CDT, on June 11, 2025, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions. It will be the obligation of the Purchaser of the Certificates to complete the DTC Eligibility Questionnaire.

Unless the bidder has certified below that it is exempt from the requirement to file a Form 1295 (as hereinafter defined) with the City, upon notification of conditional verbal acceptance, the undersigned will either (1) complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Form 1295") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Form 1295 that is generated by the TEC's electronic portal will be printed, signed, notarized and sent by email to the City at mcardenas@horseshoe-bay-tx.gov and Bond Counsel at glenn.opel@bracewell.com or (2) provide written confirmation of its exemption from such requirement to complete a Form 1295. The undersigned understands that, unless exempt, the failure to provide the certified Form 1295 will prohibit the City from awarding the enclosed bid.

By submission of a bid for the Certificates, the bidder makes the following representations and covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code (the "Government Code"), as heretofore amended. As used herein, "affiliate" means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. Liability for breach of any such verification during the term of the contract for purchase and sale of the Certificates created thereby (the "Agreement") shall survive until barred by the applicable statute of limitations and shall not be liquidated or otherwise limited by any provision of the bid or the Official Notice of Sale, notwithstanding anything therein to the contrary.

A. Not a Sanctioned Company: Each bidder represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153, Government Code, or Section 2270.0201, Government Code. The foregoing representation excludes the bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

B. No Boycott of Israel: Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, if its bid is accepted, will not boycott Israel during the term of the Agreement. As used in the foregoing verification, "boycott Israel" has the meaning provided in Section 2271.001, Government Code.

C. No Discrimination Against Firearm Entities: Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and, if its bid is accepted, will not discriminate against a firearm entity or firearm trade association during the term of the Agreement. As used in the foregoing verification, "discriminate against a firearm entity or firearm trade association" has the meaning provided in Section 2274.001(3), Government Code.

D. No Boycott of Energy Companies: Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and, if its bid is accepted, will not boycott energy companies during the term of the Agreement. As used in the foregoing verification, "boycott energy companies" has the meaning provided in Section 2276.001(1), Government Code.

By submission of a bid for the Certificates, each bidder represents and verifies that it is aware of the Office of the Texas Attorney General's (the "Texas Attorney General") All Bond Counsel Letter, dated November 1, 2023, that is available on the website of the Texas Office of the Texas Attorney General using the following link: (<https://www.texasattorneygeneral.gov/sites/default/files/files/divisions/public-finance/ABCLetter-11-01-2023.pdf>) and the Texas Attorney General's supplemental All Bond Counsel Letter, dated November 16, 2023, that is available on the website of the Texas Attorney General using the following link: (<https://texasattorneygeneral.gov/sites/default/files/files/divisions/public-finance/ABCLetter-11-06-2023.pdf>). Each bidder represents and verifies that the bidder has (i) on file a standing letter ("Standing Letter") acceptable to the Texas Attorney General addressing the representations and verifications described under the heading "Verifications of Statutory Representations and Covenants," and (ii) will, upon request of the City or Bond Counsel on behalf of the City, provide the City and Bond Counsel with a copy of its Standing Letter. Each bidder further represents and verifies that its Standing Letter remains in effect as of the date of this Agreement and that the Texas Attorney General has not notified the bidder that a determination has been made that the bidder boycotts energy companies or has a policy that discriminates against firearm entities or firearm trade associations under the laws of the State of Texas. Upon request of the City or Bond Counsel on the City's behalf, each bidder shall provide additional written certifications to the City and Bond Counsel (which may be by email) to the effect that the Texas Attorney General may continue to rely on the Standing Letter and the statutory representations and covenants

contained in the Agreement through the Date of Initial Delivery (the “Bringdown Verification”). The City reserves the right, and each bidder hereby expressly authorizes the City, to provide such Bringdown Verifications to the Texas Attorney General.

The undersigned agrees to complete, execute, and deliver to the City, at least five business days prior to delivery of the Certificates, a certificate relating to the “issue price” of the Certificates in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the City and Bond Counsel.

Circle one: The undersigned certifies that it [is]/[is not] exempt from filing the TEC Form 1295 by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

Name of Purchaser or Manager

Authorized Representative

Phone Number

Signature

Please check one of the options below regarding Good Faith Deposit:

Submit by Wire Transfer ☐

Submit by Bank Cashier’s/Certified Check ☐

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by City of Horseshoe Bay, Texas, this the 20th day of May, 2025.

ATTEST:

City Secretary
City of Horseshoe Bay, Texas

Mayor
City of Horseshoe Bay, Texas

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ISSUE PRICE CERTIFICATE

[THREE BID REQUIREMENT SATISFIED]

I, the undersigned officer of _____ (the "Purchaser"), acting on behalf of itself and any underwriting syndicate, make this certification in connection with the \$9,900,000* Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") issued by the City of Horseshoe Bay.

1. I hereby certify as follows in good faith as of the date hereof:
 - (a) I am the duly chosen, qualified and acting officer of the Purchaser for the office shown below my signature; as such, I am familiar with the facts herein certified and I am duly authorized to execute and deliver this certificate on behalf of the Purchaser and any underwriting syndicate. I am the officer of the Purchaser charged, along with other officers of the Purchaser and any underwriting syndicate, with responsibility for the Certificates.
 - (b) The reasonably expected initial offering prices of the Certificates to the Public by the Purchaser as of the Sale Date are the prices set forth on the inside cover of the Official Statement prepared in connection with the Certificates (the "Initial Offering Prices"). The Initial Offering Prices are the applicable prices for the Certificates used by the Purchaser in formulating its bid to purchase the Certificates. Attached hereto as Attachment I is a true and correct copy of the bid provided by the Purchaser to purchase the Certificates.
 - (c) The Purchaser was not given the opportunity to review other bids prior to submitting its bid.
 - (d) The bid submitted by the Purchaser constituted a firm offer to purchase the Certificates.
 - (e) The aggregate of the Initial Offering Prices of all maturities of the Certificates is \$ _____. The Certificates were sold with pre-issuance accrued interest in the amount of \$ _____. The sum of these two amounts is \$ _____.
 - (f) Please choose the appropriate statement:

☐ The Purchaser will not purchase bond insurance for the Certificates.
☐ The Purchaser will purchase bond insurance from _____ (the "Insurer") for a fee/premium of \$ _____ (the "Fee"). The Fee is a reasonable amount payable solely for the transfer of credit risk for the payment of debt service on the Certificates and does not include any amount payable for a cost other than such guarantee, e.g., a credit rating or legal fees. The Purchaser represents that the present value of the Fee for each obligation constituting the Certificates to which such Fee is properly allocated and which are insured thereby is less than the present value of the interest reasonably expected to be saved as a result of the insurance on each obligation constituting the Certificates. The Fee has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Certificates. In determining present value for this purpose, the yield of the Certificates (determined with regard to the payment of the guarantee fee) has been used as the discount rate. No portion of the Fee is refundable upon redemption of any of the Certificates in an amount which would exceed the portion of such Fee that has not been earned. The Purchaser will also be responsible for payment of any rating fees on the Certificates, if and as required by the Insurer to be obtained in connection with the purchase of insurance.
2. For purposes of this Issue Price Certificate, the following definitions apply:
 - (a) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.
 - (b) "Related Party" means any two or more persons who are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interest or profits interest of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).
 - (c) "Sale Date" means the first day on which there is a binding contract in writing for the sale or exchange of the Certificates. The Sale Date of the Certificates is _____, 2025.
 - (d) "Underwriter" means (i) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this definition to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Purchaser's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the City with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by Bracewell LLP in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of Internal Revenue Service Form 8038-G, and other federal income tax advice it may give to the City from time to time relating to the Certificates.

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS." Preliminary, subject to change.

EXECUTED as of this _____ day of _____, 2025.

[NAME OF PURCHASER OR MANAGER OF PURCHASING
SYNDICATE]

By: _____

Name: _____

Title: _____

ISSUE PRICE CERTIFICATE

[THREE BID REQUIREMENT NOT SATISFIED – HOLD-THE-OFFERING-PRICE RULE]

I, the undersigned officer of _____ (the “Purchaser”), acting on behalf of itself and any underwriting syndicate, make this certification in connection with the \$9,900,000* Combination Tax and Revenue Certificates of Obligation, Series 2025 (the “Certificates”) issued by the City of Horseshoe Bay, Texas (the “City”).

3. I hereby certify as follows in good faith as of the date hereof:
- (a) I am the duly chosen, qualified and acting officer of the Purchaser for the office shown below my signature; as such, I am familiar with the facts herein certified and I am duly authorized to execute and deliver this certificate on behalf of the Purchaser and any underwriting syndicate. I am the officer of the Purchaser charged, along with other officers of the Purchaser and any underwriting syndicate, with responsibility for the Certificates.
 - (b) Except for those maturities of the Certificates noted in 1(c) below, the first price at which at least 10% of each maturity of the Certificates was sold to the Public is the price for each such maturity set forth on the inside cover of the Official Statement prepared in connection with the Certificates (each, an “Actual Sales Price”).
 - (c) For the Certificates maturing in _____ (each, a “Held Maturity”), the Purchaser on or before the Sale Date offered for purchase each such maturity to the Public at the applicable initial offering price set forth on the inside cover of the Official Statement prepared in connection with the Certificates (each, an “Initial Offering Price”). A copy of the pricing wire evidencing the Initial Offering Prices is attached hereto as Attachment I. In connection with the offering of the Certificates, the Purchaser and each member of any underwriting syndicate agreed in writing that (i) during the Hold Period, it would neither offer nor sell any Held Maturity to any person at a price higher than the applicable Initial Offering Price (the “Hold-the-Offering-Price Rule”) and (ii) any selling group agreement would contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement would contain the agreement of each broker-dealer who is a party to the retail distribution agreement, that, during the Hold Period, such party would comply with the Hold-the-Offering-Price Rule. In accordance with such agreements, no Underwriter offered or sold any of the Held Maturities at a price higher than the applicable Initial Offering Price for such Held Maturity during the Hold Period.
 - (d) The aggregate of the Actual Sales Prices and the Initial Offering Prices is \$ _____. The Certificates were sold with pre-issuance accrued interest in the amount of \$ _____. The sum of these two amounts is \$ _____.
 - (e) Please choose the appropriate statement:
 - ☐ The Purchaser will not purchase bond insurance for the Certificates.
 - ☐ The Purchaser will purchase bond insurance from _____ (the “Insurer”) for a fee/premium of \$ _____ (the “Fee”). The Fee is a reasonable amount payable solely for the transfer of credit risk for the payment of debt service on the Certificates and does not include any amount payable for a cost other than such guarantee, e.g., a credit rating or legal fees. The Purchaser represents that the present value of the Fee for each obligation constituting the Certificates to which such Fee is properly allocated and which are insured thereby is less than the present value of the interest reasonably expected to be saved as a result of the insurance on each obligation constituting the Certificates. The Fee has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Certificates. In determining present value for this purpose, the yield of the Certificates (determined with regard to the payment of the guarantee fee) has been used as the discount rate. No portion of the Fee is refundable upon redemption of any of the Certificates in an amount which would exceed the portion of such Fee that has not been earned. The Purchaser will also be responsible for payment of any rating fees on the Certificates, if and as required by the Insurer to be obtained in connection with the purchase of insurance.
4. For purposes of this Issue Price Certificate, the following definitions apply:
- (a) “Hold Period” means, with respect to a Held Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date or (ii) the date on which the Purchaser have sold at least 10% of such Held Maturity to the Public at a price no higher than the applicable Initial Offering Price.
 - (b) “Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.
 - (c) “Related Party” means any two or more persons who are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interest or profits interest of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).
 - (d) “Sale Date” means the first day on which there is a binding contract in writing for the sale or exchange of the Certificates. The Sale Date of the Certificates is _____, 2025.
 - (e) “Underwriter” means (i) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this definition to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public).

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS.” Preliminary, subject to change.

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Purchaser's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the City with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by Bracewell LLP in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of Internal Revenue Service Form 8038-G, and other federal income tax advice it may give to the City from time to time relating to the Certificates.

EXECUTED as of this _____ day of _____, 2025.

[NAME OF PURCHASER OR MANAGER OF PURCHASING
SYNDICATE]

By: _____

Name: _____

Title: _____

PRELIMINARY OFFICIAL STATEMENT

Dated May 12, 2025

Rating:

S&P: "AA+"

(See "OTHER INFORMATION
– RATING" 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.

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



**Horseshoe Bay
TEXAS**

\$9,900,000*

CITY OF HORSESHOE BAY, TEXAS

(A political subdivision of the State of Texas located Burnet and Llano Counties)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

Dated Date: June 11, 2025

Due: August 15, as shown on page 2

Interest Accrues from Date of Initial Delivery (defined herein)

PAYMENT TERMS . . . Interest on the \$9,900,000* City of Horseshoe Bay, Texas Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") will accrue from the Date of Initial Delivery (defined herein) of the Certificates, will be payable on August 15 and February 15 of each year commencing August 15, 2025, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is BOKF, N.A., Dallas, Texas (see "THE CERTIFICATES – PAYING AGENT/REGISTRAR"). The Certificates are subject to redemption prior to their maturity as provided herein (see "THE CERTIFICATES – OPTIONAL REDEMPTION" and "THE CERTIFICATES – MANDATORY SINKING FUND REDEMPTION").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended. The Certificates constitute direct obligations of the City of Horseshoe Bay, Texas (the "City"), payable from the levy and collection of a continuing, direct annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, and a limited pledge of not to exceed \$1,000 of the surplus revenues of the City's water and wastewater system as provided in the ordinance authorizing the issuance of the Certificates (the "Ordinance") (see "THE CERTIFICATES – AUTHORITY FOR ISSUANCE" and "THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of (i) constructing and improving City streets, and the acquisition of land and rights-of-way in connection therewith; (ii) acquiring, constructing and improving the City's waterworks system and facilities, and the acquisition of land and rights-of-way in connection therewith; (iii) acquiring, constructing and improving the City's sanitary sewer system and facilities, and the acquisition of land and rights-of-way in connection therewith (collectively, the "Project"); and (iv) paying for professional services of attorneys, financial advisors and other professionals in connection with the Project and the costs of issuance of the Certificates.

CUSIP PREFIX: 440752

MATURITY SCHEDULE

See Inside Cover Page

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the winning bidder therefor (the "Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Austin, Texas, Bond Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION").

DELIVERY . . . It is expected that the Certificates will be available for initial delivery through DTC on June 11, 2025 (the "Date of Initial Delivery").

BIDS DUE ON TUESDAY, MAY 20, 2025, AT 10:00 AM, CDT

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS" in the Notice of Sale and Bidding Instructions. Preliminary, subject to change.

MATURITY SCHEDULE*

<u>Maturity (August 15)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Numbers⁽¹⁾</u>
2025	\$ 460,000			
2026	515,000			
2027	295,000			
2028	305,000			
2029	325,000			
2030	340,000			
2031	355,000			
2032	375,000			
2033	390,000			
2034	410,000			
2035	430,000			
2036	450,000			
2037	480,000			
2038	500,000			
2039	525,000			
2040	550,000			
2041	580,000			
2042	605,000			
2043	635,000			
2044	670,000			
2045	705,000			

(Interest Accrues from the Date of Initial Delivery)

*Preliminary, subject to change.

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems, Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Certificates. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part, procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Certificates. None of the City, the Financial Advisor or the Purchaser shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Certificates maturing on and after August 15, 2035, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof before their respective scheduled maturity dates, on August 15, 2034, or any date thereafter, such redemption date or dates to be fixed by the City, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date of the redemption (see “THE CERTIFICATES – OPTIONAL REDEMPTION”).

MANDATORY SINKING FUND REDEMPTION . . . If the Purchaser elects to aggregate two or more consecutive maturities of the Certificates to a Term Certificate (defined herein), such Term Certificates will be subject to mandatory sinking fund redemption (see “THE CERTIFICATES – MANDATORY SINKING FUND REDEMPTION”).

[The remainder of this page intentionally left blank.]

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), this document constitutes an official statement of the City with respect to the Certificates that has been “deemed final” by the City as of its date except for the omission of the information permitted by Subsection (b)(1) of the Rule.

No dealer, broker, salesman or other person has been authorized by the City to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement, which includes the cover page and Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy Certificates in any jurisdiction in which, or to any person to whom, it is unlawful to make such offer or solicitation.

The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinion or that they will be realized.

The Purchaser has provided the following sentence for inclusion in this Official Statement. The Purchaser has reviewed the information in this Official Statement pursuant to their responsibility to investors under federal securities laws, but the Purchaser does not guarantee the accuracy or completeness of such information.

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

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE CITY NOR ITS FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

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

PRELIMINARY 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 Horseshoe Bay, Texas (the “City”), is a political subdivision located in Burnet and Llano Counties, operating as a home-rule city under the laws of the State of Texas (the “State”) and was incorporated in 2005. The City is approximately 14 square miles in area (see “INTRODUCTION – DESCRIPTION OF THE CITY”).
THE CERTIFICATES	The Certificates are issued as \$9,900,000* Combination Tax and Revenue Certificates of Obligation, Series 2025. The Certificates are issued as serial Certificates maturing on August 15 in the years 2025 through and including 2045, unless the Purchaser elects to aggregate two or more maturities as term certificates (see “THE CERTIFICATES – DESCRIPTION OF THE CERTIFICATES” and “THE CERTIFICATES – REDEMPTION”).
PAYMENT OF INTEREST	Interest on the Certificates accrues from the Date of Initial Delivery, and is payable on August 15, 2025, and each February 15 and August 15 thereafter until maturity or prior redemption (see “THE CERTIFICATES – DESCRIPTION OF THE CERTIFICATES,” “THE CERTIFICATES – OPTIONAL REDEMPTION” and “THE CERTIFICATES – MANDATORY SINKING FUND REDEMPTION”).
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 an ordinance (the “Ordinance”) to be adopted by the City Council of the City (see “THE CERTIFICATES – DESCRIPTION OF THE CERTIFICATES,” “THE CERTIFICATES – OPTIONAL REDEMPTION” and “THE CERTIFICATES – MANDATORY SINKING FUND REDEMPTION”).
SECURITY	The Certificates constitute direct obligations of the City, payable from the levy and collection of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and a limited pledge of \$1,000 of the surplus revenues of the City’s water and wastewater system, after payment of all operation and maintenance expenses and all debt service, reserve and other requirements in connection with all of the City’s revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or any part of the revenues of the City’s water and wastewater system as provided in the Ordinance (see “THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT”).
OPTIONAL REDEMPTION	The City reserves the right, at its option, to redeem the Certificates maturing on and after August 15, 2035, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof before their respective scheduled maturity dates, on August 15, 2034, or any date thereafter, such redemption date or dates to be fixed by the City, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date of the redemption (see “THE CERTIFICATES – OPTIONAL REDEMPTION”).
MANDATORY SINKING FUND REDEMPTION	If the Purchaser elects to aggregate two or more consecutive maturities of the Certificates to a Term Certificate (defined herein), such Term Certificates will be subject to mandatory sinking fund redemption (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.

*Preliminary, subject to change.

USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used for the purpose of (i) constructing and improving City streets, and the acquisition of land and rights-of-way in connection therewith; (ii) acquiring, constructing and improving the City's waterworks system and facilities, and the acquisition of land and rights-of-way in connection therewith; (iii) acquiring, constructing and improving the City's sanitary sewer system and facilities, and the acquisition of land and rights-of-way in connection therewith (collectively, the "Project"); and (iv) paying for professional services of attorneys, financial advisors and other professionals in connection with the Project and the costs of issuance of the Certificates.
RATING	The Certificates and outstanding debt of the City have been rated "AA+" by S&P Global Ratings ("S&P") without regard to credit enhancement. See "OTHER INFORMATION – RATING."
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 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 the payment of its tax-supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End Of Year ⁽²⁾	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita	% of Total Tax Collections
2021	4,493	\$2,339,099,492	\$ 520,610	\$ 11,600,000	0.50%	\$ 2,582	99.91%
2022	4,805	2,591,317,870	539,296	10,870,000	0.42%	2,262	99.87%
2023	5,063	3,055,746,671	603,545	21,780,000	0.71%	4,302	100.00%
2024	5,063	3,553,254,339	701,808	28,330,000	0.80%	5,595	98.96%
2025	5,063	4,042,419,969	798,424	32,205,000 ⁽³⁾	0.80% ⁽³⁾	6,361 ⁽³⁾	94.43% ⁽⁴⁾

(1) Source: The City. Total includes full-time and part-time residents.

(2) Excludes self-supporting debt. See "Table 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT – FOOTNOTE 1."

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

(4) Partial collections as of March 31, 2025.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Council Member</u>	<u>Length of Service</u>	<u>Term Expires</u>
Elsie Thurman Mayor	4½ Years	November 2025
Jeff Jones Mayor Pro-Tem	3½ Years	November 2025
Elaine Waddill Councilmember	7½ Years	November 2026
Larry Morgan Councilmember	2 Years	November 2026
Buck Weatherby Councilmember	1 Year	November 2026
Frank Hosea Councilmember	5 Years	November 2025

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>
Jeff Koska	City Manager
Molly Jester	Finance Director
Kerri Craig	City Secretary

CONSULTANTS AND ADVISORS

Auditors BrooksWatson & Co.
Certified Public Accountants
Houston, Texas

Bond Counsel Bracewell LLP
Austin, Texas

Financial Advisor.....Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the City, please contact:

Molly Jester
Finance Director
City of Horseshoe Bay
P.O. Box 7765
Horseshoe Bay, Texas 78657-7765
830/598-9907

or

Jennifer Ritter
Managing Director
Specialized Public Finance Inc.
248 Addie Roy Road, Suite B-103
Austin, Texas 78746
512/275-7300

PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$9,900,000*
CITY OF HORSESHOE BAY, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$9,900,000* Combination Tax and Revenue Certificates of Obligation, Series 2025 (the “Certificates”). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the “Ordinance”) to be adopted on the date of sale of the Certificates by the City Council (the “City Council”) of the City of Horseshoe Bay, Texas (the “City”) which will authorize the issuance of the Certificates.

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, Specialized Public Finance Inc., Austin, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Certificates will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, and the City’s Home Rule Charter and was incorporated in 2005. The City operates under the Council/Manager form of government where the Mayor and five Councilmembers are elected for staggered two-year terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, sanitation services, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The estimated 2025 population is 5,063, which includes full-time and part-time residents. The City covers approximately 14 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated June 11, 2025, bear interest from the Date of Initial Delivery to the Purchaser and mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Certificates will accrue from the Date of Initial Delivery, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and August 15, commencing August 15, 2025 until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of 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 and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See “Book-Entry-Only System” herein.

AUTHORITY FOR ISSUANCE . . . The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, the City’s Home Rule Charter and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the City is subject to the levy and collection of a continuing, direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates. The Certificates are also secured by a limited pledge of \$1,000 of the surplus revenues of the City’s water and wastewater system remaining after payment of all operation and maintenance expenses and all debt service, reserve and other requirements in connection with all of the City’s revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or any part of the revenues of the City’s water and wastewater system.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution limits the maximum ad valorem tax rate for home-rule cities to \$2.50 per \$100 taxable assessed valuation for all purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service calculated at the time of issuance based on 90% tax collections.

*Preliminary, subject to change.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after August 15, 2035, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof before their respective scheduled maturity dates, on August 15, 2034, or any date thereafter, such redemption date or dates to be fixed by the City, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date of the redemption. If less than all of the Certificates are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the City shall direct the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) to call by lot the Certificates or portions thereof, within such maturity or maturities and in such principal amounts to be redeemed. Subject to the right of the City to give notice of a redemption conditioned on future events, as described below, if a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION . . . If the successful bidder elects to convert principal amounts of the Serial Certificates into Term Certificates, such Term Certificates shall be subject to mandatory redemption on the first August 15 next following the first year which has been combined to form such Term Certificates and continuing thereafter on each August 15 until the stated maturity for the Term Certificates at the redemption prices of par plus accrued interest to the date of redemption. The principal amounts of the Term Certificates to be redeemed on each mandatory redemption date will be the principal amounts that would have been due and payable in the Maturity Schedule shown above had no conversion to Term Certificates occurred.

At least forty-five (45) days prior to each mandatory redemption date, the Paying Agent/Registrar will select, by lot or any other customary method that results in a random selection, a principal amount of Term Certificates equal to the aggregate principal amount of such, Term Certificates to be redeemed, shall call such Term Certificates for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption to be given in the manner provided in the Ordinance.

The principal amount of the Term Certificates required to be redeemed on any mandatory redemption date shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least forty-five (45) days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

NOTICE OF REDEMPTION . . . Not less than thirty (30) days prior to a redemption date for the Certificates, the Paying Agent/Registrar shall give a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Owners of the Certificates to be redeemed at the address of the Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

In the Ordinance, 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 Certificates subject to conditional redemption and 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.

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 AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE CITY IN THE NOTICE OF REDEMPTION, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The 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, notice of proposed amendment to the Ordinance 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 Certificates 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 Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificates 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 Certificates from the beneficial owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. 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” herein.

DEFEASANCE . . . The Ordinance provides that the Certificates may be discharged, defeased or refunded in any manner permitted by law.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest and redemption payments on the Certificates are to be paid to and credited by DTC while the Certificates are registered in its nominee’s name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The 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 Certificates registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 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 securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a rating of “AA+” by S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“Beneficial Owner”) is in turn to be recorded on the 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 Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit

notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Certificates held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of 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 Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

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

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

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

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

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

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or its 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 "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Certificate.

RECORD DATE FOR INTEREST PAYMENT. . . The record date ("Record Date") for the interest payable on the Certificates means the close of business on the last business day of the month. In the event of a non-payment of interest on a scheduled payment date,

and for thirty (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 fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each holder of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

CERTIFICATEHOLDERS’ REMEDIES . . . The Ordinance provides that each of the following occurrences or events will be an Event of Default under the Ordinance: (i) the failure to make payment of the principal of or interest on any of the Certificates when the same becomes due and payable; or (ii) default in the performance or observance of any other covenant, agreement, or obligation of the City, which default materially and adversely affects the rights of the Owners, including but not limited to their prospect or ability to be repaid in accordance with this Ordinance, and the continuation thereof for a period of sixty (60) days after notice of such default is given by any Owner to the City.

Upon the happening of any Event of Default, any Owner or an authorized representative thereof, including but not limited to a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under this Ordinance by mandamus or other suit, action or special proceeding in equity or at law in any court of competent jurisdiction for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies. All such proceedings shall be instituted and maintained for the equal benefit of all Owners of Certificates then outstanding.

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.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of bond counsel will note that all opinions with respect to the rights of the registered owners of the Certificates are subject to the applicable provisions of federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

AMENDMENTS TO THE ORDINANCE . . . In the Ordinance, the City has reserved the right, without the consent of or notice to the owners, from time to time and at any time amend the Ordinance in any manner not detrimental to the interests of the owners, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of the owners of a majority in aggregate principal amount of the Certificates then outstanding, amend, add to or rescind any of the provisions of the Ordinance; provided, that, without the consent of the owners of all Certificates then outstanding, no such amendment, addition, or rescission shall:

- (a) affect the rights of the owners of less than all of the Certificates then outstanding;
- (b) make any change in the maturities of the Certificates;
- (c) reduce the rate of interest borne by any of the Certificates;
- (d) reduce the amount of the principal payable on the Certificates;
- (e) modify the terms of payment of principal of or interest on the Certificates or impose any conditions with respect to such payment; or

- (f) change the minimum percentage of the principal amount of Certificates necessary for consent to such amendment.

Certificates owned or held by or for the account of or for the benefit of the City shall not be deemed to be outstanding for the purpose of amending the Ordinance.

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of (i) constructing and improving City streets, and the acquisition of land and rights-of-way in connection therewith; (ii) acquiring, constructing and improving the City's waterworks system and facilities, and the acquisition of land and rights-of-way in connection therewith; (iii) acquiring, constructing and improving the City's sanitary sewer system and facilities, and the acquisition of land and rights-of-way in connection therewith (collectively, the "Project"); and (iv) paying for professional services of attorneys, financial advisors and other professionals in connection with the Project and the costs of issuance of the Certificates.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Certificates will be applied approximately as follows:

SOURCES OF FUNDS:

Par Amount of Certificates

[Net] Reoffering Premium

Total Sources of Funds

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USES OF FUNDS:

Deposit to Project Construction Fund

Deposit to Debt Service Fund

Underwriter's Discount

Costs of Issuance

Total Uses of Funds

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TAX INFORMATION

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

VALUATION OF TAXABLE PROPERTY . . . The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the collective responsibility of the Burnet Central Appraisal District and Llano Central Appraisal District (each, an "Appraisal District"). Except as described below, each Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three 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 year property was last appraised. See "Table 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to the 10% Homestead Cap.

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

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, in establishing their tax rolls and tax rates. See "TAX INFORMATION – 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 state-mandated homestead exemptions.

LOCAL OPTION HOMESTEAD EXEMPTIONS . . . The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons 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. The exemption described in (2), above, may be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. See "Table 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

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.

FREEPORT EXEMPTIONS . . . Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

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, in each case, located in an area declared by the Governor of Texas (the “Governor”) to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to a temporary exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. For tax years beginning prior to January 1, 2022, 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. For tax years beginning on or after January 1, 2022, 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 Texas Tax Code. Section 11.35 of the Texas Tax Code was enacted during the 2019 legislative session, and there is no historical judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

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.

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

TAX ABATEMENT AGREEMENTS . . . Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See “Table 1 – VALUATION, EXEMPTIONS, AND GENERAL OBLIGATION DEBT” for the reduction in taxable valuation, if any, attributable to tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the City, see “Table 1 – VALUATION, EXEMPTIONS, AND GENERAL OBLIGATION DEBT” herein.

PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS . . . The following terms as used in this section have the meanings provided below:

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

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

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

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

“unused increment rate” means the cumulative difference between a city’s voter-approval tax rate and its actual tax rate for each of the three tax years prior to the current tax year, which may be applied to a city’s tax rate without impacting 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 either (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.

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.

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 an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$61,349,201 for the 2025 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases (see “– PUBLIC HEARING AND MAINTENANCE AND 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 1. 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.

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, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, up to 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.

2025 LEGISLATIVE SESSION . . . The regular session of the 89th Texas Legislature (the “2025 Legislative Session”) convened on January 14, 2025. 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.

During the 2025 Legislative Session, the Legislature will consider a general appropriations act and may consider legislation affecting ad valorem taxation procedures and the procedures for issuing debt affecting counties among other legislation affecting counties. The City can make no representation or prediction regarding any actions the Legislature may take during the 2025 Legislative Session or concerning the substance or the effect of any legislation that may be passed during this session or future session of the Legislature.

2021 DEVELOPER LITIGATION . . . In 2021 Legacy Housing Corporation (“Legacy”), a producer of modular homes, sued the City in federal court alleging that the City’s zoning and building ordinances unreasonably interfere with Legacy’s development of a modular home subdivision in the City by imposing conditions and limitations that make such development cost-prohibitive. Legacy

has requested a declaratory judgment that the City's ordinances are unconstitutional and/or otherwise exceed the City's authority and has further asserted a claim for money damages on the grounds that the City's ordinances allegedly violate its constitutional rights to substantive due process and equal protection and amount to an unconstitutional regulatory taking. The City has filed a motion to dismiss Legacy's due process and equal protection claims on the pleadings, and is currently conducting discovery on the remaining claim for a regulatory taking. The City has also filed a counterclaim to enforce an existing development agreement governing property owned by Legacy and enjoining Legacy from acting in violation of that agreement. Additionally, the City has filed a motion for summary judgment.

As the litigation is ongoing, the City cannot make any representation regarding the outcome the litigation or the impact of a negative outcome on the City's finances. However, such an impact could be material. In the event the City receives an unfavorable result and is required to pay any damages, the City may choose to pay such damages by issuing refunding bonds, payable from its ad valorem tax.

CITY APPLICATION OF TAX CODE . . . The City has not granted an exemption to the market value of the residence homestead of persons 65 years of age or older.

The City has granted an additional exemption of 20% of the market value of residence homesteads.

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

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

The City does not tax nonbusiness personal property; and the Burnet and Llano County Tax Assessor/Collectors collect taxes for the City.

The City does permit split payments, and discounts are allowed.

The City does not tax freeport property.

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

The City has not adopted a tax abatement policy.

The City does not participate in any tax increment financing zones.

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TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2024/25 Market Valuation Established by Llano and Burnet Central Appraisal Districts (excluding totally exempt property)	\$ 4,660,649,903
Less Exemptions/Reductions at 100% Market Value:	618,229,934
2024/25 Taxable Assessed Valuation	<u>\$ 4,042,419,969</u>
City Funded Debt Payable from Ad Valorem Taxes (as of 4-1-2025)	\$ 40,130,000
The Certificates	<u>9,900,000 ⁽¹⁾</u>
Total Debt Payable from Ad Valorem Taxes	\$ 50,030,000
Less: Self-Supporting Debt	(16,805,000) ⁽²⁾
Net Debt Payable from Ad Valorem Taxes	<u>\$ 33,225,000</u>
Interest and Sinking Fund (as of 4-1-2025)	\$ 1,734,009
Ratio Tax Supported Debt to Taxable Assessed Valuation	0.82%
2025 Estimated Population - 5,063	
Per Capita Taxable Assessed Valuation - \$798,424	
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$6,562	

(1) Preliminary, subject to change.

(2) 100% of the City's General Obligation Refunding Bonds, Series 2007 (the "2007 Bonds") and the Combination Tax and Revenue Certificates of Obligation, Series 2019 (the "2019 Certificates") and a portion of each of the City's Combination Tax and Revenue Certificates of Obligation, Series 2014 (the "2014 Certificates") and the General Obligation Refunding Bonds, Series 2020 (the "2020 Refunding Bonds") and the Certificates are expected to be supported with revenues of the City's water and wastewater system. The Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "2016 Certificates") are partially supported by PID revenues. Except to the limited extent water and wastewater system revenues are pledged to the 2014 Certificates, the 2016 Certificates, and the 2019 Certificates, transfers of such revenues to pay debt service on the 2007 Bonds, the 2014 Certificates, the 2016 Certificates, the 2019 Certificates and the 2020 Refunding Bonds are discretionary and, to the extent such discretionary transfers are not made, such debt service will be paid from ad valorem tax revenue.

TABLE 2 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End Of Year ⁽²⁾	Ratio of Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2021	4,493	\$ 2,339,099,492	\$ 520,610	\$ 11,600,000	0.50%	\$ 2,582
2022	4,805	2,591,317,870	539,296	10,870,000	0.42%	2,262
2023	5,063	3,055,746,671	603,545	21,780,000	0.71%	4,302
2024	5,063	3,553,254,339	701,808	28,330,000	0.80%	5,595
2025	5,063	4,042,419,969	798,424	32,205,000 ⁽³⁾	0.80% ⁽³⁾	6,361 ⁽³⁾

(1) Source: The City. Total includes full-time and part-time residents.

(2) Excludes self-supporting debt. See "Table 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT – FOOTNOTE 1."

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

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TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2021	\$ 0.2700	\$ 0.2353	\$ 0.0347	\$ 6,284,305	99.89%	99.91%
2022	0.2700	0.2290	0.0410	6,973,253	99.75%	99.87%
2023	0.2700	0.2136	0.0564	8,181,239	99.80%	100.00%
2024	0.2678	0.2010	0.0667	9,471,510	98.59%	98.96%
2025	0.2678	0.1940	0.0738	10,823,579	94.43% ⁽¹⁾	94.43% ⁽¹⁾

(1) Partial collections as of March 31, 2025.

TABLE 4 – TEN LARGEST TAXPAYERS

Name of Taxpayer	2024/25 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Horseshoe Bay Resort Destinations LLC	\$ 45,180,348	1.12%
HSBR-Waters III LLC	20,946,900	0.52%
Harbor Custom Development Inc.	16,897,768	0.42%
Kinney, Raymond & Bonnie	13,146,180	0.33%
Horseshoe Bay Resort Ltd.	10,866,340	0.27%
Singing Skies Investments LLC	10,206,604	0.25%
Darin E. & Latonna Yates	10,159,638	0.25%
Shannon Ralston	10,105,581	0.25%
Norman's Point LLC	9,296,243	0.23%
Tuscan Village Summit Rock	8,906,719	0.22%
	<u>\$ 155,712,321</u>	<u>3.85%</u>

GENERAL OBLIGATION DEBT LIMITATION . . . Other than the constitutional limitation on the City's maximum ad valorem tax rate, no general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE CERTIFICATES – TAX RATE LIMITATION").

TABLE 5 – TAX ADEQUACY⁽¹⁾

2025 Principal and Interest Requirements	\$ 2,862,925
\$ 0.0723 Tax Rate at 98% Collection Produces	\$ 2,864,216
Average Annual Principal and Interest Requirements, 2025-2053	\$ 1,736,328
\$ 0.0439 Tax Rate at 98% Collection Produces	\$ 1,739,130
Maximum Annual Principal and Interest Requirements, 2026	\$ 3,087,590
\$ 0.0780 Tax Rate at 98% Collection Produces	\$ 3,090,026

(1) Includes the Certificates and excludes debt considered self-supporting. See "Table 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT – FOOTNOTE 1." Preliminary, subject to change.

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DEBT INFORMATION

TABLE 6 – PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding G.O. Debt ⁽¹⁾			The Certificates ⁽²⁾			Total Debt Service Requirements	LESS: Self-Supporting Debt ⁽³⁾	Total Tax-Supported Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total			
2025	\$ 2,385,000	\$ 1,689,516	\$ 4,074,516	\$ 460,000	\$ 89,375	\$ 549,375	\$ 4,623,891	\$ 1,760,966	\$ 2,862,925
2026	2,745,000	1,433,587	4,178,587	515,000	472,000	987,000	5,165,587	2,077,997	3,087,590
2027	2,730,000	1,331,360	4,061,360	295,000	446,250	741,250	4,802,610	2,084,745	2,717,865
2028	2,295,000	1,223,844	3,518,844	305,000	431,500	736,500	4,255,344	1,536,735	2,718,609
2029	2,385,000	1,138,188	3,523,188	325,000	416,250	741,250	4,264,438	1,539,404	2,725,034
2030	2,470,000	1,045,969	3,515,969	340,000	400,000	740,000	4,255,969	1,539,329	2,716,640
2031	1,920,000	963,063	2,883,063	355,000	383,000	738,000	3,621,063	1,292,860	2,328,203
2032	1,760,000	892,413	2,652,413	375,000	365,250	740,250	3,392,663	1,050,938	2,341,725
2033	1,825,000	827,779	2,652,779	390,000	346,500	736,500	3,389,279	1,047,370	2,341,909
2034	1,885,000	760,341	2,645,341	410,000	327,000	737,000	3,382,341	1,043,194	2,339,148
2035	1,945,000	692,831	2,637,831	430,000	306,500	736,500	3,374,331	1,047,069	2,327,263
2036	2,035,000	623,725	2,658,725	450,000	285,000	735,000	3,393,725	1,049,113	2,344,613
2037	1,865,000	556,081	2,421,081	480,000	262,500	742,500	3,163,581	1,055,075	2,108,506
2038	1,875,000	492,319	2,367,319	500,000	238,500	738,500	3,105,819	1,055,169	2,050,650
2039	1,935,000	427,100	2,362,100	525,000	213,500	738,500	3,100,600	1,054,000	2,046,600
2040	1,315,000	364,125	1,679,125	550,000	187,250	737,250	2,416,375	361,500	2,054,875
2041	1,115,000	313,438	1,428,438	580,000	159,750	739,750	2,168,188	363,000	1,805,188
2042	1,155,000	265,338	1,420,338	605,000	130,750	735,750	2,156,088	358,750	1,797,338
2043	905,000	215,513	1,120,513	635,000	100,500	735,500	1,856,013	359,000	1,497,013
2044	940,000	179,313	1,119,313	670,000	68,750	738,750	1,858,063	358,500	1,499,563
2045	330,000	141,713	471,713	705,000	35,250	740,250	1,211,963	362,250	849,713
2046	345,000	128,513	473,513	-	-	-	473,513	-	473,513
2047	360,000	114,713	474,713	-	-	-	474,713	-	474,713
2048	375,000	100,313	475,313	-	-	-	475,313	-	475,313
2049	390,000	85,313	475,313	-	-	-	475,313	-	475,313
2050	405,000	69,713	474,713	-	-	-	474,713	-	474,713
2051	420,000	53,513	473,513	-	-	-	473,513	-	473,513
2052	435,000	36,713	471,713	-	-	-	471,713	-	471,713
2053	455,000	18,769	473,769	-	-	-	473,769	-	473,769
	<u>\$ 41,000,000</u>	<u>\$ 16,185,108</u>	<u>\$ 57,185,108</u>	<u>\$ 9,900,000</u>	<u>\$ 5,665,375</u>	<u>\$ 15,565,375</u>	<u>\$ 72,750,483</u>	<u>\$ 22,396,962</u>	<u>\$ 50,353,522</u>

(1) Includes self-supporting general obligation debt. See “Table 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT – FOOTNOTE 1.”

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

(3) See “Table 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT – FOOTNOTE 1.”

TABLE 7 – ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt as of 3/31/2025
Burnet County	\$ 22,060,000	3.19%	\$ 703,714
Deerhaven WC&ID	955,000	0.01%	96
Llano County	7,105,000	41.34%	2,937,207
Llano ISD	50,010,000	44.59%	22,299,459
Marble Falls ISD	53,170,000	5.05%	2,685,085
City of Horseshoe Bay	33,225,000 ⁽¹⁾	100.00%	33,225,000 ⁽¹⁾
Total Direct and Overlapping Tax Supported Debt			\$ 61,850,561
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			1.53%
Per Capita Overlapping Tax Supported Debt			\$ 12,216

(1) Includes the Certificates and excludes self-supporting debt. Preliminary, subject to change. See “Table 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT – FOOTNOTE 1.”

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS – None.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

TABLE 8 – INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated General Obligation Debt Service Requirements, Fiscal Year Ending 9-30-2025 ⁽¹⁾		\$ 4,623,891
2024 Interest and Sinking Fund Tax Levy @ 99.5% collection	\$ 2,921,659	
Budgeted Transfer from General Fund	-	
Interest and Sinking Fund Balance as of 9-30-2024	163,469	
Self- Supported Debt Service	1,760,966	\$ 4,846,094
Estimated Balance, 9-30-2025		\$ 222,203

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

OTHER OBLIGATIONS . . . See “Notes to the Financial Statements, Note II.F., II.K. and II.N” in APPENDIX B.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through Nationwide Retirement Solutions, Inc. 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” particularly Note II.H.

FINANCIAL INFORMATION

TABLE 9 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ending September 30,				
	2024	2023	2022	2021	2020
<u>Revenues:</u>					
Taxes	\$ 10,276,340	\$ 9,528,948	\$ 8,849,938	\$ 7,754,070	\$ 6,824,574
Licenses and Permits	1,008,454	1,099,158	598,652	483,440	381,546
Intergovernmental Revenue and Grants	25,000	-	506,454	207,880	25,659
Charges for Services	1,172,550	1,185,974	1,226,639	1,055,756	1,044,399
Fire and Police	484,747	424,702	496,898	368,533	385,123
Investment Earnings	728,197	546,977	61,975	3,722	43,300
Other Revenue	104,876	160,045	179,824	103,134	137,004
Total Revenues	<u>\$ 13,800,164</u>	<u>\$ 12,945,804</u>	<u>\$ 11,920,380</u>	<u>\$ 9,976,535</u>	<u>\$ 8,841,605</u>
<u>Expenditures:</u>					
General Government	\$ 2,734,161	\$ 2,363,264	\$ 2,196,278	\$ 1,951,100	\$ 1,863,445
Police	2,935,000	2,986,175	2,362,861	2,250,346	2,114,975
Fire Protection	3,054,848	2,937,323	2,678,291	2,505,575	2,511,747
Animal Control	166,872	125,505	144,839	176,822	159,735
Highways and Streets	820,652	1,826,463	803,793	595,642	465,908
Public Services	620,616	624,657	603,303	646,029	598,883
Development Services	1,287,150	1,211,985	921,761	750,675	635,531
Technology Services	230,164	222,757	335,381	270,137	199,345
Debt Service	21,716	17,377	-	-	-
Capital Outlay	751,089	179,604	352,205	242,125	351,769
Total Expenses	<u>\$ 12,622,268</u>	<u>\$ 12,495,110</u>	<u>\$ 10,398,712</u>	<u>\$ 9,388,451</u>	<u>\$ 8,901,338</u>
Excess (Deficiency) of Revenues over Expenditures	\$ 1,177,896	\$ 450,694	\$ 1,521,668	\$ 588,084	\$ (59,733)
Budgeted Transfers In	\$ 841,830	\$ 660,500	\$ 616,204	\$ 241,253	\$ 697,557
Sale of Real and Personal Property	14,587	28,500	35,905	28,000	-
Insurance Recoveries	(380,139)	-	1,256	3,950	-
Budgeted Transfers Out	25,068	8,300	(150,000)	(39,739)	(857,062)
	<u>\$ 501,346</u>	<u>\$ 697,300</u>	<u>\$ 503,365</u>	<u>\$ 233,464</u>	<u>\$ (159,505)</u>
Net Increase (Decrease)	\$ 1,679,242	\$ 1,147,994	\$ 2,025,033	\$ 821,548	\$ (219,238)
Fund Balance at Beginning of Year	7,389,439	6,241,445	4,216,412	3,394,864	3,614,102 ⁽¹⁾
Adjustments to Fund Balance	-	-	-	-	-
Fund Balance at End of Year	<u>\$ 9,068,681</u>	<u>\$ 7,389,439</u>	<u>\$ 6,241,445</u>	<u>\$ 4,216,412</u>	<u>\$ 3,394,864</u>

Source: City's audited financial statements.

(1) Restated.

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TABLE 10 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, 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 office of the Comptroller of Public Accounts of the State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2021	\$ 1,858,521	29.57%	\$ 0.0795	\$ 414
2022	2,499,667	35.85%	0.0965	520
2023	2,601,811	31.80%	0.0851	514
2024	2,747,122	29.00%	0.0773	543
2025	1,412,335 ⁽²⁾	13.05%	0.0349	279

(1) The city enacted a sales tax beginning October 1, 2007 and increased the rate by 1/4% on April 1, 2010. An additional 1/4% is available for levy in the future.

(2) Partial collections as of March 31, 2025.

INVESTMENTS

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

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; 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 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 (x) under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.), or (y) 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 ordinance, order 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 State 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 State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the

ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under 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.

The City’s current investment policy is in compliance with the State law requirements described above.

TABLE 11 – CURRENT INVESTMENTS

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

Investments	Market Value	% of Total
TexPool Investment Pool	\$ 31,932,867	90.80%
TexasCLASS	1,318,691	3.75%
First United Bank	1,917,547	5.45%
	<u>\$ 35,169,105</u>	<u>100.00%</u>

As of such date, the market value of the investment portfolio was approximately 100.00% of its book value. No funds of the City are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX MATTERS

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

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

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

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

Except as stated above, Bond Counsel will express no opinion as to the amount 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.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

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

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

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

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

The foregoing discussion assumes that (i) the Purchaser has purchased the Certificates for contemporaneous sale to the public and (ii) all of the 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 Discount Certificates will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each 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 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 Discount Certificate.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of 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 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 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 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 Ordinance the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (“MSRB”). This information will be available free of charge from the MSRB via its Electronic Municipal Market Access system at www.emma.msrb.org.

As used under this heading, the term “Financial Obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in Securities and Exchange Commission Rule 15c2-12 (the “Rule”)) has been provided to the MSRB consistent with the Rule.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables 1 through 6 and Tables 8 through 11 and in APPENDIX B. The City will update and provide this information within six months of the close of each fiscal year. The City will provide the updated information to the MSRB in an electronic format as prescribed by the MSRB.

The City’s current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

MATERIAL EVENT NOTICES . . . The City shall provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner and not more than 10 business days after the occurrence of the event: (i) principal and interest payment delinquencies; (ii) nonpayment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial

difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (vii) modifications to the rights of Owners, if material; (viii) bond calls, if material and tender offers; (ix) defeasance; (x) release, substitution or sale of property securing repayment of the Certificates, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (xiii) 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 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; (xiv) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material; (xv) 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 (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

For these purposes, (A) any event described in the immediately preceding clause (xii) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court of governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (B) the City has expressed its intent in the Ordinance that the words used in the immediately preceding clauses (xv) and (xvi) and in the definition of Financial Obligation above have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the foregoing provisions by the time required therein.

AVAILABILITY OF INFORMATION FROM MSRB . . . The City has agreed to provide the foregoing information only to the MSRB. All documents provided by the City to the MSRB described above under “Annual Reports” and “Material Event Notices” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB. The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (i) the agreement, 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 (ii) either (A) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provisions 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 Owners and beneficial owners of the Certificates. The continuing disclosure agreement may also be amended from time to time or repealed by the City 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 only if and to the extent that reservation of the City’s right to do so would not prevent the underwriter of the initial public offering of the Certificates from lawfully purchasing or selling Certificates in such offering. If the City so amends its continuing disclosure agreement, it shall include with any amended financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with its previous continuing disclosure agreements in accordance with the Rule.

OTHER INFORMATION

RATING . . . The Certificates and outstanding debt of the City have been rated “AA+” by S&P Global Ratings (“S&P”) without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the Certificates.

LITIGATION . . . It is the opinion of the City’s staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments 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. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – RATING” 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 a 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.

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

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements.

The forward-looking statements 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, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

INITIAL PURCHASER . . . After requesting competitive bids for the Certificates, the City accepted the bid of _____ (the "Purchaser") to purchase the Certificates at the interest rates shown on the inside cover page of the Official Statement at a price of approximately _____ % of par. The Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

USE OF OFFICIAL STATEMENT . . . The Ordinance will approve the form and content for this Official Statement and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT . . . At the time of payment for and delivery of the Certificates, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

This Official Statement will be approved by the City Council of the City for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

Mayor
City of Horseshoe Bay, Texas

ATTEST:

City Secretary
City of Horseshoe Bay, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City of Horseshoe Bay, Texas is a 14 square mile area located in Llano and Burnet Counties, near the City of Marble Falls, approximately 55 miles northwest of the City of Austin. Principal access to the City is by State Highway 71 and U.S. Highway 281. The Strategic Partnership Agreement between the City and Lake LBJ MUD was signed in January 1, 2006, but the actual date the City merged with Lake LBJ MUD was March 1, 2006. The City is primarily a resort and second homes development. The City's current population for 2025 is estimated at 5,578 which includes full time and part time residents.

LABOR MARKET PROFILE

	Burnet County	
	March 2025	March 2024
Total Civilian Labor Force	25,801	25,232
Total Employment	24,892	24,366
Total Unemployment	909	866
Percent Unemployed	3.5%	3.4%

	Llano County	
	March 2025	March 2024
Total Civilian Labor Force	9,237	9,191
Total Employment	8,889	8,814
Total Unemployment	348	377
Percent Unemployed	3.8%	4.1%

	State of Texas	
	March 2025	March 2024
Total Civilian Labor Force	15,807,696	15,512,671
Total Employment	15,177,754	14,903,001
Total Unemployment	629,942	609,670
Percent Unemployed	4.0%	3.9%

Source: Texas Workforce Commission.

APPENDIX B

**EXCERPTS FROM THE
CITY OF HORSESHOE BAY, TEXAS
ANNUAL FINANCIAL REPORT**

For the Year Ended September 30, 2024

The information contained in this APPENDIX consists of excerpts from the City of Horseshoe Bay, Texas Annual Financial Report for the Year Ended September 30, 2024, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Horseshoe Bay:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Horseshoe Bay (the "City") as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horseshoe Bay, as of September 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 City of Horseshoe Bay and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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 one year after the date that the financial statements are issued.

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 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, 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.

Emphasis of Matter

As discussed in Note V.E. to the financial statements, due to a prior year accounting adjustment to assessment receivable and donated land, the City restated beginning net position for governmental activities. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions to pension plan, schedule of changes in other postemployment benefits liability and related ratios, and budgetary comparison information for the general fund be presented to supplement the basic financial statements. Such information, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Horseshoe Bay's basic financial statements. The combining schedule of fund statements for nonmajor governmental funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule of fund statements for nonmajor governmental funds 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 combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



BrooksWatson & Co.
Certified Public Accountants
Houston, Texas

January 13, 2025

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

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City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2024

As management of the City of Horseshoe Bay (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2024.

Financial Highlights

- The City's total combined net position is \$48,723,325 at September 30, 2024. Of this, \$17,663,269 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- As of the end of the year, the unassigned fund balance of the general fund was \$9,005,977 or 71% of total general fund expenditures.
- The City had an overall increase in net position of \$3,829,809.
- The City implemented a pension with TMRS for employee retirement benefits during the previous fiscal year. The net pension liability was \$225 for the year ended September 30, 2024.

The government adopted a policy for the general fund that requires a minimum cash flow reserve equal to or greater than \$2,500,000 or three months of total operating expenses, plus debt service reserves as required by debt indentures. As of September 30, 2024, the unassigned fund balance for the general fund was \$9,005,977, which was 71% of total general fund expenditures or approximately 8 months of total operating expenditures. The general fund currently doesn't have any debt service obligations, with the exception of lease payments, which are treated as debt service.

The government also adopted a policy for the utility fund that requires excess funds each year to create a cash reserve. The target amount of the reserve fund will be three months of personnel and operating expenses. As of September 30, 2024, the cash balance for the water utility fund was \$4,884,880, which is 55% of total utility fund expenses excluding depreciation, which is approximately 6 months of personnel and operating expenses.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

Government-Wide 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, liabilities, and deferred inflows/outflows with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The *statement of activities* presents information showing how the City's net position changed during the most recent 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 for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation 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, and public works. The business-type activities of the City include water, wastewater and solid waste recycling operations.

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By

City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Horseshoe Bay maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, debt service, capital projects, Summit Rock Public Improvement District, Escondido Public Improvement District, police department seizure, vehicle replacement, child safety, court technology, and court security funds. The general, Summit Rock Public Improvement District, capital projects, and Escondido Public Improvement District funds are considered to be major funds.

The City of Horseshoe Bay adopts an annual appropriated budget for all funds except for the PID funds. A budgetary comparison schedule has been provided to demonstrate compliance with the general fund budget.

Proprietary Funds

The City maintains one type of proprietary fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses a proprietary fund to account for its utility services. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, utility production and distribution. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires is a budgetary comparison schedule. RSI can be found after the basic financial statements.

The PID special revenue funds, and their debt obligations consisting of the PID special assessment bond and note payable to the water utility fund, are solely funded by property assessments paid for by the respective homeowners of the related developments. The City is not obligated for repayment of

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2024

these debts. City council is the governing body over the PID's, the City is the account holder for PID funds, and is the responsible party for management of the PID activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Horseshoe Bay, assets and deferred outflows exceeded liabilities and deferred inflows by \$48,723,325 as of September 30, 2024, in the primary government.

The largest portion of the City's net position, \$27,362,216, reflects its investments in capital assets (e.g., land, city hall, fire station, police building, water plant, sewer system, as well as the machinery and equipment), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$3,697,840, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$17,663,269 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Current and other assets of governmental activities as of September 30, 2024 and September 30, 2023 were \$34,267,220 and \$28,794,177, respectively. The increase of \$5,473,043 was primarily due to greater cash on hand, resulting from unspent bond proceeds issued in the current year.

Current and other assets of business-type activities as of September 30, 2024 and September 30, 2023 were \$6,661,913 and \$5,793,079, respectively. The increase of \$868,834 was primarily due to operating cash surpluses during the year.

Capital assets of governmental activities as of September 30, 2024 and September 30, 2023 were \$30,215,665 and \$26,909,859, respectively. The increase of \$3,305,806 was primarily due to new street improvement projects during the year.

Long-term liabilities of the primary government as of September 30, 2024 and September 30, 2023 were \$45,883,936 and \$40,299,573, respectively. The increase of \$5,584,363 was due to new governmental debt issuances outweighing principal payments made in the current year.

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2024			2023		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and						
other assets	\$ 34,267,220	\$ 6,661,913	\$ 40,929,133	\$ 28,794,177	\$ 5,793,079	\$ 34,587,256
Internal balances	(3,624,324)	3,624,324	-	(4,005,570)	4,005,570	-
Capital assets, net	30,215,665	26,921,473	57,137,138	26,909,859	26,372,994	53,282,853
Total Assets	60,858,561	37,207,710	98,066,271	51,698,466	36,171,643	87,870,109
Deferred Outflows						
of Resources	490,814	146,678	637,492	499,162	144,445	643,607
Other liabilities	2,204,978	1,841,119	4,046,097	2,070,629	1,249,525	3,320,154
Long-term liab.	32,715,643	13,168,293	45,883,936	25,792,933	14,506,640	40,299,573
Total Liabilities	34,920,621	15,009,412	49,930,033	27,863,562	15,756,165	43,619,727
Deferred Inflows						
of Resources	36,342	14,063	50,405	341	132	473
Net Position:						
Net investment						
in capital assets	13,973,082	13,389,134	27,362,216	12,488,726	11,868,548	24,357,274
Restricted	3,697,840	-	3,697,840	4,677,486	142,656	4,820,142
Unrestricted	8,721,490	8,941,779	17,663,269	7,167,513	8,548,587	15,716,100
Total Net Position	\$ 26,392,412	\$ 22,330,913	\$ 48,723,325	\$ 24,333,725	\$ 20,559,791	\$ 44,893,516

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

Statement of Activities:

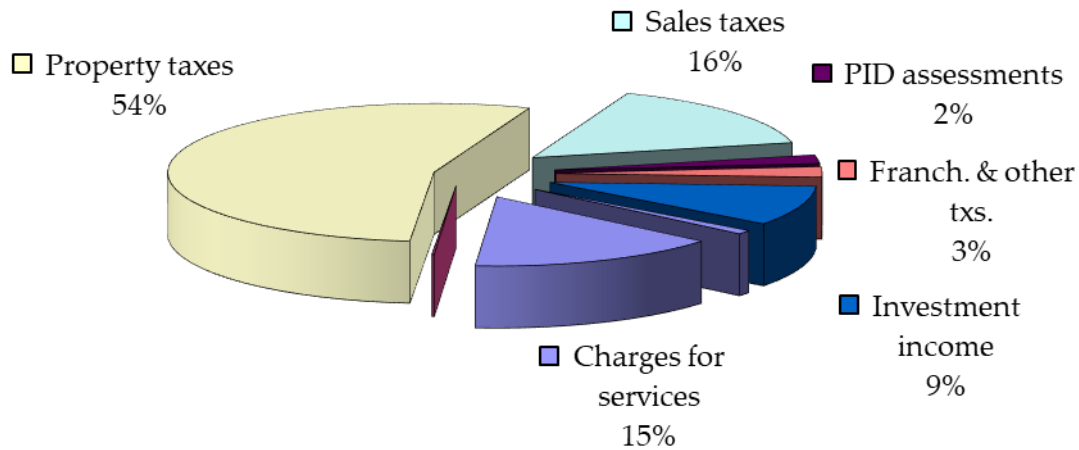
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2024			For the Year Ended September 30, 2023		
	Governmental	Business	Total	Governmental	Business	Total
	Activities	Type	Primary	Activities	Type	Primary
	Activities	Activities	Government	Activities	Activities	Government
Revenues						
Program revenues:						
Charges for services	\$ 2,665,751	\$ 11,811,642	\$ 14,477,393	\$ 2,709,834	\$ 12,024,310	\$ 14,734,144
Grants and contri.	25,000	679,667	704,667	-	-	-
General revenues:						
Property taxes	9,523,079	-	9,523,079	8,310,609	-	8,310,609
Sales taxes	2,747,122	-	2,747,122	2,601,811	-	2,601,811
PID assessments	348,133	-	348,133	2,675,232	-	2,675,232
Franch. & other txs.	420,887	-	420,887	399,973	-	399,973
Investment income	1,644,030	240,245	1,884,275	942,955	289,296	1,232,251
Other revenues	153,934	608,191	762,125	209,873	51,903	261,776
Total Revenues	17,527,936	13,339,745	30,867,681	17,850,287	12,365,509	30,215,796
Expenses						
General govt.	2,835,880	-	2,835,880	2,654,093	-	2,654,093
Dev. Services	1,319,122	-	1,319,122	1,187,013	-	1,187,013
Public works	620,616	-	620,616	624,657	-	624,657
Public safety	6,595,194	-	6,595,194	6,123,206	-	6,123,206
Highways/streets	2,846,119	-	2,846,119	2,601,191	-	2,601,191
Culture and rec.	12,988	-	12,988	15,742	-	15,742
Interest	1,457,911	384,659	1,842,570	1,226,441	426,314	1,652,755
Water utility	-	10,965,383	10,965,383	-	9,693,721	9,693,721
Total Expenses	15,687,830	11,350,042	27,037,872	14,432,343	10,120,035	24,552,378
Change						
Before Transfers	1,840,106	1,989,703	3,829,809	3,417,944	2,245,474	5,663,418
Transfers	218,581	(218,581)	-	660,500	(660,500)	-
Total	218,581	(218,581)	-	660,500	(660,500)	-
Change in Net Pos.	2,058,687	1,771,122	3,829,809	4,078,444	1,584,974	5,663,418
Beginning Net Position	24,333,725	20,559,791	44,893,516	20,255,281	18,974,817	39,230,098
Ending Net Position	\$ 26,392,412	\$ 22,330,913	\$ 48,723,325	\$ 24,333,725	\$ 20,559,791	\$ 44,893,516

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

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

Governmental Activities - Revenues

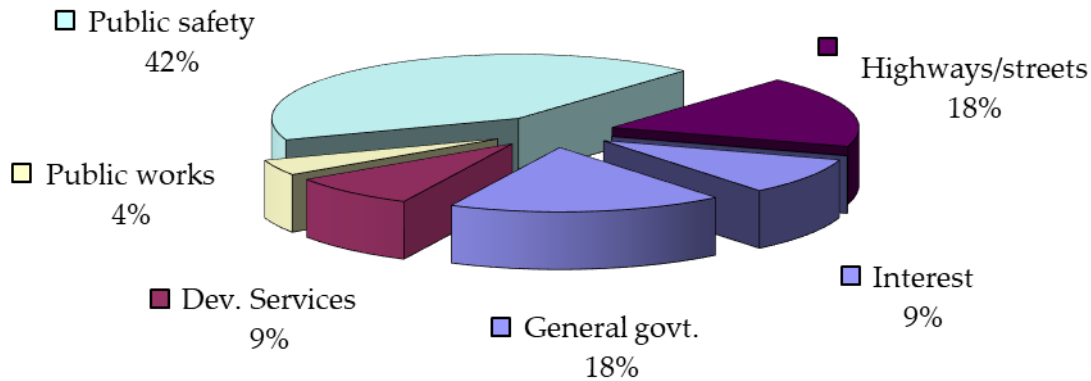


For the year ended September 30, 2024, revenues from governmental activities totaled \$17,527,936. Property tax, sales tax, PID assessments, and charges for services are the City's largest revenue sources. Property tax increased by \$1,212,470 or 15% due to greater appraised property values. PID assessment revenue decreased by \$2,327,099 or 87%, which is a result the Summit Rock PID capital improvements being fully funded in the prior year. Sales taxes and franchise taxes increased by \$145,311 and \$20,914, respectively, which is primarily attributable to local economic growth during the current year. Investment income increased by \$701,075 or 74% primarily due to the realization of higher interest rates and greater interest-bearing account balances held over the course of the year. Other revenue decreased by \$55,939 or 27% primarily due to nonrecurring reimbursements and traffic fines in the prior year.

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



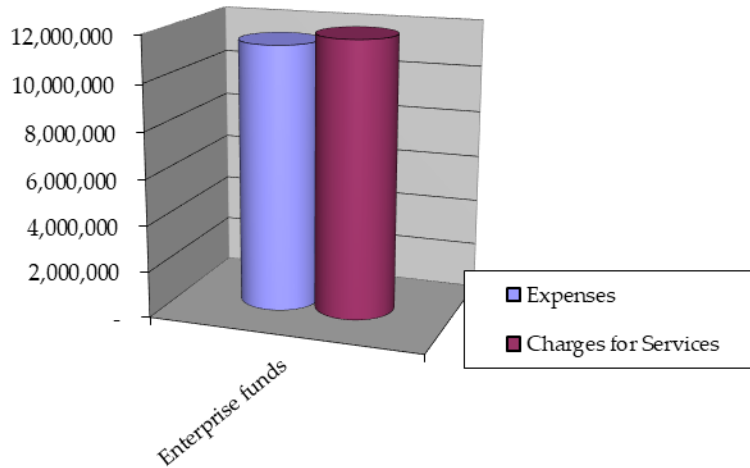
For the year ended September 30, 2024, expenses for governmental activities totaled \$15,687,830. This represents an increase of \$1,255,487 or 9% from the prior year. The City's largest functional expense is public safety of \$6,595,194, which includes operational expenses for the police, fire, and animal control departments. Public safety expenses increased by \$471,988 or 8% primarily due to greater employee benefit expenses, asset depreciation, and nonrecurring vehicle maintenance in the current year. General government expenses increased by \$181,787 or 7% primarily due to new hires, greater liability insurance and professional services resulting from City growth in the current year. Development services increased by \$132,109 or 11% primarily as a result of greater personnel costs and nonrecurring engineering fees paid in the current year. Highway and streets expense increased by \$244,928 or 9% due to greater asset depreciation and nonrecurring drainage and park maintenance in the current year. Interest and fiscal charges increased by \$231,470 or 19% due to nonrecurring bond issuance costs in the current year.

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

For the year ended September 30, 2024, charges for services by business-type activities totaled \$11,811,642. This is a decrease of \$212,668, or 2%, from the previous year and considered minimal. Grants and contributions increased by \$679,667 due to nonrecurring federal grant reimbursements received through the American Rescue Plan in the current year.

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

Business-Type Activities - Revenues and Expenses



Total expenses increased \$1,230,007 or 12% which was primarily due to greater garbage service expenses, asset depreciation, software maintenance, water plant material costs, electricity expenses, and personnel expenses (including employee retirement expenses), resulting from current year promotions.

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

As of the end of the year the general fund reflected a total fund balance of \$9,068,681. Of this, \$0 is restricted for PEG. Unassigned fund balance totaled \$9,005,977 as of year-end. The general fund increased by \$1,679,242 primarily due to revenues and other financing sources exceeding current year expenditures. This is consistent with the City's proposed budget for the general fund.

The Summit Rock PID fund reflected an ending deficit fund balance of \$3,438,339 as of September 30, 2024. This was an improvement of \$192,250 when compared to the deficit in fund balance as of September 30, 2023. This improvement is due to special assessment revenue exceeding interest expenditures.

The Escondido PID fund reflected an ending fund balance of \$885,326, an increase of \$32,044. This increase is due to property assessment revenue exceeding current year expenditures.

City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2024

The capital projects fund reflected an ending fund balance of \$16,193,203, an increase of \$4,521,404. This increase is due to new bond issuances in the current year.

There was an increase in governmental fund balance of \$6,307,199 over the prior year. The increase is primarily due to bonds issued in the current year.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$67,351 in the general fund. This is a combination of a negative revenue variance of \$3,222, a positive expenditure variance of \$71,257, and a negative variance of \$684 in other financing sources and uses. All revenue variances were negative, with the exception of sales and franchise taxes. The most significant expense variances were for general government, development services, fire, and streets. No departmental expenses exceeded appropriations at the legal level of control.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$30,215,665 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$26,921,473 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Street upgrades totaling \$3,075,311.
- Martin park improvements for \$180,139.
- 2024 sealcoat project improvements for \$794,730
- Schematic design expenses for city hall and fire station #2 totaling \$871,829.
- Purchased two 2023 Ford 550s for \$404,075.
- Purchased two 2024 Toyota Tundras for \$99,417.
- Drainage study for Pecan and Horseshoe Creek totaling \$271,591.
- Engineering costs for high water storage project totaling \$431,992.
- Engineering costs for West water plant totaling \$131,683.
- Various equipment purchased for the utility operations totaling \$471,995.

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2024

- Purchase five utility trucks totaling \$254,970.
- Installation of short and long water/sewer service lines for \$773,628.
- Internet towers installed for \$192,623.
- Water storage tank rehabilitation improvements totaling \$56,438.
- Blister Gold lift station improvements in the amount of \$32,095.

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

LONG-TERM DEBT

At the end of the current year, the City had total debt outstanding (including premiums) of \$45,883,936. The City made principal payments on debt of \$3,378,064 in the current year. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Horseshoe Bay and improving services provided to their public citizens.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Horseshoe Bay's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City's finance office by phone at (830) 598-8741 or in person at 1 Community Drive, Horseshoe Bay, Texas 78657.

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FINANCIAL STATEMENTS

City of Horseshoe Bay, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2024

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 26,701,266	\$ 4,884,880	\$ 31,586,146
Restricted cash	900,290	-	900,290
Receivables, net	1,433,277	1,777,033	3,210,310
Prepays	62,704	-	62,704
Internal balances	(217,665)	217,665	-
Total Current Assets	28,879,872	6,879,578	35,759,450
Internal advances	(3,406,659)	3,406,659	-
Receivables, noncurrent	5,169,683	-	5,169,683
Capital assets:			
Non-depreciable	2,622,832	1,067,910	3,690,742
Net depreciable capital assets	27,592,833	25,853,563	53,446,396
Total Noncurrent Assets	31,978,689	30,328,132	62,306,821
Total Assets	60,858,561	37,207,710	98,066,271
<u>Deferred Outflows of Resources</u>			
Deferred charge on refundings	116,542	1,850	118,392
Pension outflows	373,552	144,550	518,102
OPEB outflows	720	278	998
Total Deferred Outflows of Resources	490,814	146,678	637,492

City of Horseshoe Bay, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2024

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and			
accrued liabilities	\$ 802,492	\$ 988,985	\$ 1,791,477
Accrued interest payable	426,418	76,882	503,300
Unearned revenue	-	17,564	17,564
Customer and permit deposits	708,137	695,157	1,403,294
Compensated absences, current	221,972	48,861	270,833
Long term debt due within one year	1,311,352	1,320,000	2,631,352
Total Current Liabilities	3,470,371	3,147,449	6,617,820
Noncurrent liabilities:			
OPEB liability	21,133	8,178	29,311
Net pension liability	162	63	225
Debt due in more than one year	31,404,291	11,848,293	43,252,584
Compensated absences	24,664	5,429	30,093
Total Noncurrent Liabilities	31,450,250	11,861,963	43,312,213
Total Liabilities	34,920,621	15,009,412	49,930,033
<u>Deferred Inflows of Resources</u>			
Pension inflows	10,124	3,918	14,042
OPEB inflows	26,218	10,145	36,363
Total Deferred Inflows of Resources	36,342	14,063	50,405
<u>Net Position</u>			
Net investment in capital assets	13,973,082	13,389,134	27,362,216
Restricted for:			
Debt service	163,469	-	163,469
PID activities, including debt service	3,283,769	-	3,283,769
Other purposes	250,602	-	250,602
Unrestricted	8,721,490	8,941,779	17,663,269
Total Net Position	\$ 26,392,412	\$ 22,330,913	\$ 48,723,325

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2024

Functions/Programs	Expenses	Program Revenues
		Charges for Services
Primary Government		
Governmental Activities		
General government	\$ 2,835,880	\$ 9,000
Development services	1,319,122	1,008,454
Public works	620,616	505,534
Public safety	6,595,194	484,747
Highways and streets	2,846,119	658,016
Culture and recreation	12,988	-
Interest and fiscal charges	1,457,911	-
Total Governmental Activities	15,687,830	2,665,751
Business-Type Activities		
Utility	11,350,042	11,811,642
Total Business-Type Activities	11,350,042	11,811,642
Total Primary Government	\$ 27,037,872	\$ 14,477,393

General Revenues:

Taxes
 Property taxes
 Sales taxes
 Franchise and local taxes
 PID assessment revenue
 Investment income
 Other revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (2,801,880)	\$ -	\$ (2,801,880)
(310,668)	-	(310,668)
(115,082)	-	(115,082)
(6,110,447)	-	(6,110,447)
(2,188,103)	-	(2,188,103)
(12,988)	-	(12,988)
(1,457,911)	-	(1,457,911)
(12,997,079)	-	(12,997,079)
-	1,141,267	1,141,267
-	1,141,267	1,141,267
(12,997,079)	1,141,267	(11,855,812)
9,523,079	-	9,523,079
2,747,122	-	2,747,122
420,887	-	420,887
348,133	-	348,133
1,644,030	240,245	1,884,275
153,934	608,191	762,125
218,581	(218,581)	-
15,055,766	629,855	15,685,621
2,058,687	1,771,122	3,829,809
24,333,725	20,559,791	44,893,516
\$ 26,392,412	\$ 22,330,913	\$ 48,723,325

City of Horseshoe Bay, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2024

		Summit	
	General	Rock PID	Escondido PID
<u>Assets</u>			
Cash and cash equivalents	\$ 9,515,465	\$ -	\$ -
Restricted cash	-	14,964	885,326
Receivables, net	728,775	3,438,339	2,398,443
Due from other funds	26,077	-	-
Prepays	62,704	-	-
Total Assets	\$ 10,333,021	\$ 3,453,303	\$ 3,283,769
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 360,987	\$ -	\$ -
Permit deposits	708,137	-	-
Advances from other funds	-	3,406,659	-
Due to other funds	60,076	46,644	-
Total Liabilities	1,129,200	3,453,303	-
<u>Deferred Inflows of Resources</u>			
Unavailable revenue			
Property taxes	135,140	-	-
PID property assessments	-	3,438,339	2,398,443
Total Deferred Inflows of Resources	135,140	3,438,339	2,398,443
<u>Fund Balances</u>			
Nonspendable:			
Prepays	62,704	-	-
Restricted for:			
Court	-	-	-
Vehicle replacement	-	-	-
PID activities, including debt service	-	-	885,326
Debt service	-	-	-
Capital projects	-	-	-
Unassigned reported in:			
General fund	9,005,977	-	-
Summit Rock PID fund	-	(3,438,339)	-
Total Fund Balances	9,068,681	(3,438,339)	885,326
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 10,333,021	\$ 3,453,303	\$ 3,283,769

See Notes to Financial Statements.

Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ 16,799,824	\$ 385,977	\$ 26,701,266
-	-	900,290
-	37,403	6,602,960
31,982	28,094	86,153
-	-	62,704
<u>\$ 16,831,806</u>	<u>\$ 451,474</u>	<u>\$ 34,353,373</u>
\$ 441,505	\$ -	\$ 802,492
-	-	708,137
-	-	3,406,659
197,098	-	303,818
<u>638,603</u>	<u>-</u>	<u>5,221,106</u>
-	37,403	172,543
-	-	5,836,782
<u>-</u>	<u>37,403</u>	<u>6,009,325</u>
-	-	62,704
-	50,602	50,602
-	200,000	200,000
-	-	885,326
-	163,469	163,469
16,193,203	-	16,193,203
-	-	9,005,977
-	-	(3,438,339)
<u>16,193,203</u>	<u>414,071</u>	<u>23,122,942</u>
<u>\$ 16,831,806</u>	<u>\$ 451,474</u>	<u>\$ 34,353,373</u>

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City of Horseshoe Bay, Texas

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

September 30, 2024

Fund Balances - Total Governmental Funds	\$ 23,122,942
Adjustments for the Statement of Net Position:	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	2,622,832
Capital assets - net depreciable	27,592,833
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	172,543
Assessments receivable	5,836,782
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.	
Deferred charge on refunding	116,542
Pension outflows	373,552
OPEB outflows	720
Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.	
Pension inflows	(10,124)
OPEB inflows	(26,218)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(426,418)
Compensated absences	(246,636)
Bond premium	(1,752,271)
Net pension liability	(162)
OPEB liability	(21,133)
Non-current liabilities due in one year	(1,311,352)
Non-current liabilities due in more than one year	(29,652,020)
	<u><u>\$ 26,392,412</u></u>

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS (Page 1 of 2) For the Year Ended September 30, 2024

	General	Summit Rock PID	Escondido PID
<u>Revenues</u>			
Property tax	\$ 7,108,331	\$ -	\$ -
Sales tax	2,747,122	-	-
Franchise and local taxes	420,887	-	-
License and permits	1,008,454	-	-
Charges for services	1,172,550	-	-
Fire and police	484,747	-	-
Intergovernmental revenue	25,000	-	-
PID property assessments	-	416,549	346,641
Investment income	728,197	6,132	40,956
Other revenue	104,876	-	-
Total Revenues	13,800,164	422,681	387,597
<u>Expenditures</u>			
Current:			
General government	2,734,161	-	27,996
Police department	2,935,000	-	-
Development services	1,287,150	-	-
Fire	3,054,848	-	-
Animal control	166,872	-	-
Streets	820,652	-	-
Mowing and clearing	620,616	-	-
Technology services	230,164	-	-
Debt service:			
Principal	19,748	-	243,000
Interest	1,968	230,431	84,557
Bond issuance costs	-	-	-
Capital outlay	751,089	-	-
Total Expenditures	12,622,268	230,431	355,553
Excess of Revenues Over (Under) Expenditures	1,177,896	192,250	32,044

Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 2,352,580	\$ 9,460,911
-	-	2,747,122
-	-	420,887
-	-	1,008,454
-	-	1,172,550
-	-	484,747
-	-	25,000
-	-	763,190
819,534	49,211	1,644,030
-	9,403	114,279
<u>819,534</u>	<u>2,411,194</u>	<u>17,841,170</u>

-	14,985	2,777,142
-	1,746	2,936,746
-	-	1,287,150
-	-	3,054,848
-	-	166,872
-	-	820,652
-	-	620,616
-	-	230,164
-	1,840,000	2,102,748
-	872,204	1,189,160
184,652	-	184,652
4,944,514	-	5,695,603
<u>5,129,166</u>	<u>2,728,935</u>	<u>21,066,353</u>

(4,309,632)	(317,741)	(3,225,183)
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City of Horseshoe Bay, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS (Page 2 of 2) For the Year Ended September 30, 2024

	General	Summit Rock PID	Escondido PID
<u>Other Financing Sources (Uses)</u>			
Transfers in	\$ 841,830	\$ -	\$ -
Transfers (out)	(380,139)	-	-
Bond issuance	-	-	-
Premium from bond issuance	-	-	-
Sale of capital assets	14,587	-	-
Insurance recoveries	25,068	-	-
Total Other Financing Sources (Uses)	501,346	-	-
Net Change in Fund Balances	1,679,242	192,250	32,044
Beginning fund balances	7,389,439	(3,630,589)	853,282
Ending Fund Balances (Deficit)	\$ 9,068,681	\$ (3,438,339)	\$ 885,326

See Notes to Financial Statements.

Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ 180,139	\$ 200,000	\$ 1,221,969
(489,063)	-	(869,202)
8,390,000	-	8,390,000
749,960	-	749,960
-	-	14,587
-	-	25,068
<u>8,831,036</u>	<u>200,000</u>	<u>9,532,382</u>
4,521,404	(117,741)	6,307,199
11,671,799	531,812	16,815,743
<u>\$ 16,193,203</u>	<u>\$ 414,071</u>	<u>\$ 23,122,942</u>

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City of Horseshoe Bay, Texas

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

For the Year Ended September 30, 2024

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

Net changes in fund balances - total governmental funds	\$ 6,307,199
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	5,988,295
Depreciation expense	(2,548,303)
Capital assets transferred to business-type activities	(134,186)

Revenues in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenues in the funds.

Property tax receivable	62,168
PID property assessments receivable	(415,057)

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

Compensated absences	(29,533)
Accrued interest	(183,591)
Net pension liability	(5,389)
OPEB liability	(45,196)

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

This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issuance	(8,390,000)
Premiums on current debt issuance	(749,960)
Amortization of deferred charges on refunding	(15,010)
Amortization of premium on debt	114,502
Principal payments	2,102,748

Change in Net Position of Governmental Activities	\$ 2,058,687
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See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2024

	Utility
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 4,884,880
Receivables, net	1,777,033
Due from other funds	243,742
Total Current Assets	6,905,655
<u>Noncurrent Assets</u>	
Advance to other funds	3,406,659
Capital assets:	
Non-depreciable	1,067,910
Net depreciable capital assets	25,853,563
Total Noncurrent Assets	30,328,132
Total Assets	37,233,787
<u>Deferred Outflows of Resources</u>	
Pension outflows	144,550
OPEB outflows	278
Deferred charge on refunding	1,850
Total Deferred Outflows of Resources	146,678
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	988,985
Accrued interest	76,882
Customer deposits	695,157
Unearned revenue	17,564
Compensated absences, current	48,861
Long-term debt due within a year	1,320,000
Due to other funds	26,077
Total Current Liabilities	3,173,526
<u>Noncurrent Liabilities</u>	
OPEB liability	8,178
Net pension liability	63
Compensated absences, noncurrent	5,429
Long-term debt due in more than a year	11,848,293
Total Liabilities	15,035,489
<u>Deferred Inflows of Resources</u>	
Pension inflows	3,918
OPEB inflows	10,145
Total Deferred Inflows of Resources	14,063
<u>Net Position</u>	
Net investment in capital assets	13,389,134
Unrestricted	8,941,779
Total Net Position	\$ 22,330,913

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

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

For the Year Ended September 30, 2024

	Utility
<u>Operating Revenues</u>	
Charges for services	\$ 11,811,642
Other revenue	572,002
Total Operating Revenues	12,383,644
<u>Operating Expenses</u>	
Administration	1,762,842
Water production	1,848,414
Water distribution	1,308,053
Wastewater treatment	710,113
Wastewater collection	1,975,345
Solid waste recycling	1,354,954
Depreciation	2,005,662
Total Operating Expenses	10,965,383
Operating Income (Loss)	1,418,261
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	240,245
Gain on sale of property	36,189
Interest expense	(384,659)
Intergovernmental revenue	679,667
Total Nonoperating Revenues (Expenses)	571,442
Income (Loss) Before Transfers	1,989,703
Transfers in	623,249
Transfers (out)	(841,830)
Change in Net Position	1,771,122
Beginning net position	20,559,791
Ending Net Position	\$ 22,330,913

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 1 of 2) For the Year Ended September 30, 2024

	Utility
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 12,411,238
Payments to suppliers	(6,632,679)
Payments to employees	(1,741,473)
Receipts from (payments to) other funds	161,228
Net Cash Provided by Operating Activities	4,198,314
<u>Cash Flows from Noncapital Financing Activities</u>	
Operating transfers (out)	(841,830)
Operating transfers in	489,063
Net Cash Provided (Used) by Noncapital Financing Activities	(352,767)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(2,419,955)
Proceeds from sale of capital assets	36,189
Collections of advance to other funds	220,018
Capital grant	679,667
Principal paid on debt	(1,275,316)
Interest paid on debt	(447,346)
Net Cash (Used) by Capital and Related Financing Activities	(3,206,743)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	240,245
Net Cash Provided by Investing Activities	240,245
Net Increase (Decrease) in Cash and Cash Equivalents	879,049
Beginning cash and cash equivalents	4,005,831
Ending Cash and Cash Equivalents	\$ 4,884,880

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 2 of 2)

For the Year Ended September 30, 2024

	<u>Utility</u>
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 1,418,261
Adjustments to reconcile operating income to net cash provided:	
Depreciation	2,005,662
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	9,810
Due from/to other funds	161,228
Net pension and deferrals	2,087
OPEB liability and deferrals	17,489
Increase (Decrease) in:	
Accounts payable and accrued liabilities	564,200
Compensated absences	1,793
Customer deposits	17,784
Net Cash Provided by Operating Activities	\$ 4,198,314
<u>Schedule of Non-Cash Capital and Related Financing Activities</u>	
Capital assets transferred from governmental activities	\$ 134,186

See Notes to Financial Statements.

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City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2024

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

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

B. Reporting Entity

At a special election held on September 10, 2005, voters approved incorporation of the City of Horseshoe Bay, Texas (the "City") as a Type A, General-Law Municipality. At a special election held on November 8, 2005, voters elected a mayor and five Council Members. In January 2006, the City approved a strategic partnership agreement with Lake LBJ Municipal Utility District (the "District"). Pursuant to the terms of the agreement, on March 6, 2006, the City annexed the District. All assets, liabilities, and equity of the District were transferred to the City and the District was subsequently dissolved. The City became a Home Rule City when a majority of the voters approved the Home Rule Charter at a special election held on May 9, 2009.

The City is an independent political subdivision of the State of Texas 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. 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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

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 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.

C. Basis of Presentation Government-Wide and Fund Financial Statements

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

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

The fund financial statements provide information about the government's funds. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and other taxes, licenses and permits, and charges for services. Expenditures include general government, public safety, and public works.

Summit Rock PID Fund

The Summit Rock PID fund is used to account for all activities of the Summit Rock Public Improvement District.

Escondido PID Fund

The Escondido PID fund is used to account for all activities of the Escondido Public Improvement District.

Capital Projects Fund

The Capital Projects fund is used to account for construction activities of governmental activities

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

The government reports the following major enterprise fund:

Utility Fund

This fund is used to account for the provision of water, wastewater, and solid waste recycling services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems, and solid waste recycling services. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

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

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

D. Measurement Focus and Basis of Accounting

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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

The government-wide 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 government 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 on general long-term debt, including lease liabilities, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the City the right to use leased assets, are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, 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 government.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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

1. Deposits and Investments

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

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

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

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2024

to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the average cost method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost (except for right-to-use lease assets, the measurement of which is discussed in Note 13) if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

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

Asset Description	Estimated Useful Life
Vehicles	5 years
Equipment	7 years
Right-to-use leased assets	3 – 5 years
Infrastructure	20-40 years
Street improvements	20 years
Buildings and improvements	30 years

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and PID property assessments revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Net Position Flow Assumption

Sometimes the government 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.

9. Fund Balance Flow Assumptions

Sometimes the government 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 government'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.

10. 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 government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2024

level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the City Manager to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The government adopted a policy for the general fund that requires a minimum cash flow reserve equal to or greater than \$2,500,000 or three months of total operating expenses, plus debt service reserves as required by debt indentures. As of September 30, 2024, the City was in compliance with this policy.

The government also adopted a policy for the water utility fund that requires excess funds each year to create a cash reserve. The target amount of the reserve fund will be three months of personnel and operating expenses. As of September 30, 2024, the City was in compliance with this policy.

11. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

12. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, 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. Issuance costs are expensed as incurred in accordance with GASB statement no. 65.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

13. Leases

The City is a lessee for a noncancellable lease of office equipment. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an individual value of \$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.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

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

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

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

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

14. Estimates

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

15. Subscription Based Information Technology Arrangements ("SBITA")

The City has adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 96, entitled Subscription-Based Information Technology Arrangements ("SBITA"). The City has noncancellable contracts with SBITA vendors for the right to use information technology (IT) software, alone or in

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

combination with tangible capital assets (the underlying IT assets). 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 financial statements. The City recognizes subscription liabilities with an initial, individual value of \$5,000 or more.

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

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

- The City uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for SBITAs.
- The subscription term includes the noncancellable period of the SBITA.
- Subscription payments included in the measurement of the subscription liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, termination penalties if the City is reasonably certain to exercise such options, subscription contract incentives receivable from the SBITA vendor, 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 SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental and enterprise funds.

The appropriated budget is prepared by fund, function, and department. The legal level of control is the department level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year.

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

A. Deficit Fund Equity

The Summit PID fund had a deficit fund balance of \$3,438,339 as of September 30, 2024 primarily due to an advance owed to the Water Utility fund. The fund plans to repay the principal amounts owed with property assessment collections on residential lots sold. The assessment receivable is currently sufficient to repay the advance, but is offset with a deferred inflow of resources due to the long term nature of the receivable. The deficit will decrease as the advance is paid down with the assessment collections.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2024, the primary government had the following investments:

Investment Type	Value	Average Maturity (Years)
External investment pools	\$ 30,745,430	0.07
Total value	<u>\$ 30,745,430</u>	
Portfolio weighted average maturity		0.07

Interest rate risk – In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed twelve months; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk – The City’s investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than “A” or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2024, the market values of pledged securities and FDIC full insured all deposit balances.

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

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

TexasCLASS

Texas CLASS is a local government investment pool created to meet the cash management and short-term investment needs of Texas governmental entities. Texas CLASS Government seeks to provide participants with a competitive market yield while maintaining daily liquidity and a stable net asset value. Texas CLASS Government is rated 'AAAM' by S&P Global Ratings. There were no limitations or restrictions on withdrawals.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

B. Receivables

The following comprise receivable balances of the primary government at year end:

	General	Summit Rock PID	Escondido PID	Nonmajor Govt.	Utility	Total
Property taxes	\$ 152,281	\$ -	\$ -	\$ 38,069	\$ -	\$ 190,350
Sales tax	443,966	-	-	-	-	443,966
Franchise & local taxes	106,362	-	-	-	-	106,362
Assessments - long-term	-	3,436,739	2,395,000	-	-	5,831,739
Assessments - delinq.	-	1,600	3,443	-	-	5,043
Liens	52,187	-	-	-	-	52,187
Accounts	46,086	-	-	-	1,953,256	1,999,342
Allowance	(52,186)	-	-	-	(152,365)	(204,551)
	<u>\$ 748,696</u>	<u>\$ 3,438,339</u>	<u>\$ 2,398,443</u>	<u>\$ 38,069</u>	<u>\$ 1,800,891</u>	<u>\$ 8,424,438</u>

The following schedule shows the future anticipated collections for assessments (principal) receivable at year end. All other receivables are expected to be fully collected within one year of the balance sheet date.

Year(s) ended:	Summit Rock PID	Escondido PID	Total
9/30/25	\$ 189,056	\$ 230,000	\$ 419,056
9/30/26	170,104	231,000	401,104
9/30/27	182,011	240,000	422,011
9/30/28	194,752	250,000	444,752
9/30/29	208,385	255,000	463,385
9/30/30 - 9/30/34	1,282,251	1,189,000	2,471,251
9/30/35 - 9/30/39	1,210,180	-	1,210,180
TOTAL	<u>\$ 3,436,739</u>	<u>\$ 2,395,000</u>	<u>\$ 5,831,739</u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

C. Capital Assets

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

	Beginning Balances	Increases	Disposals / Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 146,856	\$ -	\$ -	\$ 146,856
Construction in progress	1,515,812	4,421,374	(3,586,530)	2,350,656
Total capital assets not being depreciated	<u>1,662,668</u>	<u>4,421,374</u>	<u>(3,586,530)</u>	<u>2,497,512</u>
Capital assets, being depreciated:				
Infrastructure	37,326,668	794,730	3,452,344	41,573,742
Buildings and improvements	4,558,478	-	-	4,558,478
Right to use leased equipment	76,206	-	-	76,206
Machinery and equipment	4,088,518	772,191	-	4,860,709
Total capital assets being depreciated	<u>46,049,870</u>	<u>1,566,921</u>	<u>3,452,344</u>	<u>51,069,135</u>
Less accumulated depreciation				
Infrastructure	14,861,740	2,004,239	-	16,865,979
Buildings and improvements	3,091,655	140,232	-	3,231,887
Right to use leased equipment	28,081	17,033	-	45,114
Machinery and equipment	2,946,523	386,799	-	3,333,322
Total accumulated depreciation	<u>20,927,999</u>	<u>2,548,303</u>	<u>-</u>	<u>23,476,302</u>
Net capital assets being depreciated	<u>25,121,871</u>	<u>(981,382)</u>	<u>3,452,344</u>	<u>27,592,833</u>
Total Capital Assets	<u><u>\$ 26,784,539</u></u>	<u><u>\$ 3,439,992</u></u>	<u><u>\$ (134,186)</u></u>	<u><u>\$ 30,090,345</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 68,408
Public safety	421,724
Streets	2,023,222
Development services	21,961
Culture and recreation	12,988
Total Governmental Activities Depreciation Expense	<u><u>\$ 2,548,303</u></u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

A summary of changes in business-type activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Disposals / Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 419,561	\$ 648,349	\$ -	\$ 1,067,910
Total capital assets not being depreciated	<u>419,561</u>	<u>648,349</u>	<u>-</u>	<u>1,067,910</u>
Capital assets, being depreciated:				
Infrastructure	56,013,631	998,345	134,186	57,146,162
Buildings and improvements	1,268,626	29,557	-	1,298,183
Right to use assets	7,504	-	-	7,504
Machinery and equipment	4,501,621	743,704	(310,316)	4,935,009
Total capital assets being depreciated	<u>61,791,382</u>	<u>1,771,606</u>	<u>(176,130)</u>	<u>63,386,858</u>
Less accumulated depreciation				
Infrastructure	31,513,839	1,627,284	-	33,141,123
Buildings and improvements	843,940	48,929	-	892,869
Right to use assets	7,504	-	-	7,504
Machinery and equipment	3,472,666	329,449	(310,316)	3,491,799
Total accumulated depreciation	<u>35,837,949</u>	<u>2,005,662</u>	<u>(310,316)</u>	<u>37,533,295</u>
Net capital assets being depreciated	25,953,433	(234,056)	134,186	25,853,563
Total Capital Assets	<u><u>\$ 26,372,994</u></u>	<u><u>\$ 414,293</u></u>	<u><u>\$ 134,186</u></u>	<u><u>\$ 26,921,473</u></u>

Depreciation was charged to business-type activities as follows:

Utility	<u>\$ 2,005,662</u>
Total Business-type Activities Depreciation Expense	<u><u>\$ 2,005,662</u></u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

D. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. The City uses the debt service fund to liquidate the majority of governmental activities debts.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
Combination Tax and Revenue					
Certificates of Obligation	\$ 11,610,000	\$ 8,390,000	\$ (1,460,000)	\$ 18,540,000	\$ 615,000
General Obligation Bonds	10,170,000	-	(380,000)	9,790,000	450,000
PID Special Assessments Bond	2,845,000	-	(243,000)	2,602,000	230,000
Lease liabilities	51,120	-	(19,748)	31,372	16,352
Less deferred amounts:					
For issuance premiums	1,116,813	749,960	(114,502)	1,752,271	-
Total Governmental Activities	<u>\$ 25,792,933</u>	<u>\$ 9,139,960</u>	<u>\$ (2,217,250)</u>	<u>\$ 32,715,643</u>	<u>\$ 1,311,352</u>
Long-term liabilities due in more than one year				<u>\$ 31,404,291</u>	
Business-Type Activities:					
General Obligation Bonds	\$ 3,480,000	\$ -	\$ (665,000)	\$ 2,815,000	\$ 685,000
Certificates of Obligation	10,465,000	-	(610,000)	9,855,000	635,000
Lease liabilities	316	-	(316)	-	-
Less deferred amounts:					
For issuance premiums	561,324	-	(63,031)	498,293	-
Total Business-Type Activities	<u>\$ 14,506,640</u>	<u>\$ -</u>	<u>\$ (1,338,347)</u>	<u>\$ 13,168,293</u>	<u>\$ 1,320,000</u>
Long-term liabilities due in more than one year				<u>\$ 11,848,293</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Certificates of Obligation:			
\$9,800,000 Certificates of Obligation, Series 2014, due in annual installments through 2039, interest at 2-3.75%	\$ 2,785,000	\$ 3,215,000	\$ 6,000,000
\$3,770,000 Certificates of Obligation, Series 2016, due in annual installments through 2031, interest at 2-4%	225,000	1,500,000	1,725,000
\$5,920,000 Certificates of Obligation, Series 2019, due in annual installments through 2039, interest at 2-4%	-	5,140,000	5,140,000
\$3,925,000 Certificates of Obligation, Series 2020, due in annual installments through 2039, interest at 2%	3,400,000	-	3,400,000
\$4,050,000 Certificates of Obligation, Series 2022, due in annual installments through 2042, interest at 5%	3,740,000	-	3,740,000
\$8,390,000 Certificates of Obligation, Series 2024, due in annual installments through 2044, interest at 2%-4.265%	8,390,000	-	8,390,000
Total Certificates of Obligation	<u>\$ 18,540,000</u>	<u>\$ 9,855,000</u>	<u>\$ 28,395,000</u>
PID Special Assessment Bond:			
\$3,270,000 PID Special Assessment Bond, Series 2020, due in annual installments through 2034, interest at 3-3.25%	\$ 2,602,000	\$ -	\$ 2,602,000
General Obligation Bonds:			
\$7,500,000 General Obligation, Series 2007, due in installments through 2027, interest at 4.04%	\$ -	\$ 1,515,000	\$ 1,515,000
\$7,500,000 General Obligation Refunding Bonds, Series 2020, due in installments through 2030, interest at 2-5%	2,065,000	1,300,000	3,365,000
\$7,795,000 General Obligation Refunding Bonds, Series 2023, due in installments through 2053, interest at 4-5%	7,725,000	-	7,725,000
Total General Obligation Bonds	<u>\$ 9,790,000</u>	<u>\$ 2,815,000</u>	<u>\$ 12,605,000</u>
Less deferred amounts:			
Issuance premium	\$ 1,752,271	\$ 498,293	\$ 2,250,564
Lease Liabilities	\$ 31,372	\$ -	\$ 31,372
Total Debt	<u><u>\$ 32,715,643</u></u>	<u><u>\$ 13,168,293</u></u>	<u><u>\$ 45,883,936</u></u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Governmental Activities					
	General Obligation Bonds		Certificates of Obligation		2020 Prop. Assess. Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 450,000	\$ 412,063	\$ 615,000	\$ 877,112	\$ 230,000	\$ 77,133
2026	465,000	400,363	915,000	680,228	231,000	69,863
2027	475,000	384,963	835,000	644,903	240,000	62,798
2028	490,000	365,763	875,000	612,346	250,000	55,448
2029	515,000	344,413	910,000	577,871	255,000	47,873
2030	535,000	320,088	940,000	542,053	265,000	40,073
2031	170,000	302,713	975,000	504,740	264,000	32,138
2032	180,000	294,213	1,025,000	465,763	285,000	23,546
2033	190,000	285,213	1,065,000	424,446	290,000	14,203
2034	200,000	275,713	1,105,000	381,185	292,000	4,745
2035	205,000	265,713	1,140,000	339,800	-	-
2036	220,000	255,463	1,195,000	298,400	-	-
2037	230,000	244,463	995,000	259,794	-	-
2038	240,000	232,963	975,000	225,688	-	-
2039	250,000	220,963	1,005,000	191,388	-	-
2040	265,000	208,463	1,050,000	155,663	-	-
2041	280,000	195,213	835,000	118,225	-	-
2042	290,000	181,213	865,000	84,125	-	-
2043	305,000	166,713	600,000	48,800	-	-
2044	320,000	154,513	620,000	24,800	-	-
2045	330,000	141,713	-	-	-	-
2046	345,000	128,513	-	-	-	-
2047	360,000	114,713	-	-	-	-
2048	375,000	100,313	-	-	-	-
2049	390,000	85,313	-	-	-	-
2050	405,000	69,713	-	-	-	-
2051	420,000	53,513	-	-	-	-
2052	435,000	36,713	-	-	-	-
2053	455,000	18,769	-	-	-	-
	<u>\$ 9,790,000</u>	<u>\$ 6,260,458</u>	<u>\$ 18,540,000</u>	<u>\$ 7,457,330</u>	<u>\$ 2,602,000</u>	<u>\$ 427,820</u>

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

The PID special assessment bond is secured solely by the pledged property assessments revenue for the related properties within the Escondido PID area. The debt is repaid with property assessments by the respective homeowners. The City is not obligated to pay the bonds from any funds raised from taxation or from any other revenues available to the City. The City through their designated trustee and third-party administrator set up a separate fund used to service the bond, collect the property assessments, and for initiating any future foreclosures.

Year ending September 30,	Governmental Activities	
	Leases	
	Principal	Interest
2025	\$ 16,352	\$ 955
2026	9,852	448
2027	5,168	115
	<u>\$ 31,372</u>	<u>\$ 1,518</u>

The City entered into a four separate five-year lease agreement as a lessee for the acquisition and use of office equipment. The total initial lease liability for these agreements was recorded in the amount of \$85,163. As of September 30, 2024, the value of the lease liability was \$31,372. The City is required to make monthly principal and interest payments ranging from of \$186 to \$658. The leases have an interest rate of 4%. The equipment has a five-year estimated useful life. The value of the right-to-use assets as of the end of the current fiscal year was \$76,206, and had accumulated amortization of \$45,114.

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Business-Type Activities			
	2007 G.O. Bond		2020 G.O Bond	
	Principal	Interest	Principal	Interest
2025	\$ 485,000	\$ 61,206	\$ 200,000	\$ 44,400
2026	505,000	41,612	200,000	40,400
2027	525,000	21,210	210,000	34,200
2028	-	-	220,000	25,600
2029	-	-	230,000	16,600
2030	-	-	240,000	6,000
	<u>\$ 1,515,000</u>	<u>\$ 124,028</u>	<u>\$ 1,300,000</u>	<u>\$ 167,200</u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

Year ending September 30,	Business-Type Activities					
	2014 C.O.O.		2016 C.O.O.		2019 C.O.O.	
	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 165,000	\$ 109,085	\$ 190,000	\$ 60,000	\$ 280,000	\$ 125,650
2026	165,000	104,135	200,000	52,400	295,000	114,450
2027	175,000	99,035	205,000	44,400	305,000	102,650
2028	180,000	93,485	215,000	36,200	315,000	90,450
2029	185,000	87,554	220,000	27,600	325,000	84,150
2030	195,000	81,379	230,000	18,800	330,000	77,650
2031	200,000	74,960	240,000	9,600	335,000	71,050
2032	210,000	68,088	-	-	345,000	64,350
2033	220,000	60,670	-	-	350,000	57,450
2034	225,000	52,994	-	-	355,000	50,450
2035	235,000	44,413	-	-	365,000	42,906
2036	250,000	34,713	-	-	370,000	35,150
2037	260,000	25,000	-	-	380,000	26,825
2038	270,000	15,394	-	-	390,000	18,275
2039	280,000	5,250	-	-	400,000	9,500
	<u>\$ 3,215,000</u>	<u>\$ 956,153</u>	<u>\$ 1,500,000</u>	<u>\$ 249,000</u>	<u>\$ 5,140,000</u>	<u>\$ 970,956</u>

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

E. Other Long-term Liabilities

The following is a summary of changes in the City's other long-term liabilities for the year ended. In general, the City uses the general and enterprise funds to liquidate compensated absences.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 217,103	\$ 224,926	\$ (195,393)	\$ 246,636	\$ 221,972
Total Governmental Activities	<u>\$ 217,103</u>	<u>\$ 224,926</u>	<u>\$ (195,393)</u>	<u>\$ 246,636</u>	<u>\$ 221,972</u>
Other Long-term Liabilities Due in More than One Year				<u>\$ 24,664</u>	
Business-Type Activities:					
Compensated Absences	\$ 52,497	\$ 1,793	\$ -	\$ 54,290	\$ 48,861
Total Business-Type Activities	<u>\$ 52,497</u>	<u>\$ 1,793</u>	<u>\$ -</u>	<u>\$ 54,290</u>	<u>\$ 48,861</u>
Other Long-term Liabilities Due in More than One Year				<u>\$ 5,429</u>	

F. Deferred Charges on Refunding

Deferred charges resulting from the issuance of series 2019 general obligation refunding bonds and 2020 series refunding special assessment bonds have been recorded as deferred outflows of resources and are being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding debts. Current year balances for governmental and business-type activities totaled \$116,542 and \$1,850, respectively. Current year amortization expense for governmental and business-type activities totaled \$15,010 and \$344, respectively.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

G. Interfund Transactions

Transfers between the primary government funds during the 2024 year were as follows:

Transfers out:	Transfers In:				Total
	General	Capital Projects	Nonmajor Govt	Utility	
Utility	\$ 841,830	\$ -	\$ -	\$ -	\$ 841,830
General	-	180,139	200,000	-	380,139
Capital projects	-	-	-	489,063	489,063
Govt. activities *	-	-	-	134,186 *	134,186
	<u>\$ 841,830</u>	<u>\$ 180,139</u>	<u>\$ 200,000</u>	<u>\$ 623,249</u>	<u>\$ 1,845,218</u>

*This represents the carrying value of capital assets transferred from governmental activities to the utility fund in the current year.

The compositions of interfund due to/from balances as of the year ended September 30, 2024 were as follows:

Due to: (Payable Fund)	Due from: (Receivable Fund)				Total
	General	Capital Projects	Nonmajor Govt.	Utility	
Capital projects	\$ -	\$ -	\$ -	\$ 197,098	\$ 197,098
General	-	31,982	28,094	-	60,076
Summit Rock PID	-	-	-	46,644	46,644
Utility	26,077	-	-	-	26,077
Total	<u>\$ 26,077</u>	<u>\$ 31,982</u>	<u>\$ 28,094</u>	<u>\$ 243,742</u>	<u>\$ 329,895</u>

Interfund balances resulted from the timing difference 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. All balances are expected to be paid in the subsequent year.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

The compositions of interfund advances to/from balances as of the year ended September 30, 2024 were as follows:

<u>Advances to:</u>	<u>Advances from:</u> <u>Summit Rock PID</u>	<u>Total</u>
Utility	\$ 3,406,659	\$ 3,406,659
Total	\$ 3,406,659	\$ 3,406,659

The amount indicated as an “advance to/from” within the table above relates to the remaining balance of the note between the Summit Rock PID and the City to finance water and wastewater capital improvements for the Summit Rock PID area. This note accrues interest between 3% and 7% at an interest rate of prime, and is being repaid with annual property assessments collected by the Summit Rock PID.

H. Restricted/Committed Fund Equity

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of net position/fund balances restricted by the City:

	<u>Governmental Funds Restricted</u>	<u>Governmental Activities Restricted</u>	<u>Business-Type Activities Restricted</u>
Court tech. and security	\$ 20,715 *	\$ 20,715	\$ -
Vehicle replacement	200,000 *	200,000	-
Child safety	29,887 *	29,887	-
PID activities, including debt service	885,326	3,283,769	-
Debt service	163,469	163,469	-
Capital projects	16,193,203	-	-
	<u>\$ 17,492,600</u>	<u>\$ 3,697,840</u>	<u>\$ -</u>

* Restricted by enabling legislation

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. 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.

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.

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.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does not anticipate that it will have an arbitrage liability and performs periodic calculations to estimate whether any potential liability exists.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Horseshoe Bay participates as one of 921 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmrs.com.

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

2. 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 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 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 member's deposits and interest.

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

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

	<u>Plan Year 2023</u>	<u>Plan Year 2022</u>
Employee deposit rate	7%	7%
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	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI
Supplemental death benefit to active employees	Yes	Yes
Supplemental death benefit to retirees	Yes	Yes

Employees covered by benefit terms

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

	<u>2023</u>
Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	11
Active employees	105
Total	<u>116</u>

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Horseshoe Bay, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rate for the City of Horseshoe Bay, Texas was 8.02% and 8.31% for the calendar year 2024 and 2023,

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

respectively. The City's contributions to TMRS for the year ended September 30, 2024, were \$695,201 and were \$17,998 greater than the required contributions.

4. Net Pension Liability (Asset)

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

Actuarial assumptions

The Total Pension Liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.6% to 11.85%, including inflation
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 1, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, Gabriel Roeder Smith & Company (GRS) focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	6.7%
Core Fixed Income	6.0%	4.7%
Non-Core Fixed Income	20.0%	8.0%
Real Return	12.0%	8.0%
Real Estate	12.0%	7.6%
Absolute Return	5.0%	6.4%
Private Equity	10.0%	11.6%
Total	100.0%	

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.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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 (asset) would be if it were

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 203,142	\$ 225	\$ (165,266)

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)
Balance at 12/31/22	\$ 43,550	\$ 45,000	\$ (1,450)
Changes for the year:			
Service Cost	1,196,267	-	1,196,267
Interest (on the Total Pension Liab.)	42,830	-	42,830
Change in benefit terms	-	-	-
Difference between expected and actual experience	(3,277)	-	(3,277)
Changes of assumptions	(10,309)	-	(10,309)
Contributions – employer	-	661,409	(661,409)
Contributions – employee	-	557,144	(557,144)
Net investment income (loss)	-	5,316	(5,316)
Benefit payments, including refunds of emp. contributions	(14,318)	(14,318)	-
Administrative expense	-	(33)	33
Other changes	-	-	-
Net changes	1,211,193	1,209,518	1,675
Balance at 12/31/23	\$ 1,254,743	\$ 1,254,518	\$ 225

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmrs.com.

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

For the year ended September 30, 2024, the City recognized pension expense of \$677,124.

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2024

The general fund and utility fund are used to liquidate pension liabilities.

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual economic experience	\$ -	\$ (1,823)
Changes in assumptions	-	(9,272)
Investment experience	-	(2,947)
Contributions subsequent to the measurement date	518,102	-
Total	\$ 518,102	\$ (14,042)

The City reported \$518,102 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2025.

Deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Year ended December 31:	
2024	\$ (1,824)
2025	(1,824)
2026	(1,824)
2027	(1,824)
2028	(1,368)
Thereafter	(5,378)
	\$ (14,042)

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. 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. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. As such, contributions fund the covered active member and retiree deaths on a pay-as-you-go basis.

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	2
Active employees	105
Total	109

The City's contributions to the TMRS SDBF for the year ended September 30, 2024 were \$0.

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2023, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.6% to 11.85%, including inflation per year
Discount rate	3.77%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). For disabled annuitants, the 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements subject to the floor.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.77%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2023.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.77%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.77%) or 1-percentage-point higher (4.77%) than the current rate.

1% Decrease 2.77%	Current Single Rate Assumption 3.77%	1% Increase 4.77%
\$ 36,037	\$ 29,311	\$ 24,193

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/21	\$ 1,518
Changes for the year:	
Service Cost	65,265
Interest	1,383
Difference between expected and actual experience	(40,432)
Changes of assumptions	1,577
Net changes	27,793
Balance at 12/31/22	\$ 29,311

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

For the year ended September 30, 2024, the City recognized OPEB expense of \$62,686.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2024

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ (36,363)
Changes in assumptions	998	-
Total	\$ 998	\$ (36,363)

Deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:		
2024	\$	(3,962)
2025		(3,962)
2026		(3,962)
2027		(3,962)
2028		(3,962)
Thereafter		(15,555)
	\$	(35,365)

The OPEB plan is not administered through a trust, or equivalent arrangement, and there are no assets accumulated in a GASB-compliant trust.

E. Restatement

Due to errors in the assessment receivable for the Summit Rock PID and donated land not recorded, the City restated beginning net position for governmental activities. The restatement was as follows:

	Governmental Activities
Prior year ending net position, as reported	\$ 24,483,283
Reduction in assessment receivable	(274,878)
Donated land	125,320
Restated beginning net position	\$ 24,333,725

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2024

F. Subsequent Events

Subsequent events were evaluated through January 13, 2025, the date the financial statements were available to be issued.

On October 21, 2024 there was a chemical spill within the City. As of the date this report was issued the City has spent approximately \$930,000 on cleanup efforts. These efforts are ongoing and the cost to the City is unknown, but is expected to increase.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Horseshoe Bay, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Page 1 of 2)
For the Year Ended September 30, 2024

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues</u>				
Property tax	\$ 7,152,586	\$ 7,109,586	\$ 7,108,331	\$ (1,255)
Sales tax	3,000,000	2,740,000	2,747,122	7,122
Franchise and local taxes	365,000	417,000	420,887	3,887
License and permits	671,000	1,013,000	1,008,454	(4,546)
Charges for services	1,273,700	1,175,700	1,172,550	(3,150)
Intergovernmental revenue	-	25,000	25,000	-
Fire and police	422,000	487,600	484,747	(2,853)
Investment income	100,000	729,000	728,197	(803)
Other revenue	175,550	106,500	104,876	(1,624)
Total Revenues	13,159,836	13,803,386	13,800,164	(3,222)
<u>Expenditures</u>				
Current:				
General government	2,911,500	2,749,500	2,734,161	15,339
Police department	3,001,750	2,943,750	2,935,000	8,750
Development services	1,348,500	1,297,500	1,287,150	10,350
Fire	3,019,750	3,067,750	3,054,848	12,902
Animal control	173,500	171,500	166,872	4,628
Streets	941,350	832,150	820,652	11,498
Mowing and clearing	655,000	622,000	620,616	1,384
Technology services	242,300	234,300	230,164	4,136
Debt service:				
Principal	12,500	20,500	19,748	752
Interest	2,000	2,000	1,968	32
Capital outlay	434,000	752,575	751,089	1,486
Total Expenditures	12,742,150	12,693,525	12,622,268	71,257
Revenues Over (Under)				
Expenditures	\$ 417,686	\$ 1,109,861	\$ 1,177,896	\$ 68,035

City of Horseshoe Bay, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (Page 2 of 2)
For the Year Ended September 30, 2024

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<u>Other Financing Sources (Uses)</u>				
Transfers in	\$ 600,000	\$ 841,830	\$ 841,830	\$ -
Transfers (out)	(1,062,686)	(381,000)	(380,139)	861
Sale of capital assets	10,000	15,500	14,587	(913)
Insurance recoveries	35,000	25,700	25,068	(632)
Total Other Financing Sources				
(Uses)	<u>(417,686)</u>	<u>502,030</u>	<u>501,346</u>	<u>(684)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 1,611,891</u>	<u>1,679,242</u>	<u>\$ 67,351</u>
Beginning fund balance			<u>7,389,439</u>	
Ending Fund Balance			<u><u>\$ 9,068,681</u></u>	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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City of Horseshoe Bay, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Year Ended December 31,

	¹ 12/31/2022	12/31/2023
Total pension liability		
Service cost	\$ 44,177	\$ 1,196,267
Interest	1,357	42,830
Changes in benefit terms (TMRS Plan Participation)	(1,984)	-
Difference between expected and actual experience	-	(3,277)
Changes in assumptions	-	(10,309)
Benefit payments, including refunds of employee contributions	-	(14,318)
Net change in total pension liability	43,550	1,211,193
Total pension liability - beginning	-	43,550
Total pension liability - ending (a)	\$ 43,550	\$ 1,254,743
Plan fiduciary net position		
Contributions - employer	\$ 24,425	\$ 661,409
Contributions - members	20,575	557,144
Net investment income	-	5,316
Benefit payments, including refunds of employee contributions	-	(14,318)
Administrative expense	-	(33)
Net change in plan fiduciary net position	45,000	1,209,518
Plan fiduciary net position - beginning	-	45,000
Plan fiduciary net position - ending (b)	\$ 45,000	\$ 1,254,518
Fund's net pension liability (asset) - ending (a) - (b)	\$ (1,450)	\$ 225
 Plan fiduciary net position as a percentage of the total pension liability	 103.33%	 99.98%
 Covered payroll	 \$ 293,924	 \$ 7,959,196
 Fund's net position as a percentage of covered payroll	 -0.49%	 0.00%

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

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City of Horseshoe Bay, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Years Ended:

	9/30/2023	9/30/2024
Actuarially determined employer contributions	\$ 526,434	\$ 677,503
Contributions in relation to the actuarially determined contribution	\$ 526,434	\$ 677,503
Contribution deficiency (excess)	\$ -	\$ -
Annual covered employee payroll	\$ 6,334,940	\$ 8,378,311
Employer contributions as a percentage of covered employee payroll	8.31%	8.09%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method

Entry Age Normal

Amortization Method

Level Percentage of Payroll, Closed

Remaining Amortization Period

N/A

Asset Valuation Method

10 Year smoothed market; 12% soft corridor

Inflation

2.5%

Salary Increases

3.6% to 11.85% including inflation

Investment Rate of Return

6.75%

Retirement Age

Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.

Mortality

Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent

Other Information:

Notes

There were no benefit changes during the year.

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City of Horseshoe Bay, Texas
***SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION (OPEB) LIABILITY AND RELATED RATIOS***
TEXAS MUNICIPAL RETIREMENT SYSTEM
Year Ended December 31,

	¹	2022	2023
Total OPEB liability			
Service cost	\$	2,025	\$ 65,265
Interest		19	1,383
Changes of assumptions		(526)	1,577
Differences between expected and actual experience		-	(40,432)
Net changes		<u>1,518</u>	<u>27,793</u>
Total OPEB liability - beginning		<u>-</u>	<u>1,518</u>
Total OPEB liability - ending (a)	\$	<u><u>1,518</u></u>	\$ <u><u>29,311</u></u>
 Covered-employee payroll	\$	293,924	\$ 7,959,196
Total OPEB Liability as a percentage of		0.52%	0.37%

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

BRACEWELL

[closing date]

\$ _____
CITY OF HORSESHOE BAY, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2025

We have represented the City of Horseshoe Bay, Texas (the “Issuer”), as its bond counsel in connection with an issue of certificates of obligation (the “Certificates”) described as follows:

CITY OF HORSESHOE BAY, TEXAS, COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2025, dated _____, 2025.

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 Issuer authorizing their issuance (the “Ordinance”).

We have represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the Issuer’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 Issuer; customary certificates of officers, agents and representatives of the Issuer 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. T-1 of this issue.

In providing the opinions set forth herein, we have relied on representations and certifications of the Issuer and other parties involved with the issuance of the Certificates with respect to matters solely within the knowledge of the Issuer and such parties, which we have not independently verified. In addition, we have

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BRACEWELL

[closing date]

Page 2

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 on such examination and in reliance on such representations, covenants and assumptions, it is our opinion that:

- (A) 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 Issuer; and
- (B) A continuing ad valorem tax upon all taxable property within the City of Horseshoe Bay, 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 the surplus revenues of the Issuer's water and wastewater system as provided in the Ordinance.
- (C) 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 Issuer or other parties are determined to be inaccurate or incomplete or the Issuer 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 of 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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