**PRELIMINARY OFFICIAL STATEMENT**

**Dated July 15, 2025**

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

**NEW ISSUE - Book-Entry-Only**

In the opinion of Bond Counsel, under existing law, assuming continuing compliance by the City (defined herein) after the date of initial delivery of the Bonds (described below) with certain covenants contained in the Ordinance (defined below) authorizing the Bonds and subject to the matters set forth under "FEDERAL TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds and will not be an item of tax preference for purposes of the federal alternative minimum tax for the owners thereof who are individual. (see "FEDERAL TAX MATTERS" herein).

# CITY OF LAKE JACKSON, TEXAS
## (A Home-Rule City of the State of Texas Located in Brazoria County)
## $19,445,000*
## LIMITED TAX BONDS, SERIES 2025

**Dated Date: August 1, 2025**
**Delivery Date: August 19, 2025** **Due: March 15, as shown on inside cover page**

**PAYMENT TERMS** . . . The $19,445,000* City of Lake Jackson, Texas Limited Tax Bonds, Series 2025 (the "Bonds") are being issued by the City of Lake Jackson, Texas (the "City") pursuant to the terms of ordinance to adopted by the governing body of the City on the date of the sale of the Bonds (the "Ordinance"). The definitive Bonds 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 Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds 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 Bonds (See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania (See "THE BONDS - PAYING AGENT/REGISTRAR").

Interest on the Bonds will accrue from the Delivery Date defined below and will be payable on March 15, 2026 and on each September 15 and March 15 thereafter until maturity or redemption prior to maturity. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

**AUTHORITY FOR ISSUANCE OF THE BONDS** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Chapter 1331, Texas Government Code, elections held on May 1, 2021 and May 3, 2025 and the Ordinance, and are direct obligations of the City, payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Ordinance (See "THE BONDS - AUTHORITY FOR ISSUANCE OF THE BONDS").

**PURPOSE** . . . Proceeds from the sale of the of the Bonds will be used for (i) street repairs, drainage improvements, and public safety facilities within the City; (ii) and paying the costs of issuance of the Bonds.

**SEE BOND TERMS ON THE INSIDE COVER PAGE**

**OPTIONAL REDEMPTION** . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 15, 2035, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (See "THE BONDS - OPTIONAL REDEMPTION").

**MANDATORY SINKING FUND REDEMPTION** . . . In addition to the foregoing optional redemption provision, if principal amounts designated in the serial bond terms and CUSIP Numbers on the inside cover are combined to create term Bonds ("Term Bonds"), each such Term Bond will be subject to mandatory sinking fund redemption commencing on March 15 of the first year which has been combined to form such Term Bond and continuing on March 15 in each year thereafter until the stated maturity date of that Term Bond, and the amount required to be redeemed in any year will be equal to the principal amount for such year set forth in the serial Bond Terms and CUSIP Numbers on the inside cover. Term Bonds to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and selected by lot from and among the Term Bonds then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the City or have been redeemed and not previously applied as a credit against any mandatory sinking fund redemption requirement.

**LEGALITY** . . . The Bonds are offered for delivery when, as, and if issued and received by the Initial Purchaser(s) and subject to the approving opinion of the Attorney General of Texas and the legal opinion of Winstead PC, Bond Counsel, Houston, Texas (See APPENDIX C, "FORM OF BOND COUNSEL'S OPINION").

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through The DTC on August 19, 2025 (the "Delivery Date").

**BIDS DUE MONDAY, JULY 21, 2025, AT 10:30 A.M., CENTRAL STANDARD TIME**

* Preliminary, subject to change.

## MATURITY SCHEDULES, INTEREST RATES AND YIELDS

### $19,445,000*
### Limited Tax Bonds, Series 2025

| Principal* | Maturity March 15 | Interest Rate | Price or Yield (1) | CUSIP Number(2) | Principal* | Maturity March 15 | Interest Rate | Price or Yield (1) | CUSIP Number(2) |
|---|---|---|---|---|---|---|---|---|---|
| $ 975,000 | 2026 | | | | $ 970,000 | 2036 (3) | | | |
| 975,000 | 2027 | | | | 970,000 | 2037 (3) | | | |
| 975,000 | 2028 | | | | 970,000 | 2038 (3) | | | |
| 975,000 | 2029 | | | | 970,000 | 2039 (3) | | | |
| 975,000 | 2030 | | | | 970,000 | 2040 (3) | | | |
| 975,000 | 2031 | | | | 970,000 | 2041 (3) | | | |
| 975,000 | 2032 | | | | 970,000 | 2042 (3) | | | |
| 975,000 | 2033 | | | | 970,000 | 2043 (3) | | | |
| 975,000 | 2034 | | | | 970,000 | 2044 (3) | | | |
| 970,000 | 2035 (3) | | | | 970,000 | 2045 (3) | | | |

(1) The initial reoffering prices or yields of the Bonds are furnished by the Initial Purchaser(s) (as defined herein) and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser(s) at any time.

(2) CUSIP numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the beneficial owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Initial Purchaser(s), nor the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(3) The Bonds maturing on or after March 15, 2035, are subject to redemption, at the option of the City, on March 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – OPTIONAL REDEMPTION"). In the event the Initial Purchaser(s) elects to aggregate two or more consecutive maturities of the Bonds as a term certificate (the "Term Bonds") such Term Bond will be subject to mandatory sinking fund redemption (see "THE BONDS – MANDATORY SINKING FUND REDEMPTION")

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]*

* Preliminary, subject to change.

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

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

*No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds will not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.*

*In accordance with their responsibilities under the federal securities laws, the Initial Purchaser has reviewed the information in the Official Statement but does not guarantee its accuracy or completeness.*

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

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

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

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

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

*This Official Statement contains "Forward-Looking" statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.*

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

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

*References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this preliminary official statement for purposes of, and as that term is defined in, Rule 15c2-12.*

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## TABLE OF CONTENTS



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

## CITY OFFICIALS, STAFF, AND CONSULTANTS

### ELECTED OFFICIALS

| Elected Official | Title | Term Ends |
|---|---|---|
| Gerald Roznovsky | Mayor | May 2026 |
| Leonard Schooler | Council Position #1 | May 2027 |
| Vinay Singhania | Council Position # 2 | May 2026 |
| Rhonda Seth | Council Position # 3/Mayor Pro Tem | May 2027 |
| Ralph Buell, III | Council Position # 4 | May 2026 |
| Jon "JB" Baker | Council Position # 5 | May 2027 |

### SELECTED ADMINISTRATIVE STAFF

| Name | Position | Length of Service |
|---|---|---|
| Modesto Mundo | City Manager | 30 Years |
| Riazul Mia | Assistant City Manager | 2 Years |
| James Bryson | Finance Director | 3 Years |
| Salvador Aguirre | City Engineer | 46 Years |
| Sherri Russell | City Attorney | 18 Years |
| Sally Villarreal | City Secretary | 13 Years |

### CONSULTANTS AND ADVISORS

Auditors .................................................... Crowe, LLP
Houston, Texas

Bond Counsel .................................................... Winstead PC
Houston, Texas

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

For additional information regarding the City, please contact:

| | | |
|---|---|---|
| Modesto Mundo<br>City Manager<br>City of Lake Jackson<br>25 Oak Drive<br>Lake Jackson, Texas 77566<br>(979) 415-2438 | or | Joe Morrow<br>Managing Director<br>Hilltop Securities Inc.<br>700 Milam Street, Suite 1200<br>Houston, Texas 77002<br>(713) 654-8690 |

**PRELIMINARY OFFICIAL STATEMENT**

**RELATING TO**

**CITY OF LAKE JACKSON, TEXAS**
**(A Home-Rule City of the State of Texas Located in Brazoria County)**
**$19,445,000***
**LIMITED TAX BONDS, SERIES 2025**

## INTRODUCTION

This Official Statement, which includes the cover pages and Appendices hereto, provides certain information regarding the issuance of the $19,445,000* City of Lake Jackson, Texas Limited Tax Bonds, Series 2025 (the "Bonds"). Capitalized terms used in this Official Statement, except as otherwise indicated herein, have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Bonds (the "Ordinance"), to be adopted by the City Council of the City of Lake Jackson (the "City") on the date of sale of the Bonds.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities Inc., Houston, Texas at the address shown on page 4.

### DESCRIPTION OF THE CITY

The City is a home-rule city of the State of Texas, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1944, and first adopted its Home Rule Charter on January 30, 1954. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers, each elected on an "at-large", nonpartisan basis for a term of two years, and term limited to three terms. The City Manager is the chief administrative officer for the City. The 2020 Census population for the City was 27,220, while the estimated 2025 population is 28,500. The City covers approximately 18 square miles.

## THE BONDS

### DESCRIPTION OF THE BONDS

The Bonds are dated August 1, 2025, and mature, or are subject to redemption prior to maturity, on March 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will accrue from the Delivery Date as defined on the cover hereof and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 15 and September 15, commencing March 15, 2026. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania (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 Bonds (See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein).

### AUTHORITY FOR ISSUANCE OF THE BONDS

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1331 Texas Government Code, elections held on May 1, 2021 and May 3, 2025, and the Ordinance.

### SECURITY AND SOURCE OF PAYMENT OF THE BONDS

All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all obligations (such as the Bonds) payable in whole or in part from ad valorem taxes, which tax must be levied within limits prescribed by law.

### TAX RATE LIMITATION

Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of $2.50 per $100 Taxable Assessed Valuation. However, to approve administratively the issuance of the Bonds, the Attorney General of the State of Texas (the "Attorney General") will permit allocation of only $1.50 of the $2.50 maximum tax rate for all tax backed debt service, as calculated at the time of issuance. Such allocation is not required after issuance of the Bonds.

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* Preliminary, subject to change.

The City's Home Rule Charter further limits any increase in ad valorem taxes in any one year exceeding 5% of the City's immediate prior year's ad valorem tax without approval by the electorate at an election held for that purpose. However, such 5% limitation does not prevent increased taxation of taxable property when subsequent improvements are made, nor prevent taxation of annexed property, nor does it affect, limit, or apply to debt service requirements and bond obligations.

### PERFECTION OF SECURITY

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the taxes granted by the City under the Ordinance and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the taxes granted by the City under the Ordinance is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

### OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 15, 2035, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) will determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If an Bond (or any portion of the principal sum thereof) has been called for redemption and notice of such redemption been given, such Bond (or the principal amount thereof to be redeemed) will become due and payable on such redemption date and interest thereon ceases to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

### MANDATORY SINKING FUND REDEMPTION

In addition to the foregoing optional redemption provision, if principal amounts designated in the serial certificate terms and CUSIP Numbers above are combined to create term Bonds ("Term Bonds"), each such Term Bond will be subject to mandatory sinking fund redemption commencing on March 15 of the first year which has been combined to form such Term Bond and continuing on March 15 in each year thereafter until the stated maturity date of that Term Bond, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial Bond Terms and CUSIP Numbers above. Term Bonds to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and be selected by lot from and among the Term Bonds then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the City or have been redeemed and not previously applied as a credit against any mandatory sinking fund redemption requirement.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of the Term Bonds of the same maturity which at least 50 days prior to a mandatory redemption date (i) has been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase and delivered to the Paying Agent/Registrar for cancellation or (ii) has been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

### NOTICE OF REDEMPTION

Not less than 30 days prior to a redemption date for the Bonds, the City will cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the 45th day preceding the date of redemption. ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION WILL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF WILL CEASE TO ACCRUE.

### DEFEASANCE

Except to the extent provided in the Ordinance, any Bond, and the interest thereon, will be deemed to be paid, retired, and no longer outstanding (a "Defeased Bond") when payment of the principal of such Bond, plus interest thereon to the due date (whether such due date be by reason of maturity or otherwise) either (i) has been made or caused to be made in accordance with the terms thereof or (ii) has been provided for on or before such due date by irrevocably depositing with or making available to a paying agent (a "Depositary"), with respect to the safekeeping, investment, administration, and disposition of a deposit made for such payment (the "Deposit") (A) lawful money of the United States of America sufficient to make such payment or (B) Government Bonds, which may be in book-entry form, that mature and bear interest payable at times and in amounts sufficient to provide for the scheduled payment of any Defeased Bond. To cause a Bond scheduled to be paid on a date later than the next scheduled interest payment date on such Bond to become a Defeased Bond, the City must, with respect to the Deposit, enter into an escrow or similar agreement with a Depositary.

The Ordinance provides that "Government Bonds" are (i) direct noncallable Bonds of the United States, including Bonds that are unconditionally guaranteed by, the United States of America; (ii) noncallable Bonds of an agency or instrumentality of the United States, including Bonds that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) noncallable Bonds of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

In connection with any defeasance of the Bonds, the City will cause to be delivered: (i) in the event an escrow or similar agreement has been entered into with a Depositary to effectuate such defeasance, a report of an independent firm of nationally recognized certified public accountants verifying the sufficiency of the escrow established to pay the Defeased Bond in full on the maturity or, with respect to the Bond, the redemption date thereof (the "Verification"); or (ii) in the event no escrow or similar agreement has been entered into, a certificate from the an authorized representative of the City, the City's Financial Advisor, or other qualified financial professional, certifying that the amount deposited with a Depositary is sufficient to pay the Defeased Bonds in full on the maturity date, or with respect to the Bonds, the redemption date thereof. In addition to the required Verification or certificate, the City will also cause to be delivered an opinion of nationally recognized bond counsel to the effect that the Defeased Bonds are no longer outstanding pursuant to the terms hereof and a certificate of discharge of the Paying Agent/Registrar with respect to the Defeased Bonds. The Bonds will remain outstanding hereunder unless and until they are in fact paid and retired or the above criteria are met.

At such time as a Bond will be deemed to be a Defeased Bond hereunder, and all herein required criteria have been met, such Bond and the interest thereon will no longer be outstanding or unpaid and will no longer be entitled to the benefits of the pledge of the security interest granted under the Ordinance, and such principal and interest will be payable solely from the Deposit of money or Government Bonds; provided, however, the City has reserved the option to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the Owners immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of reservation be included in any redemption notices that it authorizes.

**CONDITIONAL NOTICE OF REDEMPTION**. . . Notwithstanding anything in the Ordinance to the contrary, the City may make any notice of redemption conditional on the occurrence of a condition precedent. In the event that the City chooses to provide a conditional notice of redemption, the City must include in the notice of redemption that the redemption is conditioned upon the occurrence of a condition precedent.

**BOOK-ENTRY-ONLY SYSTEM**

*This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, 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 Bonds), 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.*

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the register and request that copies of the notices be provided directly to them.

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar of each series, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar of each series, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar of each series, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

**USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT** . . . In reading this Official Statement it should be understood that while the Bonds 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 Bonds, 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 Initial Purchaser(s)s.

**Effect of Termination of Book-Entry-Only System** . . . In the event that the Book-Entry-Only System of the Bonds is discontinued, printed Bonds will be issued to the DTC Participants or the holder, as the case may be, and such Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

**Paying Agent/Registrar**

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania. 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 Bonds are duly paid and any successor Paying Agent/Registrar must 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 Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds 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 Bonds 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. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds 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 Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

**Record Date for Interest Payment**

The date for determining the person to whom interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month (the "Record Date").

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Owner of an Bond 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.

**Owners' Remedies**

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

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, registered owners may not be able to bring such a suit against the City for breach of the Bonds 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 Bonds.

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

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

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

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

**USE OF PROCEEDS**

Proceeds from the sale of the Bonds are expected to be expended as follows:

| | |
|---|---|
| **Sources of Funds** | |
| Par Amount | |
| Premium | |
| Total Sources | $ - |
| | |
| **Uses of Funds** | |
| Deposit to Project Fund | |
| Cost of Issuance(1) | |
| Underwriter's Discount | |
| Total Uses | $ - |

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

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## AD VALOREM PROPERTY TAXATION

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

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

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

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

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

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

**LOCAL OPTION HOMESTEAD EXEMPTIONS . . .** The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the 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 sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also 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.

**LOCAL OPTION FREEZE FOR THE ELDERLY AND DISABLED . . .** The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded.

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

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

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

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

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

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

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

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

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

**CITY AND TAXPAYER REMEDIES . . .** Under certain circumstances, taxpayers and taxing units, including the City, 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 million 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 "AD VALOREM PROPERTY TAXATION – PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS"). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

**LEVY AND COLLECTION OF TAXES . . .** The City is responsible for the collection of its taxes unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

**CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES** . . . Taxes levied by the City are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

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

> "adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.
>
> "de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional $500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.
>
> "no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).
>
> "special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per $100 of taxable value.
>
> "unused increment rate" means the cumulative difference between a city's voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city's tax rate in tax years 2021 through 2023 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 in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

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

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

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

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

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

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

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

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.

**2025 REGULAR AND SPECIAL LEGISLATIVE SESSIONS . . .** The 89th Texas Legislature convened on January 14, 2025, and concluded on June 2, 2025 (the "89th Regular Session"). When the Legislature is not in session, the Governor of Texas (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 legislative session, the Legislature will consider a general appropriations act and may enact laws that materially change the Property Tax Code and other current law as it relates to ad valorem taxation, and the issuance of debt obligations such as the Bonds. The City can make no representations or predictions regarding any actions the Legislature has taken or may take during the 89th Regular Session, or any special session, or concerning the substance or effect of any legislation that may be passed during the 89th Regular Session or a future session of the Legislature.

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

**CITY APPLICATION OF TAX CODE . . .** The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $75,000; the disabled are also granted an exemption of $45,000.

The City has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of $5,000.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

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

The City does not tax nonbusiness personal property; and the County collects taxes for the City.

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

The City does not tax freeport property. The city has not taken action to tax good-in-transit.

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

The City has adopted a tax abatement policy, as described below.

**TAX ABATEMENT POLICY** . . . The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. Generally, projects are eligible for a tax abatement of up to 100% for a period of two years during the period of construction and for five years thereafter. Currently, the City does not have any active abatement agreements.

**CHAPTER 380 AGREEMENTS** . . . Chapter 380 of the Texas Local Government Code provides legislative authority to municipalities in the area of economic development. A City may provide a grant or loan of city funds or services to promote economic development and stimulate business and commercial activity in the municipality. See "Appendix B – Excerpts from the City of Lake Jackson, Texas Annual Financial Report for the Year Ended September 30, 2024 – Note 4 – Economic Development Agreements."

**MUNICIPAL MANAGEMENT DISTRICT** . . . The Legislature has created a Municipal Management District (the "District") covering approximately 1,100 acres within the City. The City expects the area of the District to be developed and has entered into negotiations with the developer. The financing of public infrastructure in the District may be accomplished through the creation of a TIRZ or through the District or both.

**INDUSTRIAL DISTRICT AGREEMENT** . . . The Cities of Lake Jackson, Clute and Freeport entered a fifteen-year contract in 2011 with Dow Chemical Company, BASF Corporation and Brock Interests (the "IDA") in which the industries and the respective cities have agreed to a payment in lieu of taxes from the industries in return for the cities agreement not to annex them. Pursuant to the IDA the taxable value of the industries totaled $3,483,559,458 and the payment to Lake Jackson during the fiscal year ended September 30, 2024 was $7l,490,308. Annual payments are based on a growth factor which is the higher of the CPI-U or value-based formula tied to the growth of assessed values within the district.

**TABLE 1 – FINANCIAL INFORMATION**

| | | | |
|---|---|---|---|
| 2025 Assessed Valuation (100% of Actual) | | $ 3,443,725,681 | (1) |
| Tax Debt Outstanding (as of September 30, 2024): | | | |
| Presently Outstanding Debt | | $ 45,880,000 | |
| The Bonds | | 19,445,000 | (2) |
| Less: Self-Supporting Debt | | 9,168,621 | (3) |
| Less: Debt Service Fund Balance as of 9/30/2024 | | 695,381 | |
| Net Debt | | $ 75,189,002 | |
| Ratio of Net Debt to 2025 Assessed Valuation | | 2.18% | |
| 2025 Census Population Estimate: 28,500 | Net Debt Per Capita | $2,638 | |
| 2025 Assessed Valuation Per Capita: $120,832 | Area of the City | 18 sq. mi. | |

(1) Includes $356,672,458, still under protest at time of certification.
(2) Preliminary, subject to change.
(3) Excludes the various debt that is supported by the Economic Development Corporation Sales Tax. It is the City's current policy to provide these payments from respective sales tax revenues; this policy is subject to change in the future. (See "DEBT INFORMATION – SELF-SUPPORTING DEBT.")

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**TABLE 2 – TAX COLLECTIONS**

| Tax Year | Assessed Valuation | Tax Rate | Percent Tax Collections Current | Percent Tax Collections Total | Year Ending |
|---|---|---|---|---|---|
| 2020 | $ 2,486,245,180 | $ 0.3482 | 99.6 % | 99.9 % | 9/30/2021 |
| 2021 | 2,577,673,168 | 0.3390 | 99.6 % | 99.8 % | 9/30/2022 |
| 2022 | 2,810,522,801 | 0.3390 | 99.5 % | 99.5 % | 9/30/2023 |
| 2023 | 3,313,366,627 | 0.3231 | 99.3 % | 99.3 % | 9/30/2024 |
| 2024 | 3,443,725,681 | 0.3272 | 95.5 % (1) | 93.9 % (1)(2) | 4/30/2025 |

(1) Collections as of May 31, 2025.
(2) Average total collection reflecting a refund of approximately $151,730 in 2023 and $14,049 in 2022.

**TABLE 3 - TAX RATE DISTRIBUTION**

| | Tax Year 2024 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|
| General Fund | $ 0.2007 | $ 0.2248 | $ 0.2318 | $ 0.2193 | $ 0.2316 |
| Debt Service Fund | 0.1265 | 0.0984 | 0.1072 | 0.1097 | 0.1166 |
| Total | $ 0.3272 | $ 0.3231 | $ 0.3390 | $ 0.3290 | $ 0.3482 |

**TABLE 4 - DEBT SERVICE FUND MANAGEMENT INDEX**

| | | |
|---|---|---|
| Audited Debt Service Fund Balance as of 9/30/2024………………………………………………… | $ | 695,381 |
| Budgeted Debt Service Fund Tax Levy of $.3259 per $100 assessed valuation on total 2025 assessed valuation of $3,443,725,681 at 99.3% collection……………………………………… | $ | 3,971,517 |
| Budgeted Interest earnings on Debt Service Fund for fiscal year ending 9/30/2025…………………… | | 110,000 |
| Budgeted 2025 Sales Tax for Economic Development Fund Debt Service…………………………… | | 1,473,374 |
| Estimated Total available for 2025 Debt Service…………………………………………………… | $ | 6,250,272 |
| Less: Tax Debt Service Requirements for fiscal year ending 9/30/2025 (1)……………………….. | | (5,436,141) |
| Estimated Tax Debt Service Fund Balance at 9/30/2025……………………………………………… | $ | 814,131 |

(1) Projected, includes self-supporting debt.

**TABLE 5 - TAX ADEQUACY**

| | Average Requirements (2025-2045) | Maximum Requirement (2026) |
|---|---|---|
| Estimated Ad Valorem Tax Supported Debt Service Requirements(1)…………………… | $3,929,592 | $5,835,686 |
| Debt Service Fund tax rate required on 2025 assessed valuation of $3,443,725,681 @ 98% collection………………………………………………... | $0.1165 | $0.1730 |

(1) Excludes the self-supporting debt. See "DEBT INFORMATION – SELF-SUPPORTING DEBT.") Includes the Bonds. Preliminary, subject to change.

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**TABLE 6 - 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 Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In 1997, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½% of 1%) for economic development. The sales tax for economic development is collected solely for the benefit of the Lake Jackson Economic Development Corporation (the "Corporation") and may be pledged to secure payment of sales tax revenue Bonds issued by the Corporation.

| Fiscal Year | 1-1/2% Sales Tax Collections |
|---|---|
| 2019 | $ 10,250,747 |
| 2020 | 10,195,839 |
| 2021 | 11,237,947 |
| 2022 | 11,906,199 |
| 2023 | 12,135,047 |
| 2024 | 12,437,973 |

**TABLE 7 - AD VALOREM TAX DEBT AUTHORIZED BUT UNISSUED***

| Purpose | Date Authorized | Amount Authorized | Amount Previously Issued | Amount Being Issued | Unissued Balance |
|---|---|---|---|---|---|
| Police Facilities | 5/1/2021 | $ 2,400,000 | $ - | $ 2,400,000 | $ - |
| Public Safety | 5/3/2025 | 6,000,000 | | 6,000,000 | - |
| Street | 5/3/2025 | 8,000,000 | | 8,000,000 | - |
| Drainage | 5/3/2025 | 4,000,000 | - | 4,000,000 | - |
| | | $ 20,400,000 | $ - | $ 20,400,000 | $ - |

* Preliminary, subject to change.

**OTHER OBLIGATIONS**

The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt may be issued to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding obligations, certificates of obligation, tax anticipation notes, and public property finance contractual obligations.

- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City's needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported obligations without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.

- Contractual obligations, generally to finance personal property, and tax anticipation notes payable from ad valorem taxes; may be issued for capital improvements. The contractual obligations and tax anticipation notes may be refunded by ad valorem tax-supported obligations without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Tax anticipation notes are limited to seven years amortization or less.

- Revenue obligations may be issued for certain purposes which include the financing of the water, municipal drainage and sanitary sewer systems, electric and gas systems, convention centers, airports and parking systems, and other economic development projects. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported obligations without an election.

In addition to additional voted tax debt the City has the legal authority to issue other debt obligations which could include sales tax obligations, certificates of obligation, public property finance contractual obligations, limited tax notes, revenue obligations, lease purchase agreements, tax anticipation notes, bond anticipation notes, certificates of participation, or traditional bank loans, all without an election.

### TABLE 8 - TOP TEN TAXPAYERS

| Taxpayer | Nature of Property | 2024/25 Taxable Assessed Valuation | % of Total Taxable Assessed Valuation |
|---|---|---|---|
| BG Woodward, LLC (Dow Research) | Industrial | $ 114,548,640 | 3.33% |
| Dow Chemical Company | Various Properties | 61,806,634 | 1.79% |
| AC Brazos Mall Partners | Mall | 53,824,064 | 1.56% |
| Interurban Wilshire LLC | Apartment | 40,031,580 | 1.16% |
| Galaxy Properties LLC | Commercial Properties | 37,103,430 | 1.08% |
| Covery Plantation LP (Plantation Park) | Apartment | 35,000,000 | 1.02% |
| Lake Jackson Apartments LLC | Apartment | 29,464,760 | 0.86% |
| Canam Lake Jackson LLC | Apartment | 26,606,190 | 0.77% |
| The James S Billups 1996 Trust No 1 | Apartment | 24,818,803 | 0.72% |
| 514 That Way LLC | Apartment | 23,106,000 | 0.67% |
| | | $446,310,101 | 12.96% |

### TAX VALUE CONCENTRATION

Adverse developments in economic conditions particularly within an industry (such as oil and gas) could impact these taxpayers and the tax values in the City, resulting in less local tax revenues. If any major taxpayer (and particular, the top taxpayer) were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process which can only occur annually, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "THE BONDS - OWNERS' REMEDIES" and "AD VALOREM PROPERTY TAXATION" in this Official Statement.

### TABLE 9 - TAXPAYERS BY CLASSIFICATION

| Classification | 2024/2025 Assessed Valuation | Percent of Total |
|---|---|---|
| Residential | $ 2,534,438,976 | 66.78% |
| Real, Vacant Platted Lots/Tracts | 13,150,835 | 0.35% |
| Commercial & Industrial | 810,246,859 | 21.35% |
| Real, Acreage (Land Only) | 19,591,279 | 0.52% |
| Utilities & Pipelines | 407,645,013 | 10.74% |
| Special Inventory & Other | 9,985,305 | 0.26% |
| Total Appraised Value | $ 3,795,058,267 | 100.00% |
| Less Exemtpions | (708,005,044) | |
| | $ 3,087,053,223 | |
| Under Protest at Certification | 356,672,458 | |
| Net Taxable Value | $ 3,443,725,681 | |

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**TABLE 10 - ESTIMATED DIRECT AND OVERLAPPING TAX DEBT STATEMENT**

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

| Political Subdivision | Outstanding Tax Debt 4/30/2025 | Percent Overlapping | Amount Overlapping |
|---|---|---|---|
| Angleton ISD | $ 320,955,000 | 0.00% (1) | $ - (1) |
| Brazoria County | 226,118,313 | 4.87% | 11,011,962 |
| Brazosport College District | 34,360,000 | 14.38% | 4,940,968 |
| Brazosport ISD | 285,110,000 | 14.39% | 41,027,329 |
| Columbia-Brazoria ISD | 101,450,000 | 0.99% | 1,004,355 |
| Port Freeport | 122,855,000 | 8.61% | 10,577,816 |
| Velasco Drainage District | 3,995,000 | 14.54% | 580,873 |
| | | | |
| Total Overlapping Net Tax Debt | | | $ 69,143,302 |
| City of Lake Jackson | | | 75,189,002 (2) |
| Total Direct and Overlapping Net Tax Debt | | | $ 144,332,304 |
| Ratio of Total Direct and Overlapping Net Tax Debt to 2025 Assessed Valuation | | | 4.19% |
| Total Direct and Overlapping Net Tax Debt Per Capita | | | $5,064 |
| Asssessed Valuation Per Capita | | | $120,832 |

(1) Less than 0.01%.
(2) Includes the Bonds; preliminary, subject to change. Excludes the various debt that is supported by the Economic Development Corporation Sales Tax. It is the City's current policy to provide these payments from respective sales tax revenues; this policy is subject to change in the future.

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**DEBT INFORMATION**

**TABLE 11 - PRO-FORMA TAX DEBT SERVICE REQUIREMENTS**

| Fiscal Year End | Outstanding Debt Principal | Outstanding Debt Interest | Outstanding Debt Total | The Bonds[1] Principal | The Bonds[1] Interest | The Bonds[1] Total | Less: EDC Self-supporting Debt | Total Tax Debt Service Requirements |
|---|---|---|---|---|---|---|---|---|
| 2025 | $ 3,870,000 | $ 1,566,141 | $ 5,436,141 | $ - | $ - | $ - | $ 1,473,374 | $ 3,962,767 |
| 2026 | 3,845,000 | 1,429,272 | 5,274,272 | 975,000 | 1,018,093 | 1,993,093 | 1,431,680 | 5,835,686 |
| 2027 | 3,680,000 | 1,295,797 | 4,975,797 | 975,000 | 899,125 | 1,874,125 | 1,241,472 | 5,608,451 |
| 2028 | 3,405,000 | 1,165,641 | 4,570,641 | 975,000 | 850,375 | 1,825,375 | 1,182,167 | 5,213,849 |
| 2029 | 3,405,000 | 1,038,610 | 4,443,610 | 975,000 | 801,625 | 1,776,625 | 1,147,689 | 5,072,546 |
| 2030 | 3,265,000 | 916,329 | 4,181,329 | 975,000 | 752,875 | 1,727,875 | 1,085,625 | 4,823,579 |
| 2031 | 2,935,000 | 808,494 | 3,743,494 | 975,000 | 704,125 | 1,679,125 | 862,788 | 4,559,831 |
| 2032 | 2,920,000 | 711,311 | 3,631,311 | 975,000 | 655,375 | 1,630,375 | 830,900 | 4,430,786 |
| 2033 | 2,580,000 | 619,996 | 3,199,996 | 975,000 | 606,625 | 1,581,625 | 480,525 | 4,301,096 |
| 2034 | 2,300,000 | 536,180 | 2,836,180 | 975,000 | 557,875 | 1,532,875 | 376,125 | 3,992,930 |
| 2035 | 2,050,000 | 457,287 | 2,507,287 | 970,000 | 509,250 | 1,479,250 | 120,175 | 3,866,362 |
| 2036 | 2,050,000 | 380,700 | 2,430,700 | 970,000 | 460,750 | 1,430,750 | 116,725 | 3,744,725 |
| 2037 | 1,935,000 | 305,594 | 2,240,594 | 970,000 | 412,250 | 1,382,250 | - | 3,622,844 |
| 2038 | 1,790,000 | 237,912 | 2,027,912 | 970,000 | 363,750 | 1,333,750 | - | 3,361,662 |
| 2039 | 1,595,000 | 179,344 | 1,774,344 | 970,000 | 315,250 | 1,285,250 | - | 3,059,594 |
| 2040 | 1,155,000 | 132,194 | 1,287,194 | 970,000 | 266,750 | 1,236,750 | - | 2,523,944 |
| 2041 | 1,155,000 | 93,066 | 1,248,066 | 970,000 | 218,250 | 1,188,250 | - | 2,436,316 |
| 2042 | 1,155,000 | 52,988 | 1,207,988 | 970,000 | 169,750 | 1,139,750 | - | 2,347,738 |
| 2043 | 790,000 | 16,294 | 806,294 | 970,000 | 121,250 | 1,091,250 | - | 1,897,544 |
| 2044 | - | - | - | 970,000 | 72,750 | 1,042,750 | - | 1,042,750 |
| 2045 | - | - | - | 970,000 | 24,250 | 994,250 | - | 994,250 |
| | $ 45,880,000 | $ 11,943,150 | $ 57,823,150 | $ 19,445,000 | $ 9,780,343 | $ 29,225,343 | $ 10,349,245 | $ 76,699,248 |

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

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**TABLE 12 - SELF-SUPPORTING DEBT**

The City has debt outstanding which is paid from surplus sales tax revenues of the City's Economic Development Corporation. This debt includes a portion of the; a portion of the Limited Tax Refunding Bonds, Series 2015; the Certificate of Obligation, Series 2016; the Limited Tax Refunding Bonds, Series 2021 and the Certificates of Obligation, Series 2022.

| Issue | Self-Supporting Debt Due in Fiscal Year 2025 |
|---|---|
| Limited Tax Refunding Bonds, Series 2015 | $ 275,774 |
| Certificates of Obligation, Series 2016 | 309,450 |
| Limited Tax Refunding Bonds, Series 2021 | 441,600 |
| Certificates of Obligation, Series 2022 | 446,550 |
| | $ 1,473,374 |
| Budgeted Gross Sales Tax Revenue Available for Debt Service, Fiscal Year Ended 9/30/2025 | $ 12,293,000 |
| Percentage of Debt Self-Supporting | 100% |

**ANTICIPATED ISSUANCE OF TAX DEBT**

The City expects to issue $19,130,000 (subject to change) Waterworks and Sewer System Revenue Bonds, Series 2025 concurrently with the Bonds on July 21, 2025. The issuance of such revenue bonds is not contingent upon the issuance of the Bonds.

**PENSION FUND**

The City provides for two pension plans; one is a defined benefit cash-balance plan administered through Texas Municipal Retirement System (TMRS) and one has a special funding situation administer by Texas Emergency Services Retirement System (TESRS). (For more detailed information concerning the retirement plans, see Appendix B, "Excerpts from the City's Annual Financial Report" – Note #4 – OTHER INFORMATION.)

**OTHER POST-EMPLOYMENT BENEFITS**

The City as an employer participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System known as the Supplemental Death Benefits Fund. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered a post-employment benefit other than pension benefit (OPEB or other post-employment benefit) and is a fixed amount of $7,500. (For more detailed information concerning the OPEB plan, see Appendix B, "Excerpts from the City's Annual Financial Report" – Note #4 – OTHER INFORMATION.)

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## FINANCIAL INFORMATION

**TABLE 13 - HISTORY OF GENERAL FUND REVENUE AND EXPENDITURES**

| | Fiscal Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| **Revenues:** | 2024 | 2023 | 2022 | 2021 | 2020 |
| Taxes | | | | | |
| Property | $ 5,933,807 | $ 5,756,916 | $ 5,384,188 | $ 4,961,293 | $ 4,765,356 |
| Sales | 8,265,274 | 7,871,050 | 7,771,049 | 6,335,000 | 6,685,758 |
| Franchise | 1,486,991 | 1,500,507 | 1,497,229 | 1,652,607 | 1,581,094 |
| Other Taxes | 248,589 | 267,148 | 274,089 | 140,000 | 224,578 |
| Industrial District(1) | 6,810,636 | 6,323,810 | 5,583,516 | 5,203,881 | 5,101,850 |
| Intergovernmental | 97,179 | 857,233 | 5,408 | 43,000 | 21,483 |
| Revenue Producing Facilities | 1,091,224 | 1,080,025 | 892,794 | 831,175 | 503,792 |
| Fines & Fees | 481,735 | 434,449 | 502,429 | 494,000 | 544,436 |
| Licenses & Permits | 272,829 | 546,270 | 409,046 | 446,350 | 599,601 |
| Interest income | 1,217,560 | 822,969 | 91,711 | 159,012 | 134,451 |
| Miscellaneous | 440,998 | 429,132 | 150,276 | 46,500 | 94,693 |
| Total Revenues | $ 26,346,822 | $ 25,889,509 | $ 22,561,735 | $ 20,312,818 | $ 20,257,092 |
| | | | | | |
| **Expenditures:** | | | | | |
| General Gov't & Admin. | $ 11,851,386 | $ 5,316,497 | $ 5,289,511 | $ 4,294,820 | $ 4,316,225 |
| Public Safety | 9,507,950 | 8,818,140 | 8,464,338 | 8,096,942 | 7,521,764 |
| Public Works | 3,436,196 | 3,180,193 | 2,766,367 | 3,009,297 | 2,467,106 |
| Culture & Recreation | 5,489,510 | 5,216,934 | 4,904,246 | 4,896,106 | 4,347,480 |
| Capital Outlay | 1,626,997 | 1,220,237 | 708,715 | 950,762 | 708,063 |
| Debt Service | 23,680 | 23,061 | - | - | - |
| Interest and Fiscal Agent Fees | 1,265 | 1,883 | - | - | - |
| Total Expenditures | $ 31,936,984 | $ 23,776,945 | $ 22,133,177 | $ 21,247,927 | $ 19,360,638 |
| | | | | | |
| Excess (Deficit) of Revenues | | | | | |
| Over Expenditures | $ (5,590,162) | $ 2,112,564 | $ 428,558 | $ (935,109) | $ 896,454 |
| | | | | | |
| Other Financing Sources (Uses) | | | | | |
| Operating Transfers In | $ 1,540,973 | $ 1,110,893 | $ 2,258,319 | $ 2,061,235 | $ 2,057,435 |
| Operating Transfers (Out) | - | - | (1,457,948) | (1,328,195) | (916,955) |
| Proceeds from Disposition of Assets | - | - | 177,310 | - | 45,575 |
| Total Other Financing Sources (Uses) | $ 1,540,973 | $ 1,110,893 | $ 977,681 | $ 733,040 | $ 1,186,055 |
| | | | | | |
| Fund Balance, Beginning of Year | $ 22,148,584 | $ 18,925,127 | $ 16,218,694 | $ 16,420,763 | $ 14,338,254 |
| | | | | | |
| Prior Period Adjustment | - | - | 1,300,194 | - | - |
| Fund Balance, End of Year | $ 18,099,395 | $ 22,148,584 | $ 18,925,127 | $ 16,218,694 | $ 16,420,763 |

(1) See "TAX INFORMATION – Industrial District Agreement." For more detailed information concerning the City's Industrial District, see the financial statements of the City, Note #4 – OTHER INFORMATION.

**CAPITAL IMPROVEMENT PROGRAM**

The City annually updates a Capital Improvement Plan (the "CIP") that groups projects into current, one, two, three, four years, and future bond issues. The CIP is formulated through a combination of staff discussions and planning sessions with City department heads, potential input from advisory boards, and City Council direction. The plan identifies potential capital projects for the fiscal years 2024 through 2026 totaling $2,883,000. The CIP is a financial and management planning tool and does not in any way commit the City to funding any project contained within the program.

### LEGAL INVESTMENTS

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

Under Texas 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 of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, 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 the National Credit Union Share Insurance Fund or their respective successors; (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 governing body or designated investment committee of the City adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this state that the City selects; (B) the broker or depository institution as described in clause (8)(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 investing 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 Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3), (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits or, (ii) where the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) 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; (iv) 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 (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3- 3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), and 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 (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (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 complies with SEC Rule 2a-7; and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Texas requires that the City 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 include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the City’s 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 City’s investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City’s investment policy (except to the extent that this authorization (i) is dependent on an analysis of the makeup of the City’s entire portfolio, (ii) requires an interpretation of subjective investment standards, or (iii) relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

**INVESTMENT POLICIES**

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds’ investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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 must 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**

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 entity 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 Finance Director; (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 its investment in mutual funds in the aggregate to no more than 15 % of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

**TABLE 14 - CURRENT INVESTMENTS**

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

| Description | Percent of Total | Book Value |
|---|---|---|
| First National Bank Checking | 5.85% | $ 4,847,504 |
| TexPool[(1)] | 38.88% | 32,191,408 |
| TexSTAR[(1)] | 45.20% | 37,425,425 |
| Lone Star | 9.95% | 8,235,696 |
| CD's | | |
| Gulf Bank | 0.12% | 100,000 |
| | 100.00% | $ 82,800,033 |

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(1) TexPool, First Public and TexSTAR are local government investment pools. A local government investment pool is a professionally managed pool of funds composed of deposits from a governmental group of entities such as cities, counties, school districts and local governments. In Texas, the ability to pool assets was created under the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and authorize eligible governmental entities ("Participants") to invest their public funds and funds under their control through the investment pools.

The investment pool manager purchases a portfolio of securities with the funds deposited and each pool participant owns a pro rata share in the portfolio. The most common structure is similar to a money market fund in which withdrawals can be made daily though there are pools established as bond funds which allow less frequent withdrawals and longer maturities.

A public funds investment pool must be continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service or be rated no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days, according to Section 2256.019. The investment pool must also have an advisory board as required and invest in authorized investments.

An entity may invest its funds in an eligible investment pool if the governing body authorizes by resolution such an investment in the particular pool. The investment pool is required to furnish the entity's investment officer an information statement (prospectus), transaction confirmations and monthly reports containing information specified in Section 2256.016.

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## FEDERAL TAX MATTERS

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

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the City and the Council made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Bond Order subsequent to the issuance of the Bonds. The Bond Order contains covenants by the City and the Council with respect to, among other matters, the use of the proceeds of the Bonds, the manner in which the proceeds of the Bonds are to be invested, the reporting of certain information to the United States Treasury, and rebating any arbitrage profits to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

For taxable years beginning after December 31, 2022, 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 Bonds, is included in a corporation's "adjusted financial statement income," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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

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

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

**TAX ACCOUNTING TREATMENT OF PREMIUM BONDS . . .** The initial public offering price of certain Bonds may be greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

**COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . .** The following discussion is a summary of certain collateral federal income tax consequences resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings, and court decisions, all of which are subject to change or modification retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred expenses allocable to, tax-exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE RECEIPT OR ACCRUAL OF INTEREST ON OR THE ACQUISITION, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be included in the "adjusted profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

Under section 6012 of the Code, owners of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns with respect to federal income taxes.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" (defined below) to the extent such gain does not exceed the accrued market discount (defined below) of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the owner at a purchase price which is less than the state redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

**STATE, LOCAL, AND FOREIGN TAXES . . .** Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership, or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

**CHANGES IN LAW . . .** Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law or otherwise prevent Owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

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## CONTINUING DISCLOSURE OF INFORMATION

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

### ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement in Tables 1 through 9 and Tables 11 through 13, and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year.

The City may provide updated information in full text or may incorporate by reference other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements if the City commissions an audit and the audit is completed by the required time. If audited financial statements are not available by the required time, the City will provide such financial statements on an unaudited basis within the required time and audited financial statements when they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by 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.

**EVENT NOTICES** . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect Bondholders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the MSRB as herein described. For the purposes of (a) the event identified in clause (12) in the immediately preceding paragraph, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (b) clauses (15) and (16) in the immediately preceding paragraph the term Financial Obligation shall have the meaning ascribed thereto in SEC Release No. 34-83885 dated August 20, 2018.

### NOTICE OF FAILURE TO TIMELY FILE

The City also will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the provisions described above.

### AVAILABILITY OF INFORMATION

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

#### LIMITATIONS AND AMENDMENTS

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

#### COMPLIANCE WITH PRIOR UNDERTAKINGS

Except as described below, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

During fiscal year 2022, the City failed to file a notice of defeasance related to a current refunding in a timely manner. The debt related to such filing is no longer outstanding.

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

## OTHER INFORMATION

#### RATINGS

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

#### LITIGATION

It is the opinion of the City Attorney and City 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 BONDS FOR SALE

The sale of the Bonds 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 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds must 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 Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of $1,000,000 or more, and savings and loan associations. The Bonds 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 Bonds are legal investments for various institutions in those states.

**LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE**

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding Bonds of the City, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Code, subject to the matters described under "FEDERAL TAX MATTERS" herein, (see APPENDIX C, "FORM OF BOND COUNSEL'S OPINION"). The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

Bond Counsel represents the Financial Advisor [and the Initial Purchaser] in matters unrelated to the Bonds.

**AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

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

**FINANCIAL ADVISOR**

Hilltop Securities Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Hilltop Securities Inc. has agreed, in its Financial Advisory contract, not to bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds. Hilltop Securities Inc. in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, 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.

**INITIAL PURCHASER**

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

### WEATHER EVENTS AND OTHER NATURAL DISASTERS

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

### FORWARD-LOOKING STATEMENTS DISCLAIMER

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

### CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of 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 Bonds and the acceptance of the best bid therefor for each the Bonds 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.

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**MISCELLANEOUS**

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof. In particular, no opinion or representation is rendered as to whether any forecast will approximate actual results, and all opinions, estimated and assumptions whether or not expressly identified as such, should not be considered statements of fact.

Statements made herein regarding the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Ordinance, copies of which are available upon request from the City's Financial Advisor, upon the payment of reasonable reproduction and postage costs.

This Official Statement was approved, and the delivery of this Official Statement authorized on behalf of the City by the City Council on the date set forth on the front cover page of this Official Statement.

______________________________
Mayor
City of Lake Jackson, Texas

ATTEST:

______________________________
City Secretary

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**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

## GENERAL INFORMATION REGARDING THE CITY

The City is located in the southeast quadrant of the State of Texas, in the southern portion of Brazoria County approximately 45 miles south of Houston. The City encompasses 18 square miles and is within ten miles of the west coast of the Gulf of Mexico.

## POPULATION

| Year | Population |
|---|---|
| 2021 | 28,625 |
| 2022 | 29,085 |
| 2023 | 27,314 |
| 2024 | 28,443 |
| 2025 | 28,500 |

## TRANSPORTATION

Access to the City is provided by State Highway 288 (a limited access freeway) which extends from Houston through the center of Lake Jackson to Freeport. Additional access is provided by State Highway 332, which bisects the City from east to west intersecting with State Highway 288, and State Highway 36 which extends from north central Texas.

Deepwater transportation is available through the Gulf of Mexico, Brazos River Harbor, and the Gulf Intracoastal Waterway, which cuts through the low lands of the County.

Railroad facilities are provided by the Union Pacific; and several bus and truck lines serve the area.

Air transportation is provided at the Texas Gulf Coast Regional Airport, located adjacent to the City. The fully F.A.A. approved facility has the capability to serve commercial jet aircraft.

## BRAZORIA COUNTY

Brazoria County, within which the City is located, covers an area of 1,386.8 square miles and comprises the Brazoria Primary Metropolitan Statistical Area, a component of the Houston Statistical Metropolitan Area. The Census population of the County is 346,312 as of the 2015 Census estimate. Manufacturers' shipments were over 31 billion in 2007. The world's largest basic chemical complex is located in the County, contributing to the extensive petroleum and chemical production in the area. The Dow Chemical Plant employs 3,666 people (The Economic Development Alliance for Brazoria County).

## CITY FACILITIES

The City Complex consists of the City Hall, the Police and Fire Stations, the Library, Museum, the Recreation Center, the Civic Center, and the Wilderness Golf Course. The City Hall houses the administrative offices and Council chamber of the City as well as the City-owned computer system. The Police and Fire Stations also include a Municipal Court and City Attorney's Office.

## RESIDENTIAL

The 18 square mile area that compromises the City today was undeveloped land until 1941, at which time the orderly well-planned development of a residential community was begun. Lake Jackson was established by Dow Chemical Company and Alden Dow, the son of Dow Chemical Company founder Herbert Henry Dow, designed the City, envisioning it as a residential community for officials and employees of their Freeport Plant located six miles from the City. Standards have remained high and a pattern of orderly growth has continued in all areas of development in Lake Jackson. Developers are required to install concrete streets, curbs and gutters, as well as water, sewer, and drainage facilities all of which are done at the developers' expense and supervised by the City to meet City specifications. Lake Jackson today is a community of above-average value homes. There is a blend of the new modern homes and older ranch-style structures occupying large single-family lots along tree shaded streets. Home values range from $100,000 to over $500,000. In addition, there are 23 apartment projects containing a total of 3,169 units within the City. Substandard housing is virtually non-existent and is of no significance in the local economic picture of the community.

## COMMERCIAL/RETAIL

The Brazos Mall Shopping Center, located on the City's west side, covers an area of 150,000 square feet, and is completely air-conditioned and centrally heated. Anchor tenants include Dillard's and J.C. Penney. There are approximately 65 shops and services offered, including Bath & Body Works and a Palais Royal department store. The mall was renovated to include a food court area and 14 screen movie theater. The Center's parking facilities accommodate over 5,000 cars. In a separate building at the south edge of the mall is an Academy store which contains approximately 50,000 square feet. Behind Academy and across from Lake Road is a Target store. Directly across State Highway 332 from the Brazos Mall are Hobby Lobby and Big Lots stores which contain approximately 119,000 square feet, and a Wal-Mart Super Store which contains approximately 225,000 square feet.

## AREA ECONOMY

The Dow Chemical Company (Dow), the world's leading producer of chemicals and plastics, continues to be the major contributor to the area economy. Dow employs over 50,000 people globally. Dow's more than 6,000 products are manufactured at 201 sites in 36 countries across the globe. Texas Operations in Freeport, TX, is Dow's largest integrated site. The four major complexes – Plant A, Plant B, Oyster Creek, and Salt Dome – operate as an integrated unit serving all eight of Dow's Global Business Groups. The site contains more than 3,200 acres of waterways and pipeline corridors and houses more than 1,900 buildings across the site. The products manufactured on site are transported by rail, truck, marine vessels and pipeline to customers around the world. Texas Operations manufactures more than 44 percent of Dow's products sold in the United States and more than 20 percent of Dow's products sold globally.

As part of The Dow Chemical Company's ongoing commitment to innovation, it has completed the administration and Research & Development (R&D) facility in Lake Jackson. The Texas Innovation Center houses state-of-the-art laboratory facilities and technical expertise centers for more than 2,000 people from Dow R&D, businesses, functions and manufacturing.

## INDUSTRIAL

Over 70% of Brazoria County's generated wealth comes from the chemical industry and is basically a type that sells in world markets on long contracts, resulting in an excellent economic cushion against periodic recession and regional or national monetary conditions.

The industrial complex is located only six miles from Lake Jackson, outside its corporate limits, and is a natural source of employment for its residents.

Dow Chemical Company Texas Operations is a major employer. Dow Chemical produces approximately 80 products in the fields of organic chemicals and metals, employing 3,900 people.

Other major employers in the area include Texas Department of Criminal Justice, Olin Corporation, Phillips 66, Brand/Safway, Wood Group and BASF Corporation.

Following are the top ten employers in the Brazoria County Area:

| Company | Type | Estimated Number of Employees |
|---|---|---|
| The Dow Chemical Company | Chemical | 3,666 |
| Texas Dept. of Criminal Justice | Criminal Justice | 2,579 |
| Brazosport I.S.D. | Education | 2,000 |
| Turner Industries | Contractor | 1,272 |
| Phillips 66 | Refining | 1,044 |
| Olin Corporation | Chemical | 974 |
| BASF Corporation | Chemical | 908 |
| Wood Group | Engineering | 700 |
| Chevron Phillips Chemical Co | Chemical | 698 |
| ICS | Contractor | 593 |
| | | 14,434 |

## SCHOOL FACILITIES

The City is in the Brazosport Independent School District ("BISD"), which operates eleven elementary schools, two middle schools, three intermediate schools, two high schools, and an area vocational school, which serves the students from both high schools. Four of the elementary schools, one middle school, and one intermediate school are located within the boundaries of the City.

BISD is in the midst of a district wide building program, currently all elementary schools in the district have been or soon will be rebuilt.

The Brazosport Junior College District, which encompasses the City of Lake Jackson, was established in 1971. In addition to its two-year programs, the college now offers a Bachelor of Applied Technology program. The program was designed in coordination with local industry to help meet their employment needs. The college also offers Associate of Arts and Sciences degrees, and two-year programs are offered in banking, chemical technology, computer technology, drafting and design, electronics, law enforcement, machine tools, ocean and marine technology, office education, and nursing. The college is fully accredited by the Southern Association of Colleges and Secondary Schools and the Association of Texas Colleges and Universities.

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**APPENDIX B**

EXCERPTS FROM THE

CITY OF LAKE JACKSON, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2024

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

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# INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
City Council Members of the
City of Lake Jackson, Texas

## Report on the Audit of the Financial Statements

### *Opinions*

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Jackson, Texas (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 referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 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 the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(Continued)

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and total other postemployment benefit liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on pages 13 through 23 and 78 to 85 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

***Supplementary Information***

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

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Crowe LLP

Crowe LLP

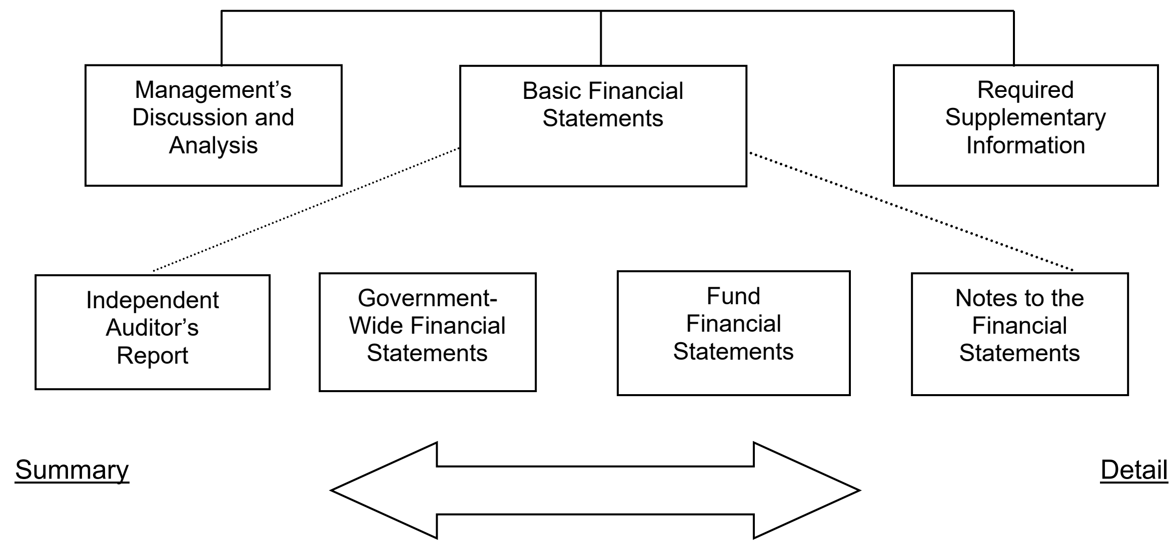
Houston, Texas
April 29, 2025

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Lake Jackson, Texas (the "City") for the year ending September 30, 2024. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

**Components of the Financial Section**




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

**Government-Wide Statements**

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

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

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

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

1. *Governmental Activities* – Most of the City's basic services are reported here including general government and administration, public safety, public works, and culture and recreation. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, occupancy and other taxes, industrial district fees, municipal court fines, and permit fees finance most of these activities.

2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's utility (water and sewer and sanitation) and golf course operations.

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

**FUND FINANCIAL STATEMENTS**

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

**<u>Governmental Funds</u>**

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

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

The City maintains 16 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, general governmental debt service fund, economic development fund (special revenue fund), and the 2023 capital bond fund, which are reported as major funds.

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

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**Proprietary Fund**

The City maintains one type of proprietary fund, enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its utility (water and sewer system and sanitation) and golf course operations. The proprietary funds financial statements provide separate information for its utility and golf course operations. The proprietary funds financial statements can be found in the basic financial statements of this report.

**Notes to Financial Statements**

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

**Other Information**

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $124,260,074 as of September 30, 2024. The largest portion of the City's net position, 67 percent, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

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**Statement of Net Position**

The following table reflects the condensed Statement of Net Position:

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| **ASSETS** | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |
| Current and other assets | $ 59,701,917 | $ 46,555,801 | $ 30,697,367 | $ 32,833,489 | $ 90,399,284 | $ 79,389,290 |
| Capital assets, net | 72,683,565 | 71,622,442 | 39,324,251 | 38,203,430 | 112,007,816 | 109,825,872 |
| Total assets | 132,385,482 | 118,178,243 | 70,021,618 | 71,036,919 | 202,407,100 | 189,215,162 |
| **DEFERRED OUTFLOWS ON RESOURCES** | | | | | | |
| Deferred outflows - pensions | 3,606,080 | 5,884,994 | 955,012 | 1,501,139 | 4,561,092 | 7,386,133 |
| Deferred outflows - OPEB | 76,949 | 92,865 | 21,435 | 25,929 | 98,384 | 118,794 |
| Deferred loss on refunding | 70,410 | 83,677 | - | - | 70,410 | 83,677 |
| Total deferred outflows of resources | 3,753,439 | 6,061,536 | 976,447 | 1,527,068 | 4,729,886 | 7,588,604 |
| **LIABILITIES** | | | | | | |
| Long-term liabilities | 55,060,947 | 44,843,519 | 19,324,216 | 21,495,385 | 74,385,163 | 66,338,904 |
| Current liabilities | 3,327,416 | 2,078,337 | 2,388,999 | 2,161,729 | 5,716,415 | 4,240,066 |
| Total liabilities | 58,388,363 | 46,921,856 | 21,713,215 | 23,657,114 | 80,101,578 | 70,578,970 |
| **DEFERRED INFLOWS ON RESOURCES** | | | | | | |
| Deferred inflows - pensions | 403,310 | 3,386 | 113,573 | 391 | 516,883 | 3,777 |
| Deferred inflows - OPEB | 168,146 | 239,573 | 43,493 | 63,660 | 211,639 | 303,233 |
| Deferred inflows - leases | - | - | 2,046,812 | 2,209,441 | 2,046,812 | 2,209,441 |
| Total deferred inflows of resources | 571,456 | 242,959 | 2,203,878 | 2,273,492 | 2,775,334 | 2,516,451 |
| **NET POSITION** | | | | | | |
| Net investment in capital assets | 50,626,258 | 46,591,942 | 32,748,143 | 31,569,227 | 83,374,401 | 78,161,169 |
| Restricted | 6,113,707 | 5,196,980 | 3,868,834 | 3,641,982 | 9,982,541 | 8,838,962 |
| Unrestricted | 20,439,137 | 25,286,042 | 10,463,995 | 11,422,172 | 30,903,132 | 36,708,214 |
| Total net position | $ 77,179,102 | $ 77,074,964 | $ 47,080,972 | $ 46,633,381 | $ 124,260,074 | $ 123,708,345 |

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A portion of the City's net position, $9,982,541 or 8 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, $30,903,132, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position increased by $551,729, which is from a surplus for governmental and business-type activities. Total assets increased by $13,191,938 from prior year, which was primarily due to an increase in capital assets from capital additions and current assets primarily due to an increase in unspent bond proceeds for future capital projects. Total liabilities increased by $9,522,608 which includes an increase in long-term liabilities due mainly to an increase in debt from an issuance of debt and an increase in current liabilities due primarily from an increase in accounts payable for capital project and storm clean up related costs at the end of the current fiscal year. There was a decrease in deferred outflows of resources of $2,858,718 due primarily to a decrease in the net difference between projected and actual investment earnings for the pension plan. Deferred inflows of resources had increase of $258,883 from prior year due primarily to an increase in changes of assumptions for the pension plan.

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## 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 Activities | Business-Type Activities | Total Primary Government | Governmental Activities | Business-Type Activities | Total Primary Government |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 1,820,466 | $ 19,981,183 | $ 21,801,649 | $ 2,028,110 | $ 20,225,628 | $ 22,253,738 |
| Operating grants and contributions | 97,179 | - | 97,179 | 77,865 | - | 77,865 |
| Capital grants and contributions | 10,965 | - | 10,965 | 3,105,808 | 1,867,131 | 4,972,939 |
| General revenues: | | | | | | |
| Taxes | | | | | | |
| Property | 10,043,607 | - | 10,043,607 | 8,513,047 | - | 8,513,047 |
| Sales | 12,437,973 | - | 12,437,973 | 11,919,333 | - | 11,919,333 |
| Franchise, occupancy, and other | 2,324,975 | - | 2,324,975 | 2,260,357 | - | 2,260,357 |
| Industrial district | 6,810,636 | - | 6,810,636 | 6,323,810 | - | 6,323,810 |
| Investment earnings | 3,119,391 | 1,488,327 | 4,607,718 | 2,195,058 | 1,157,807 | 3,352,865 |
| Other revenues | 490,448 | - | 490,448 | 522,169 | - | 522,169 |
| Total revenues | 37,155,640 | 21,469,510 | 58,625,150 | 36,945,557 | 23,250,566 | 60,196,123 |
| Expenses | | | | | | |
| General government | 12,808,758 | - | 12,808,758 | 5,876,608 | - | 5,876,608 |
| Public safety | 11,055,660 | - | 11,055,660 | 10,508,653 | - | 10,508,653 |
| Public works | 6,297,998 | - | 6,297,998 | 6,171,917 | - | 6,171,917 |
| Culture and recreation | 7,068,911 | - | 7,068,911 | 6,746,331 | - | 6,746,331 |
| Interest and fiscal agent fees | 1,595,835 | - | 1,595,835 | 910,984 | - | 910,984 |
| Water and sewer | - | 11,997,591 | 11,997,591 | - | 12,110,795 | 12,110,795 |
| Sanitation | - | 4,645,825 | 4,645,825 | - | 4,842,671 | 4,842,671 |
| Golf course | - | 2,602,843 | 2,602,843 | - | 2,735,859 | 2,735,859 |
| Total expenses | 38,827,162 | 19,246,259 | 58,073,421 | 30,214,493 | 19,689,325 | 49,903,818 |
| Increase (decrease) in net position before transfers | (1,671,522) | 2,223,251 | 551,729 | 6,731,064 | 3,561,241 | 10,292,305 |
| Transfers in (out) | 1,775,660 | (1,775,660) | - | 1,434,168 | (1,434,168) | - |
| **Change in net position** | 104,138 | 447,591 | 551,729 | 8,165,232 | 2,127,073 | 10,292,305 |
| Net position-beginning of year | 77,074,964 | 46,633,381 | 123,708,345 | 68,909,732 | 44,506,308 | 113,416,040 |
| **Net position-end of year** | $ 77,179,102 | $ 47,080,972 | $ 124,260,074 | $ 77,074,964 | $ 46,633,381 | $ 123,708,345 |

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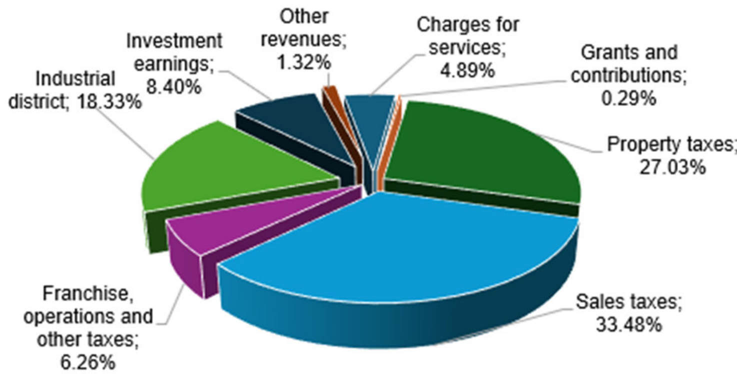
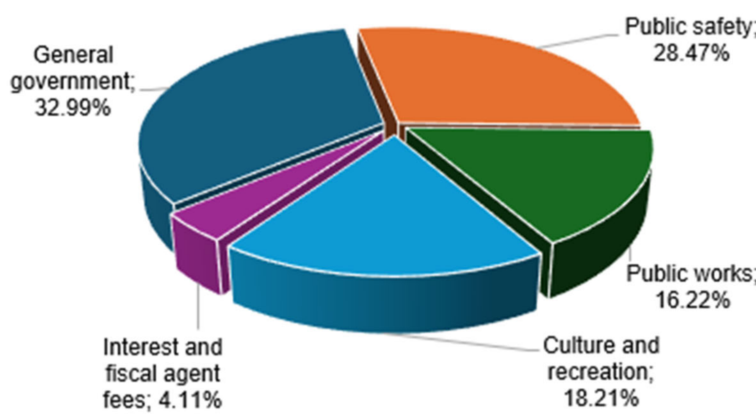
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

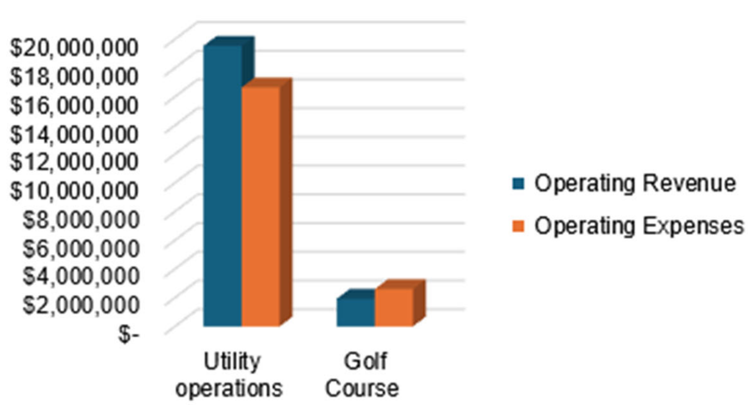
Governmental Revenues




Governmental Expenses




Business-Type Activities

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For the year ended September 30, 2024, revenues from governmental activities totaled $37,155,640 which was a net increase from prior year of $210,083. Governmental activities revenues included increases in property tax revenues from an increase in appraised property values, an increase in industrial district revenues and sales tax revenues from more economic activity, and an increase in investment earnings from an increase in interest rates on deposits. The net increase in revenues also includes a decrease in grants and contributions due primarily to less capital grant revenue during the current fiscal year.

For the year ended September 30, 2024, expenses for governmental activities totaled $38,827,162. Overall governmental expenses increased by $8,612,669 largely due to increases in personnel costs, an increase in expenses for interest and fiscal agent fees from an increase in debt, and an increase in expenses related to clean up and repairs from the hurricane that occurred during the fiscal year.

Net position for business-type activities increased $447,591 compared to the prior year. The increase in business-type activities includes a net transfer to governmental activities of $1,775,660. For the year ending September 30, 2024, revenues from business-type activities totaled $21,469,510 which was a decrease from prior year of $1,781,056 mainly due to a decrease in charges for services from less revenue for golf course usage and decrease in grants and contributions due to less capital grant revenue during the current fiscal year. . For the year ending September 30, 2024, revenues from business-type activities totaled $19,981,183 which was a decrease from prior year of $443,066 due primarily to a decrease in operational expenses during the current fiscal year.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

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

The City's governmental funds reflect a combined fund balance of $55,719,635. Of this, $145,783 is nonspendable, $32,629,733 is restricted for various purposes, $1,038,847 is committed for contingencies, and $11,887,069 is assigned for various projects. The remaining balance of $10,018,203 is unassigned in the general fund.

There was a net increase in the combined fund balance for the governmental funds of $11,892,720 compared to the prior year. The net increase includes transfers from the utility fund of $2,215,566 for capital-related projects and an increase of reimbursement of administrative costs and issuance of debt and premium on debt of $16,781,211 net of excess expenditures over revenues of $6,815,825 and transfers to the nonmajor golf course operations fund of $288,232.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was $10,018,203, while total fund balance reached $18,099,395. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 31 percent of total general fund expenditures while total fund balance represents 57 percent of the same amount. The general fund demonstrated an overall decrease of $4,049,189 in fund balance, mainly due to expenditures exceeding revenues. Compared to the prior year, there was a net increase in revenues of $457,313. Industrial district fee revenue increased by $486,826, property tax revenues increased by $176,891 from an increase in property values, sales tax revenues increased by $394,224, and investment earnings increased by $394,591 from high interest rates on pooled investments. These significant increases in revenues net with

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significant decreases in revenues from a decrease in intergovernmental revenues of $760,054 and decrease in revenue from licenses and permits of $273,441. Expenditures increased $6,534,889 compared to the prior year due to increases in expenditures from personnel costs, costs related to clean up and repair of damage City property from the hurricane during the fiscal year, and capital outlay.

The general governmental debt service fund has a total fund balance of $695,381, all of which is restricted for the payment of debt service. The decrease in fund balance during the year was $157,705. There was an increase in revenues of $1,336,326 from prior year primarily due to an increase in property tax revenues from an increase in property values. Expenditures increased by $1,533,376 from prior year mainly due to an increase in interest paid on debt.

The economic development fund had a total fund balance of $4,768,112, which is restricted for economic development. There was an increase in the economic development fund of $1,019,766, which included transfers to other governmental funds of $2,256,167 for debt service payments from debt issued for projects related to economic development and the costs to support recreation operations to encourage economic activity. Revenues increased by $91,412 from prior year, which was primarily due to an increase in sales tax revenues. Expenditures decreased by $623,385 from prior year mainly due to a decrease in capital outlay for projects related to the City parks.

There was an increase in fund balance for the 2023 capital bond fund of $16,966,077. This includes revenue from investment earnings of $701,451, expenditures on capital outlay of $516,585, and an issuance of debt and premium on the debt issuance. The fund balance for the 2023 capital projects bond fund of $16,966,077 is restricted for future capital projects.

**Proprietary Funds** – The City's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. The City's utility operations fund reported an increase in net position of $682,284, which was primarily due to an increase in investment earnings of $328,748 and decrease in operating expenses of $356,329. The proprietary nonmajor golf course operations fund reported a decrease in net position of $234,693, which included transfers from economic development and contributions of capital assets from governmental activities of $439,906. The ending net position for the utility operations fund was $42,340,991, and the golf course operations fund was $4,739,981.

## GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned decrease in budgeted fund balance in the amount of $8,066,650 in the general fund. However, the net change in fund balance increased by $4,049,189, resulting in a positive variance of $4,017,461 from budgeted as amended over actual. Actual general fund revenues were more than original and amended budgeted revenues by $1,846,450 during 2024, which was primarily due to more than anticipated revenues from industrial district and investment earnings. Actual expenditures were less than budgeted amounts by $2,171,011 for the fiscal year. This positive budget variance is primarily due to less expenditures than budgeted for general government, public safety, and public works.

## CAPITAL ASSETS

At the end of the current fiscal year, the City's governmental and business-type activities had invested $112,007,816 in a variety of capital assets, infrastructure, and right-to-use assets (net of accumulated depreciation/amortization). This represents a net increase of $2,181,944 which includes depreciation and amortization expense of $9,421,367 and capital additions of $11,603,311.

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

- Construction in progress for street and road improvements of $1,147,201
- Construction in progress for infrastructure improvements on the City's utility system of $2,986,574
- Capital additions on the utility system building and infrastructure of $1,687,149
- Street panel replacement of $644,654
- Park and recreation renovations of $1,271,823
- Restroom facility improvements of $560,349
- Vehicles and equipment for public works and public safety of $2,163,141

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

**LONG-TERM DEBT**

At the end of the current fiscal year, the City had total bonds and certificates of obligation outstanding of $62,400,000. Of this amount, $41,480,000 was general obligation bonds, certificates of obligation accounted for $4,400,000, and revenue bonds totaled $16,520,000.

During the year, the City's certificates of obligation and general obligation bonds, which are reported as debt for governmental activities, had a net increase of $11,770,000 which includes principal payments on debt outstanding of $4,060,000 and issuance of general obligation bond series 2023 for $15,830,000. The City's revenue bonds, which are reported as debt for business-type activities, had a decrease of $1,295,000 due to principal payments on debt outstanding.

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

Current underlying ratings on debt issues are as follows:

| | Moody's Investor's Services | Standard and Poor's |
|---|---|---|
| General obligation bonds and certificates of obligation | Aa1 | AA |
| Revenue bonds | Aa3 | AA |

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City adopted a fiscal year 2024-2025 total operating budget of $59,325,708, which is an increase of roughly 5 percent from the prior year operating budget. The 2024 estimated taxable value for fiscal year 2025 property tax revenues is $3,408,058,435, which is an increase of $162,540,384, from the estimated taxable values for fiscal year 2024. The 2024 maintenance and operation tax rate was .201093/100 for property tax revenues within the general fund for fiscal year 2025, which is an increase of .0043 from prior year rate. The approved 2024 interest and sinking tax rate was .116965/100 for property tax revenues within the debt service fund for fiscal year 2025, which is an increase of .009545 from the prior year rate.

The proposed general fund budget for fiscal year 2024-2025 is $27,455,600, which is an increase from prior year budgeted general fund revenue of $25,900,372. Last year's general fund expenditure exceeded budget due to Hurricane Beryl. The city anticipates recovering the majority of those costs through Federal Emergency Management Agency and Texas Division of Emergency Management grants.

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For fiscal year 2024-2025, the City anticipates generating $20,843,093 million in total utility fund operating revenues, which is an increase from the roughly $18,063,662 from prior year.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 25 Oak Drive, Lake Jackson, Texas, 77566.

# BASIC FINANCIAL STATEMENTS

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total |
| **ASSETS** | | | |
| Cash and cash equivalents | $ 56,304,806 | $ 10,494,552 | $ 66,799,358 |
| Investments | 100,000 | - | 100,000 |
| Accounts receivables, net of allowances | 3,151,328 | 1,116,612 | 4,267,940 |
| Leases receivable | - | 2,237,880 | 2,237,880 |
| Inventory | 145,783 | 101,723 | 247,506 |
| Prepaid items | - | 22,571 | 22,571 |
| Restricted assets | | | |
| Temporarily restricted cash and cash equivalents | - | 16,724,029 | 16,724,029 |
| Capital assets: | | | |
| Nondepreciable/amortizable capital assets | 4,806,779 | 7,024,293 | 11,831,072 |
| Depreciable/amortizable capital assets, net | 67,876,786 | 32,299,958 | 100,176,744 |
| Total assets | 132,385,482 | 70,021,618 | 202,407,100 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred outflows - pensions from TMRS | 3,382,362 | 955,012 | 4,337,374 |
| Deferred outflows - pensions from TESRS | 223,718 | - | 223,718 |
| Deferred outflows - OPEB from TMRS | 76,949 | 21,435 | 98,384 |
| Deferred loss on refunding | 70,410 | - | 70,410 |
| Total deferred outflows of resources | 3,753,439 | 976,447 | 4,729,886 |
| **LIABILITIES** | | | |
| Accounts payable and accrued liabilities | 2,752,508 | 1,042,539 | 3,795,047 |
| Unearned revenue | 110,547 | 169,030 | 279,577 |
| Accrued bond interest | 38,745 | 269,664 | 308,409 |
| Customer deposits | 425,616 | 907,766 | 1,333,382 |
| Noncurrent liabilities | | | |
| Portion due within one year | | | |
| Compensated absences | 771,173 | 115,024 | 886,197 |
| Total OPEB liability - TMRS | 15,359 | 4,090 | 19,449 |
| Bonds payable | 3,870,000 | 1,245,000 | 5,115,000 |
| Lease liabilities | 24,315 | 237,658 | 261,973 |
| Portion due in more than one year | | | |
| Compensated absences | 85,686 | 12,781 | 98,467 |
| Bonds payable (net of deferred charges) | 44,745,502 | 16,024,118 | 60,769,620 |
| Lease liabilities | 10,170 | 287,386 | 297,556 |
| Net pension liability - TMRS | 4,401,234 | 1,242,691 | 5,643,925 |
| Net pension liability - TESRS | 553,642 | - | 553,642 |
| Total OPEB liability - TMRS | 583,866 | 155,468 | 739,334 |
| Total liabilities | 58,388,363 | 21,713,215 | 80,101,578 |

(Continued)

CITY OF LAKE JACKSON, TEXAS
STATEMENT OF NET POSITION
September 30, 2024

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred inflows - pension from TMRS | $ 402,242 | $ 113,573 | $ 515,815 |
| Deferred inflows - pension from TESRS | 1,068 | - | 1,068 |
| Deferred inflows - OPEB from TMRS | 168,146 | 43,493 | 211,639 |
| Deferred inflows - leases | - | 2,046,812 | 2,046,812 |
| Total deferred inflows of resources | 571,456 | 2,203,878 | 2,775,334 |
| **NET POSITION** | | | |
| Net investment in capital assets | 50,626,258 | 32,748,143 | 83,374,401 |
| Restricted for: | | | |
| Expendable | | | |
| Debt service | 799,771 | 3,868,834 | 4,668,605 |
| Enabling legislation | 542,139 | - | 542,139 |
| Economic development | 4,768,112 | - | 4,768,112 |
| Capital projects | 3,685 | - | 3,685 |
| Unrestricted | 20,439,137 | 10,463,995 | 30,903,132 |
| Total net position | $ 77,179,102 | $ 47,080,972 | $ 124,260,074 |

See notes to financial statements.

CITY OF LAKE JACKSON, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2024

| | | Program Revenues | | | Net Revenue (Expense) and Changes in Net Position — Primary Government | | |
|---|---|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Government Activities | Business-Type Activities | Total |
| Primary Government | | | | | | | |
| Governmental activities | | | | | | | |
| General government | $ 12,808,758 | $ 456,413 | $ - | $ - | $ (12,352,345) | $ - | $ (12,352,345) |
| Public safety | 11,055,660 | - | 97,179 | - | (10,958,481) | - | (10,958,481) |
| Public works | 6,297,998 | 272,829 | - | 10,965 | (6,014,204) | - | (6,014,204) |
| Culture and recreation | 7,068,911 | 1,091,224 | - | - | (5,977,687) | - | (5,977,687) |
| Interest and fiscal agent fees | 1,595,835 | - | - | - | (1,595,835) | - | (1,595,835) |
| Total governmental activities | 38,827,162 | 1,820,466 | 97,179 | 10,965 | (36,898,552) | - | (36,898,552) |
| Business-type activities | | | | | | | |
| Water and sewer | 11,997,591 | 12,485,727 | - | - | - | 488,136 | 488,136 |
| Sanitation | 4,645,825 | 5,577,935 | - | - | - | 932,110 | 932,110 |
| Golf course | 2,602,843 | 1,917,521 | - | - | - | (685,322) | (685,322) |
| Total business-type activities | 19,246,259 | 19,981,183 | - | - | - | 734,924 | 734,924 |
| Total primary government | $ 58,073,421 | $ 21,801,649 | $ 97,179 | $ 10,965 | (36,898,552) | 734,924 | (36,163,628) |
| General revenues | | | | | | | |
| Taxes | | | | | | | |
| Property | | | | | 10,043,607 | - | 10,043,607 |
| Sales | | | | | 12,437,973 | - | 12,437,973 |
| Franchise | | | | | 1,537,185 | - | 1,537,185 |
| Occupancy | | | | | 539,201 | - | 539,201 |
| Other | | | | | 248,589 | - | 248,589 |
| Industrial district | | | | | 6,810,636 | - | 6,810,636 |
| Investment revenue | | | | | 3,119,391 | 1,488,327 | 4,607,718 |
| Other revenue | | | | | 490,448 | - | 490,448 |
| Transfers | | | | | 1,775,660 | (1,775,660) | - |
| Total general revenues and transfers | | | | | 37,002,690 | (287,333) | 36,715,357 |
| Change in net position | | | | | 104,138 | 447,591 | 551,729 |
| Beginning net position | | | | | 77,074,964 | 46,633,381 | 123,708,345 |
| Ending net position | | | | | $ 77,179,102 | $ 47,080,972 | $ 124,260,074 |

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See notes to financial statements.

CITY OF LAKE JACKSON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
For the year ended September 30, 2024

| | General | General Governmental Debt Service | Economic Development | 2023 Capital Bond Fund | Nonmajor Governmental | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and cash equivalents | $ 18,183,200 | $ 695,381 | $ 4,212,621 | $ 17,117,357 | $ 16,096,247 | $ 56,304,806 |
| Investments | 100,000 | - | - | - | - | 100,000 |
| Receivables, net | 2,327,360 | 44,989 | 720,978 | - | 58,001 | 3,151,328 |
| Inventories | 145,783 | - | - | - | - | 145,783 |
| Total assets | $ 20,756,343 | $ 740,370 | $ 4,933,599 | $ 17,117,357 | $ 16,154,248 | $ 59,701,917 |
| **LIABILITIES** | | | | | | |
| Accounts payable and accrued liabilities | $ 1,472,163 | $ - | $ 165,487 | $ 151,280 | $ 963,578 | $ 2,752,508 |
| Customer deposits | 425,616 | - | - | - | - | 425,616 |
| Unearned revenue | 110,547 | - | - | - | - | 110,547 |
| Total liabilities | 2,008,326 | - | 165,487 | 151,280 | 963,578 | 3,288,671 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | | |
| Unavailable revenue - property taxes | 80,594 | 44,989 | - | - | - | 125,583 |
| Unavailable revenue - court collections | 568,028 | - | - | - | - | 568,028 |
| Total deferred inflows of resources | 648,622 | 44,989 | - | - | - | 693,611 |

(Continued)

CITY OF LAKE JACKSON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
For the year ended September 30, 2024

| | General | General Governmental Debt Service | Economic Development | 2023 Capital Bond Fund | Nonmajor Governmental | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **FUND BALANCES** | | | | | | |
| Nonspendable | | | | | | |
| Inventories | 145,783 | - | - | - | - | 145,783 |
| Restricted | | | | | | |
| Debt service | - | 695,381 | - | - | 98,146 | 793,527 |
| Enabling legislation | - | - | - | - | 542,139 | 542,139 |
| Economic development | - | - | 4,768,112 | - | - | 4,768,112 |
| Capital projects | - | - | - | 16,966,077 | 9,559,878 | 26,525,955 |
| Committed | | | | | | |
| Contingencies | 1,038,847 | - | - | - | - | 1,038,847 |
| Assigned | | | | | | |
| General construction | - | - | - | - | 4,990,507 | 4,990,507 |
| Unemployment insurance | 24 | - | - | - | - | 24 |
| Equipment replacement | 6,505,749 | - | - | - | - | 6,505,749 |
| Special events | 66,747 | - | - | - | - | 66,747 |
| Park improvement | 324,042 | - | - | - | - | 324,042 |
| Unassigned | 10,018,203 | - | - | - | - | 10,018,203 |
| Total fund balances | 18,099,395 | 695,381 | 4,768,112 | 16,966,077 | 15,190,670 | 55,719,635 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 20,756,343 | $ 740,370 | $ 4,933,599 | $ 17,117,357 | $ 16,154,248 | $ 59,701,917 |

See notes to financial statements.

CITY OF LAKE JACKSON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2024

| | |
|---|---|
| Total fund balances for governmental funds | $ 55,719,635 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. | |
| Capital assets, nondepreciable/nonamortizable | 4,806,779 |
| Capital assets, net depreciable/amortizable | 67,876,786 |
| Long-term liabilities and deferred outflows and deferred inflows related to the net pension and total other postretirement benefits (OPEB) liability are not recognized in the governmental funds. | |
| Net pension liability | (4,954,876) |
| Deferred outflows - pensions | 3,606,080 |
| Deferred inflows - pensions | (403,310) |
| Total OPEB liability | (599,225) |
| Deferred outflows - OPEB | 76,949 |
| Deferred inflows - OPEB | (168,146) |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 693,611 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. | |
| Accrued interest payable | (38,745) |
| Noncurrent liabilities due in one year | (4,665,488) |
| Noncurrent liabilities due in more than one year | (44,841,358) |
| Deferred loss on refunding | 70,410 |
| Net position of governmental activities | $ 77,179,102 |

See notes to financial statements.

CITY OF LAKE JACKSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES -GOVERNMENTAL FUNDS
For the year ended September 30, 2024

| | General | General Governmental Debt Service | Economic Development | 2023 Capital Bond Fund | (Formerly Major) Infrastructure Improvements | Nonmajor Governmental | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Taxes | | | | | | | |
| Property | $ 5,933,807 | $ 4,084,707 | $ - | $ - | $ - | $ - | $ 10,018,514 |
| Sales | 8,265,274 | - | 4,172,699 | - | - | - | 12,437,973 |
| Franchise | 1,486,991 | - | - | - | - | 50,194 | 1,537,185 |
| Occupancy | - | - | - | - | - | 539,201 | 539,201 |
| Other | 248,589 | - | - | - | - | - | 248,589 |
| Industrial district | 6,810,636 | - | - | - | - | - | 6,810,636 |
| Licenses and permits | 272,829 | - | - | - | - | - | 272,829 |
| Fines and forfeitures | 481,735 | - | - | - | - | - | 481,735 |
| Charges for service | 1,091,224 | - | - | - | - | - | 1,091,224 |
| Intergovernmental | 97,179 | - | - | - | - | 10,965 | 108,144 |
| Investment revenue | 1,217,560 | 102,397 | 195,992 | 701,451 | - | 901,991 | 3,119,391 |
| Other revenue | 440,998 | - | - | - | - | 49,450 | 490,448 |
| Total revenues | 26,346,822 | 4,187,104 | 4,368,691 | 701,451 | - | 1,551,801 | 37,155,869 |
| **Expenditures** | | | | | | | |
| Current | | | | | | | |
| General government | 11,851,386 | - | - | - | - | 387,644 | 12,239,030 |
| Public safety | 9,507,950 | - | - | - | - | 62,443 | 9,570,393 |
| Public works | 3,436,196 | - | - | - | - | - | 3,436,196 |
| Culture and recreation | 5,489,510 | - | 106,111 | - | - | 462,864 | 6,058,485 |
| Capital outlay | 1,626,997 | - | 986,647 | 516,585 | - | 3,649,672 | 6,779,901 |
| Debt service | | | | | | | |
| Principal | 23,680 | 2,849,601 | - | - | - | 1,210,399 | 4,083,680 |
| Interest and fiscal agent fees | 1,265 | 1,495,208 | - | - | - | 307,536 | 1,804,009 |
| Total expenditures | 31,936,984 | 4,344,809 | 1,092,758 | 516,585 | - | 6,080,558 | 43,971,694 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (5,590,162) | (157,705) | 3,275,933 | 184,866 | - | (4,528,757) | (6,815,825) |

(Continued)

CITY OF LAKE JACKSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -GOVERNMENTAL FUNDS
For the year ended September 30, 2024

| | General | General Governmental Debt Service | Economic Development | 2023 Capital Bond Fund | (Formerly Major) Infrastructure Improvements | Nonmajor Governmental | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| **Other financing sources (uses)** | | | | | | | |
| Issuance of debt | - | - | - | 15,830,000 | - | - | 15,830,000 |
| Premium from issuance of debt | - | - | - | 951,211 | - | - | 951,211 |
| Transfers in | 1,540,973 | - | - | - | - | 2,717,935 | 4,258,908 |
| Transfers (out) | - | - | (2,256,167) | - | - | (75,407) | (2,331,574) |
| Total other financing sources (uses) | 1,540,973 | - | (2,256,167) | 16,781,211 | - | 2,642,528 | 18,708,545 |
| Net change in fund balance | (4,049,189) | (157,705) | 1,019,766 | 16,966,077 | - | (1,886,229) | 11,892,720 |
| Beginning fund balance | 22,148,584 | 853,086 | 3,748,346 | - | 6,806,372 | 10,270,527 | 43,826,915 |
| Change to or within financial reporting entity | - | - | - | - | (6,806,372) | 6,806,372 | - |
| Beginning fund balances, as adjusted | 22,148,584 | 853,086 | 3,748,346 | - | - | 17,076,899 | 43,826,915 |
| Ending fund balance | $ 18,099,395 | $ 695,381 | $ 4,768,112 | $ 16,966,077 | $ - | $ 15,190,670 | $ 55,719,635 |

See notes to financial statements.

# CITY OF LAKE JACKSON, TEXAS
## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2024

| | |
|---|---|
| Net changes in fund balances - total governmental funds | $ 11,892,720 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. | |
| Capital outlay | 6,779,901 |
| Contributions to enterprise fund | (151,674) |
| Depreciation/amortization expense | (5,567,104) |
| 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 debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. Pension and other postemployment benefits (OPEB) expenses and the amortization of deferred items are recognized at the government-wide level. | |
| Principal payments on debt | 4,083,680 |
| Amortization of premiums and deferred amounts | 203,628 |
| Issuance of debt | (15,830,000) |
| Premiums from issuance of debt | (951,211) |
| Change in accrued interest | 4,546 |
| Change in compensated absences | (183,491) |
| Net pension liability | 2,505,673 |
| Change in deferred outflows - pensions | (2,278,914) |
| Change in deferred inflows - pensions | (399,924) |
| Total OPEB liability | (58,974) |
| Deferred outflows - OPEB | (15,916) |
| Deferred inflows - OPEB | 71,427 |
| Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds. This includes the change in deferred inflows of resources for unavailable revenues. | |
| Change in deferred inflows for property taxes | 25,093 |
| Change in deferred inflows for court receivables | (25,322) |
| Change in net position of governmental activities | $ 104,138 |

See notes to financial statements.

# CITY OF LAKE JACKSON, TEXAS
# STATEMENT OF NET POSITION
# PROPRIETARY FUND
September 30, 2024

| | Business-Type Activities | | |
|---|---|---|---|
| | Utility Operations | Nonmajor Golf Course Operations | Total |
| **ASSETS** | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 10,264,051 | $ 230,501 | $ 10,494,552 |
| Accounts receivable, net of allowances for uncollectibles | 1,088,553 | 28,059 | 1,116,612 |
| Lease receivables | 115,614 | - | 115,614 |
| Inventories | - | 101,723 | 101,723 |
| Prepaid items | - | 22,571 | 22,571 |
| Restricted cash and cash equivalents | | | |
| Revenue bond covenant account | 15,816,263 | - | 15,816,263 |
| Customer deposits | 907,766 | - | 907,766 |
| Total current assets | 28,192,247 | 382,854 | 28,575,101 |
| Noncurrent assets | | | |
| Lease receivables | 2,122,266 | - | 2,122,266 |
| Capital assets: | | | |
| Land | - | 3,821,585 | 3,821,585 |
| Construction in progress | 3,202,708 | - | 3,202,708 |
| Buildings | 7,686,314 | 1,222,546 | 8,908,860 |
| Improvements other than buildings | 74,705,656 | 5,130,321 | 79,835,977 |
| Machinery and equipment | 8,690,556 | 413,441 | 9,103,997 |
| Right-to-use assets | - | 836,688 | 836,688 |
| Less accumulated depreciation and amortization | (60,043,917) | (6,341,647) | (66,385,564) |
| Total noncurrent assets | 36,363,583 | 5,082,934 | 41,446,517 |
| Total assets | 64,555,830 | 5,465,788 | 70,021,618 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred outflows - pensions | 955,012 | - | 955,012 |
| Deferred outflows - OPEB | 21,435 | - | 21,435 |
| Total deferred outflows of resources | 976,447 | - | 976,447 |

(Continued)

CITY OF LAKE JACKSON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2024

| | Business-Type Activities | | |
|---|---|---|---|
| | Utility Operations | Nonmajor Golf Course Operations | Total |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | $ 1,010,806 | $ 31,733 | $ 1,042,539 |
| Unearned revenue | - | 169,030 | 169,030 |
| Accrued interest payable | 269,664 | - | 269,664 |
| Compensated absences - current | 115,024 | - | 115,024 |
| Total OPEB liability - current | 4,090 | - | 4,090 |
| Bonds payable due within one year | 1,245,000 | - | 1,245,000 |
| Lease liabilities due within one year | - | 237,658 | 237,658 |
| Current liabilities payable from restricted assets | | | |
| Customer deposits | 907,766 | - | 907,766 |
| Total current liabilities | 3,552,350 | 438,421 | 3,990,771 |
| Noncurrent liabilities | | | |
| Compensated absences | 12,781 | - | 12,781 |
| Bonds payable | 16,024,118 | - | 16,024,118 |
| Lease liabilities | - | 287,386 | 287,386 |
| Net pension liability - TMRS | 1,242,691 | - | 1,242,691 |
| Total OPEB liability | 155,468 | - | 155,468 |
| Total noncurrent liabilities | 17,435,058 | 287,386 | 17,722,444 |
| Total liabilities | 20,987,408 | 725,807 | 21,713,215 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred inflows - pensions | 113,573 | - | 113,573 |
| Deferred inflows - OPEB | 43,493 | - | 43,493 |
| Deferred inflows - leases | 2,046,812 | - | 2,046,812 |
| Total deferred inflows of resources | 2,203,878 | - | 2,203,878 |
| **NET POSITION** | | | |
| Net investment in capital assets | 28,190,253 | 4,557,890 | 32,748,143 |
| Restricted for | | | |
| Debt service | 3,868,834 | - | 3,868,834 |
| Unrestricted net position | 10,281,904 | 182,091 | 10,463,995 |
| Total net position | $ 42,340,991 | $ 4,739,981 | $ 47,080,972 |

See notes to financial statements.

CITY OF LAKE JACKSON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2024

| | Business-Type Activities | | |
|---|---|---|---|
| | Utility Operations | Nonmajor Golf Course Operations | Total |
| **Operating revenues** | | | |
| Water services | $ 5,842,209 | $ - | $ 5,842,209 |
| Sewer services | 5,899,660 | - | 5,899,660 |
| Garbage services | 5,577,935 | - | 5,577,935 |
| Tapping and connection fees | 413,179 | - | 413,179 |
| Golf course fees and charges | - | 1,917,521 | 1,917,521 |
| Other revenues | 330,679 | - | 330,679 |
| Total operating revenues | 18,063,662 | 1,917,521 | 19,981,183 |
| **Operating expenses** | | | |
| Utility administration | 813,726 | - | 813,726 |
| Water and production and treatment | 5,049,916 | - | 5,049,916 |
| Sewer collection | 2,672,643 | - | 2,672,643 |
| Sanitation | 4,209,696 | - | 4,209,696 |
| Golf course operations | - | 2,059,388 | 2,059,388 |
| Depreciation/amortization | 3,328,057 | 526,206 | 3,854,263 |
| Total operating expenses | 16,074,038 | 2,585,594 | 18,659,632 |
| **Operating income (loss)** | 1,989,624 | (668,073) | 1,321,551 |
| **Nonoperating revenues (expenses)** | | | |
| Investment revenues | 1,477,604 | 10,723 | 1,488,327 |
| Interest and fiscal agent fees | (569,378) | (17,249) | (586,627) |
| Total nonoperating revenues (expenses) | 908,226 | (6,526) | 901,700 |
| Income (loss) before transfers and contributions | 2,897,850 | (674,599) | 2,223,251 |
| **Transfers and contributions** | | | |
| Capital contributions | - | 151,674 | 151,674 |
| Transfers in | - | 288,232 | 288,232 |
| Transfers (out) | (2,215,566) | - | (2,215,566) |
| Total transfers and contributions | (2,215,566) | 439,906 | (1,775,660) |
| Change in net position | 682,284 | (234,693) | 447,591 |
| Beginning net position | 41,658,707 | 4,974,674 | 46,633,381 |
| Ending net position | $ 42,340,991 | $ 4,739,981 | $ 47,080,972 |

See notes to financial statements.

CITY OF LAKE JACKSON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2024

| | Business-Type Activities | | |
|---|---|---|---|
| | Utility Operations | Nonmajor Golf Course Operations | Total Funds |
| **Cash flows from operating activities** | | | |
| Receipts from customers and users | $ 18,162,591 | $ 1,891,776 | $ 20,054,367 |
| Payments to suppliers | (7,849,613) | (994,823) | (8,844,436) |
| Payments to employees | (4,666,489) | (1,058,604) | (5,725,093) |
| Net cash provided (used) by operating activities | 5,646,489 | (161,651) | 5,484,838 |
| **Cash flows from noncapital financing activities** | | | |
| Transfers from other funds | - | 288,232 | 288,232 |
| Transfer to other funds | (2,215,566) | - | (2,215,566) |
| Net cash provided (used) by noncapital financing activities | (2,215,566) | 288,232 | (1,927,334) |
| **Cash flows from capital and related financing activities** | | | |
| Acquisition and construction of capital assets | (4,823,410) | - | (4,823,410) |
| Principal paid on capital debt | (1,295,000) | (231,450) | (1,526,450) |
| Interest and fiscal agent fees paid | (638,546) | (17,249) | (655,795) |
| Net cash (used) by capital and related financing activities | (6,756,956) | (248,699) | (7,005,655) |
| **Cash flows from investing activities** | | | |
| Interest on investments | 1,477,604 | 10,723 | 1,488,327 |
| Net cash provided by investing activities | 1,477,604 | 10,723 | 1,488,327 |
| Net Increase in cash and cash equivalents | (1,848,429) | (111,395) | (1,959,824) |
| Beginning cash and cash equivalents | 28,836,509 | 341,896 | 29,178,405 |
| Ending cash and cash equivalents | $ 26,988,080 | $ 230,501 | $ 27,218,581 |
| **Ending cash and cash equivalents** | | | |
| Unrestricted cash and cash equivalents | $ 10,264,051 | $ 230,501 | $ 10,494,552 |
| Restricted cash and cash equivalents | 16,724,029 | - | 16,724,029 |
| | $ 26,988,080 | $ 230,501 | $ 27,218,581 |

(Continued)

CITY OF LAKE JACKSON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2024

| | Business-Type Activities | | |
|---|---|---|---|
| | Utility Operations | Nonmajor Golf Course Operations | Total Funds |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | | | |
| Operating income (loss) | $ 1,989,624 | $ (668,073) | $ 1,321,551 |
| Adjustments to reconcile operating income (loss) to net cash provided (Used) by operating activities: | | | |
| Depreciation and amortization | 3,328,057 | 526,206 | 3,854,263 |
| Changes in operating assets and liabilities | | | |
| (Increase) decrease in assets | | | |
| Accounts receivable | 117,476 | (22,415) | 95,061 |
| Lease receivables | 107,009 | - | 107,009 |
| Deferred outflows of resources - pension | 546,127 | - | 546,127 |
| Deferred outflows of resources - OPEB | 4,494 | - | 4,494 |
| Inventories | - | (23,369) | (23,369) |
| Prepaids | - | (2,403) | (2,403) |
| Increase (decrease) in | | | |
| Accounts payable and accrued liabilities | 185,354 | 31,733 | 217,087 |
| Unearned revenue | - | (3,330) | (3,330) |
| Compensated absences | 16,378 | - | 16,378 |
| Customer deposits | 37,073 | - | 37,073 |
| Deferred inflows of resources - pension | 113,182 | - | 113,182 |
| Deferred inflows of resources - OPEB | (20,167) | - | (20,167) |
| Deferred inflows of resources - leases | (162,629) | - | (162,629) |
| Net pension liability | (632,140) | - | (632,140) |
| Total OPEB liability | 16,651 | - | 16,651 |
| Net cash provided by operating activities | $ 5,646,489 | $ (161,651) | $ 5,484,838 |
| Noncash investing, capital, and financing activities | | | |
| Capital contributions | $ - | $ 151,674 | $ 151,674 |

See notes to financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity: The City of Lake Jackson, Texas (the "City") was incorporated on March 14, 1944 and adopted the "Home Rule Charter" on April 1, 1958, pursuant to the laws of the State of Texas (the "State"), which provide for a Council-Manager form of government.

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

The City provides the following services: public safety to include police and fire services, general administrative services which includes finance and municipal court, streets and drainage, building and code inspection, planning, engineering, street repair and maintenance, water and sewer, sanitation, park maintenance, and recreational activities for citizens.

The City is an independent political subdivision of the State governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are both legally and substantively separate from the government. There were no discretely presented component units that were both legally and substantively separate in the government-wide financial statements. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

*Blended Component Units*

The Lake Jackson Development Corporation, Inc. - On June 5, 1995, the City Council authorized the creation and approved the Articles of Incorporation and the bylaws of the Lake Jackson Development Corporation, Inc. (the "Corporation"). The Articles of Incorporation were filed with the Office of the Secretary of the State of Texas on June 23, 1995. The Corporation, a nonprofit corporation, organized under Section 4b of the Development Corporation Act of 1979 was created to act on behalf of the City in the financing of projects.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The Corporation is governed by a seven-member board of directors appointed by the City Council, which includes three members of the City Council. All projects must have prior approval of the City Council. On May 6, 1995, the voters of Lake Jackson approved the levy and collection of a one-half cent sales tax, effective October 1, 1995, to fund the cost of land, buildings, equipment, facilities, and improvements for public park purposes, recreational facilities, and for infrastructure improvements for development of new or expanded business enterprises. The Corporation provides funding for the City's debt service payments of these approved projects. When the Corporation directly finances construction, the completed facilities are donated to the City upon completion. As the Corporation provides financing services entirely to the City, the Corporation is considered a blended component unit for financial reporting purposes and is reported as if it were part of the City's operations. The Corporation's revenues, expenditures, and other financing sources/uses are reported within the City's economic development fund.

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 activities of the primary government. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

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

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

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

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The City reports the following governmental fund:

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 taxes, receipts from other taxes and industrial districts, franchise fees, licenses and permits, fines and forfeitures, intergovernmental funding, and charges for services. Expenditures include general government, public safety, public works, culture and recreation, capital outlay, and debt service payments on leases payables. The general fund is always considered a major fund for reporting purposes.

Debt Service Fund: The *debt service fund* are used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes and sales tax revenue from the economic development fund that are transferred to the reported nonmajor debt service funds. The general governmental debt service fund is considered a major fund for reporting purposes.

Special Revenue Funds: The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted for specified purposes. The economic development fund accounts for the City's Development Corporation's one-half cent sales tax and approved expenditures for providing parks and recreation facilities and infrastructure projects. The economic development fund is considered a major fund for reporting purposes. The remaining special revenue funds are considered nonmajor funds for reporting purposes.

Capital Projects Funds: The *capital projects funds* are used to account for the expenditures of resources accumulated from the sale of bonds, proceeds from grants, transfers from other funds, and related interest earnings for capital improvement projects. The 2023 capital bond fund accounts for the proceeds of the 2023 limited tax bonds for the financing of City facilities, work on street improvement, and street panel replacement. The 2023 capital bond fund is considered a major fund for reporting purposes. The remaining capital projects fund are considered nonmajor funds for reporting purposes.

The City reports the following proprietary fund:

Enterprise Fund: The *enterprise funds* are used to account for the operations that provide water, sewer, and sanitation services to the residents of the City and accounts for the City's Wilderness Golf Course activity. The enterprise fund also includes other operating revenue for the use of their infrastructure for communication signals. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The utility operations fund is considered a major fund for reporting purposes and includes the operations for water, sewer, and sanitation services and other revenues for the use of its infrastructure. The golf course fund is considered a nonmajor fund for reporting purposes.

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

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

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

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

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

Cash and Cash Equivalents: The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and balances in statewide investment pools. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with a maturity date of three months or less when purchased to be cash equivalents.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

- Direct obligations of the U.S. government
- Money market mutual funds that meet certain criteria
- Statewide investment pools
- Certificates of deposit that meet certain criteria

Inventories and Prepaid Items: Inventories are stated at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. The consumption method is used to recognize expenditures.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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

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

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

| Assets Depreciation | Estimated Useful Life |
|---|---|
| Buildings | 20 to 50 years |
| Improvements other than buildings | 10 to 40 years |
| Machinery and equipment | 5 to 10 years |

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

- Deferred outflows/inflows of resources are amortized as follows:
- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred inflows related to leases are amortized over the terms of the leases.

At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and court collections. These amount are deferred and recognized as an inflow of resources in the period that the amounts becomes available.

Compensated Employee Absences: Employees earn vacation based on years of service with the City within certain limits. Only accumulated vacation and earned compensatory time are paid upon termination of employment. Vacation pay is accrued when incurred in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Long-Term Obligations: In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

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

Assets acquired under the terms of notes payable are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum note payments at inception of the asset purchase. In the year of acquisition, notes payable are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Note 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.

Leases: The City is a lessee for noncancellable leases of equipment. The City recognizes a lease liability and an intangible, right-to-use lease asset (the “lease asset”) in the government-wide financial statements. The City recognizes a lease liability and lease asset with an initial, individual value of at least $5,000 or more.

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

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

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

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

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

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

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

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

(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. In accordance with City Resolution 11-624, the City committed fund balance for contingencies, which is reported within a sub-fund of the general fund, for emergency use and in the event purchases cannot be accommodated through current year savings.

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

By resolution, the Council has also authorized the City Manager and/or Finance Director as the officials authorized to assign fund balance to a specific purpose as approved by the City's fund balance policy. Assignments of fund balance by the City Manager and Finance Director do not require formal action by the City Council. Assigned balances for construction projects from general and utility fund resources are reported in the nonmajor fund. The assigned balances for replacement equipment purchases, paying unemployment claims, conducting or hosting special events and making park improvements are reported within sub-funds of the general fund.

The City has established a target level of unassigned fund balance to alleviate revenue shortfalls and/or unanticipated expenditures to ensure the orderly and continued provision of services. The City shall strive to maintain an unassigned fund balance in the general fund equal to at least 25 percent of normal recurring operating costs, based on the current year's budgeted operating expenditures. Should unassigned fund balance fall below the goal or have a deficiency, the City will seek to reduce expenditures prior to increasing revenues to replenish fund balance within a reasonable timeframe.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

Revenues and Expenditures/Expenses:

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

Property Taxes: Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

Proprietary Funds Operating and Nonoperating Revenues and Expenses: Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital projects funds, which adopt project length budgets. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the charter in the approved budget is the department level. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2024. The motel occupancy tax fund, police seizure fund, program education fund, and economic development debt service fund are all nonmajor special revenue and debt service funds that have adopted budgets.

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

## NOTE 3 - DETAILED NOTES ON ALL FUNDS

Deposits and Investments: As of September 30, 2024, the carrying amount of the City's bank accounts was $3,350,377. The total bank balance for the bank accounts was $3,847,507. The cash deposits held in the bank accounts as of September 30, 2024, and during the year ended September 30, 2024, were initially covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The City is required by Government Code Chapter 2256, the Public Funds Investment Act (the "Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions: 1) obligations of the U.S. Treasury, U.S. agencies, and the State; 2) certificates of deposit; 3) certain municipal securities; 4) securities lending program; 5) repurchase agreements; 6) bankers' acceptances; 7) mutual funds; 8) investment pools; 9) guaranteed investment contracts; and 10) commercial paper.

(Continued)

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

As of September 30, 2024, the City reported the following investment types as cash and cash equivalents and investments:

| Investment Type | Value | Weighted Average Maturity (Years) |
|---|---|---|
| LoneStar | $ 11,802,036 | 0.09 |
| TexPool | 27,510,716 | 0.26 |
| TexStar | 40,860,258 | 0.07 |
| Certificates of deposit | 100,000 | 0.71 |
| Total value | $ 80,273,010 | |
| Portfolio weighted average maturity | | 0.14 |

*Interest rate risk* – In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

*Credit risk* – The City's investment policy limits investments in public fund investment pools rated as to investment quality not less than "AAA" or "AAA-m", or at an equivalent rating by at least one nationally recognized rating service. Investments in Securities Exchange Commission (SEC) registered and regulated money market mutual funds must have an investment quality not less than "AAA-", or at an equivalent rating by at least one nationally recognized rating service. As of September 30, 2024, the City's investments in investment pools were rated "AAAm" by Standard & Poor's.

*Custodial credit risk – deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2024, market values of pledged securities were $8,664,786 which exceeded the City's deposits at the depositary bank at September 30, 2024.

*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.

The City invested in certificate of deposits at a local financial institution for diversification. All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

**TexPool** – TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Standard & Poor's rated TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

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

**TexSTAR** – The Texas Short-Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. J.P. Morgan Investment Management Inc. (JPMIM) and Hilltop Securities Inc. (HTS) serve as co-administrators. JPMIM provides investment management services and FirstSouthwest, a division of HTS, provides participant service and marketing. Custodial, fund accounting, and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary, J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc.

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

**LoneSTAR** – The Lone Star investment pool is a local government investment pool organized under the authority of the Interlocal Corporation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. LoneSTAR is administered by American Beacon Advisors, Inc., under an agreement with the Texas Association of School Boards.

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

The City's investments with LoneSTAR are with the Corporate Overnight Fund which is measured at amortized costs. The Corporate Overnight Fund is one of the investment options offered by LoneSTAR and is structured to provide daily liquidity for participants, with an investment strategy focused on preserving principal, providing liquidity, and maximizing current income through investment in high-quality, short-term debt instruments. The Corporate Overnight Fund with LoneSTAR is rated AAAm by Standard & Poor's. The City has no unfunded commitments related to the investments and has redemption notice of one day. The restrictions on redemptions may only be imposed in the event of a general suspension of trading on major securities markets, a general banking moratorium, or a national or state of emergency that effects the investments liquidity.

Receivables: Amounts recorded as receivable as of September 30, 2024 for the City's individual major and aggregate nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

| | Governmental Funds | | | | |
|---|---|---|---|---|---|
| | General | Governmental Debt Service | Economic Development | Nonmajor | Total |
| Property taxes | $ 107,458 | $ 59,985 | $ - | $ - | $ 167,443 |
| Sales taxes | 1,441,956 | - | 720,978 | - | 2,162,934 |
| Franchise fees | 146,638 | - | - | 12,104 | 158,742 |
| Grants | - | - | - | 37,760 | 37,760 |
| Accounts receivables | 1,523,377 | - | - | 68,425 | 1,591,802 |
| Other receivables | 99,615 | - | - | 8,137 | 107,752 |
| Less allowances | (991,684) | (14,996) | - | (68,425) | (1,075,105) |
| Total | $ 2,327,360 | $ 44,989 | $ 720,978 | $ 58,001 | $ 3,151,328 |

| | Enterprise Funds | | |
|---|---|---|---|
| | Utility Operations | Golf Course Operations | Total |
| Accounts receivables | $ 1,117,750 | $ 28,059 | $ 1,145,809 |
| Other receivables | 18,058 | - | 18,058 |
| Less allowances | (47,255) | - | (47,255) |
| Total | $ 1,088,553 | $ 28,059 | $ 1,116,612 |

(Continued)

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

Lease Receivable: The City has entered into several lease agreements (the “Agreements”) as a lessor for the use of their water towers located throughout the City with the lessee mounting communication signals on the towers. The Agreements’ remaining terms at year end range from 138 to 263 months after extension options in which it is reasonably certain that these options will be exercised. As of September 30, 2024, the value of the lease receivables is $2,237,880. The interest rate on the leases receivable is based on the City’s incremental borrowing rate for the terms of the Agreements and is 3.00%. The lease revenue that was recorded within the utility operations fund’s other revenues for fiscal year 2024 was $231,524, which consists of the interest payments on the leases receivable of $68,895 and the amortization of the deferred inflow of resources from leases of $162,629.

The future receipts from principal and interest on lease receivables and amortization of deferred inflows are as follows:

| Fiscal Year Ending September 30, | Lease Receipts | | | Amortization of Deferred |
|---|---|---|---|---|
| | Principal | Interest | Total | Inflows |
| 2025 | $ 115,614 | $ 65,567 | $ 181,181 | $ 162,629 |
| 2026 | 124,641 | 61,976 | 186,617 | 162,629 |
| 2027 | 134,108 | 58,107 | 192,215 | 162,629 |
| 2028 | 144,033 | 53,949 | 197,982 | 162,629 |
| 2029 | 154,435 | 49,486 | 203,921 | 162,629 |
| 2030-2034 | 780,053 | 172,746 | 952,799 | 700,403 |
| 2035-2039 | 484,178 | 81,022 | 565,200 | 357,132 |
| 2040-2044 | 300,818 | 20,674 | 321,492 | 176,132 |
| Total | $ 2,237,880 | $ 563,527 | $ 2,801,407 | $ 2,046,812 |

(Continued)

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

Capital Assets: The following is a summary of changes in capital assets for governmental activities for the year end:

| | Primary Government | | | |
|---|---|---|---|---|
| | Beginning Balance | Increases | (Decreases)/ Reclassifications | Ending Balance |
| Governmental activities | | | | |
| Capital assets not being depreciated/ amortized | | | | |
| Land | $ 2,551,017 | $ 385,697 | $ - | $ 2,936,714 |
| Construction in progress | 11,820,785 | 1,268,445 | (11,219,165) | 1,870,065 |
| Total capital assets not being depreciated/amortized | 14,371,802 | 1,654,142 | (11,219,165) | 4,806,779 |
| Other capital assets | | | | |
| Buildings | 34,282,380 | 313,790 | - | 34,596,170 |
| Improvements other than buildings | 129,439,148 | 12,353,691 | - | 141,792,839 |
| Machinery and equipment | 20,763,783 | 3,525,769 | (224,533) | 24,065,019 |
| Right-to-use assets - equipment | 103,685 | - | - | 103,685 |
| Total other capital assets | 184,588,996 | 16,193,250 | (224,533) | 200,557,713 |
| Less accumulated depreciation/ amortization for | | | | |
| Buildings | (19,282,276) | (1,006,077) | - | (20,288,353) |
| Improvements other than buildings | (93,764,568) | (2,747,736) | - | (96,512,304) |
| Machinery and equipment | (14,244,514) | (1,789,801) | 224,533 | (15,809,782) |
| Right-to-use assets - equipment | (46,998) | (23,490) | - | (70,488) |
| Total accumulated depreciation/ amortization | (127,338,356) | (5,567,104) | 224,533 | (132,680,927) |
| Other capital assets, net | 57,250,640 | 10,626,146 | - | 67,876,786 |
| Governmental activities capital assets, net | $ 71,622,442 | $ 12,280,288 | $ (11,219,165) | 72,683,565 |
| | | | Plus unspent bond proceeds | 27,175,398 |
| | | | Plus net deferred charge on refunding | 70,410 |
| | | | Less accounts payable for capital outlay | (653,128) |
| | | | Less associated debt | (48,649,987) |
| | | | Net investment in capital assets | $ 50,626,258 |

Depreciation was charged to governmental functions as follows:

| | |
|---|---|
| General government | $ 383,349 |
| Public safety | 1,315,010 |
| Public works | 2,860,530 |
| Culture and recreation | 1,008,215 |
| Total governmental activities depreciation and amortization | $ 5,567,104 |

(Continued)

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

Remaining commitments under related construction contracts for governmental fund projects at year end are as follows:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Contract |
|---|---|---|---|
| Animal control facilities | $ 3,062,752 | $ 384,593 | $ 2,678,159 |
| Pine Oak, North Shady, and Forest Oak Rehabilitation | 2,411,278 | 819,988 | 1,591,290 |
| Street panel replacement | 626,103 | 121,244 | 504,859 |
| Drainage projects | 1,552,558 | 544,240 | 1,008,318 |
| Total governmental activities | $ 7,652,691 | $ 1,870,065 | $ 5,782,626 |

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

| | Primary Government | | | |
|---|---|---|---|---|
| | Beginning Balance | Increases | (Decreases)/ Reclassifications | Ending Balance |
| Business-type activities | | | | |
| Capital assets not being depreciated/ amortized | | | | |
| Land | $ 3,821,585 | $ - | $ - | $ 3,821,585 |
| Construction in progress | 248,374 | 2,986,574 | (32,240) | 3,202,708 |
| Total capital assets not being depreciated/amortized | 4,069,959 | 2,986,574 | (32,240) | 7,024,293 |
| Other capital assets | | | | |
| Buildings | 7,428,372 | 1,480,488 | - | 8,908,860 |
| Improvements other than buildings | 79,413,161 | 422,815 | - | 79,835,976 |
| Machinery and equipment | 8,986,550 | 117,447 | - | 9,103,997 |
| Right-to-use assets - equipment | 836,689 | - | - | 836,689 |
| Total other capital assets | 96,664,772 | 2,020,750 | - | 98,685,522 |
| Less accumulated depreciation/ amortization for | | | | |
| Buildings | (6,665,148) | (241,594) | - | (6,906,742) |
| Improvements other than buildings | (49,261,954) | (2,948,160) | - | (52,210,114) |
| Machinery and equipment | (6,511,042) | (431,641) | - | (6,942,683) |
| Right-to-use assets - equipment | (93,157) | (232,868) | - | (326,025) |
| Total accumulated depreciation/ amortization for | (62,531,301) | (3,854,263) | - | (66,385,564) |
| Other capital assets, net | 34,133,471 | (1,833,513) | - | 32,299,958 |
| Business-type activities capital assets, net | $ 38,203,430 | $ 1,153,061 | $ (32,240) | 39,324,251 |
| | | | Plus unspent bond proceeds | 11,218,054 |
| | | | Less associated debt | (17,794,162) |
| | | | Net investment in capital assets | $ 32,748,143 |

(Continued)

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

Depreciation/amortization was charged to business-type functions as follows:

| | |
|---|---|
| Utility | $ 3,328,057 |
| Golf course | 526,206 |
| Total business-type activities depreciation/amortization expense | $ 3,854,263 |

Remaining commitments under related construction contracts for business-type activities projects at year end are as follows:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Contract |
|---|---|---|---|
| Lift station improvements and waterline extension | $ 3,003,350 | $ 1,394,770 | $ 1,608,580 |
| Water and wastewater rehabilitation | 2,769,320 | 1,807,938 | 961,382 |
| Total | $ 5,772,670 | $ 3,202,708 | $ 2,569,962 |

Long-Term Debt: The following is a summary of changes in the City's governmental activities long-term liabilities for the fiscal year ended September 30, 2024.

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Governmental activities | | | | | |
| Debt and other payables | | | | | |
| General obligation bonds | $ 29,100,000 | $ 15,830,000 | $ (3,450,000) | $ 41,480,000 * | $ 3,260,000 |
| Certificates of obligation bonds | 5,010,000 | - | (610,000) | 4,400,000 * | 610,000 |
| Premiums on debt issuances | 2,001,186 | 951,211 | (216,895) | 2,735,502 * | - |
| Leases payable | 58,165 | - | (23,680) | 34,485 * | 24,315 |
| | 36,169,351 | 16,781,211 | (4,300,575) | 48,649,987 | 3,894,315 |
| Other liabilities | | | | | |
| Net pension liability - TMRS | 7,081,021 | - | (2,679,787) | 4,401,234 | - |
| Net pension liability - TESRS | 379,528 | 174,114 | - | 553,642 | - |
| Total OPEB liability | 540,251 | 58,974 | - | 599,225 | 15,359 |
| Compensated absenses | 673,368 | 789,522 | (606,031) | 856,859 | 771,173 |
| Total governmental activities | $ 44,843,519 | $ 17,803,821 | $ (7,586,393) | $ 55,060,947 | $ 4,680,847 |
| Long-term liabilities due in more than one year | | | | $ 50,380,100 | |
| *Debt associated with governmental activities capital assets | | | | $ 48,649,987 | |

Long-term liabilities of 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. For the governmental activities, compensated absences are generally liquidated by the general fund. For governmental activities, the net pension liability and total OPEB liability are fully liquidated by the general fund.

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

The following is a summary of changes in the City's total business-type activities long-term liabilities for the fiscal year ended September 30, 2024.

| | Beginning Balance | Additions | Reductions | Ending Balance | | Due Within One Year |
|---|---|---|---|---|---|---|
| Business-type activities | | | | | | |
| Debt and other payables | | | | | | |
| Revenue bonds | $ 17,815,000 | $ - | $ (1,295,000) | $ 16,520,000 | * | $ 1,245,000 |
| Premiums on debt issuances | 794,726 | - | (45,608) | 749,118 | * | - |
| Leases payable | 756,494 | - | (231,450) | 525,044 | * | 237,658 |
| | 19,366,220 | - | (1,572,058) | 17,794,162 | | 1,482,658 |
| Other liabilities | | | | | | |
| Net pension liabilitiy - TMRS | 1,874,831 | - | (632,140) | 1,242,691 | | - |
| Total OPEB liability | 142,907 | 16,651 | - | 159,558 | | 4,090 |
| Compensated absences | 111,427 | 116,662 | (100,284) | 127,805 | | 115,024 |
| Total business-type activities | $ 21,495,385 | $ 133,313 | $ (2,304,482) | $ 19,324,216 | | $ 1,601,772 |
| Long-term liabilities due in more than one year | | | | $ 17,722,444 | | |
| *Debt associated with business-type activities capital assets | | | | $ 17,794,162 | | |

Governmental activities long-term debt at year end was comprised of the following debt issues:

| Description | Interest Rate | Balance |
|---|---|---|
| Governmental activities | | |
| General obligation bonds | | |
| Limited Tax, Series 2015 | 2.00%-4.00% | $ 2,640,000 |
| Limited Tax, Series 2016 | 2.00%-3.00% | 1,915,000 |
| Limited Tax, Series 2017 | 2.60%-4.00% | 2,735,000 |
| Limited Tax, Series 2018 | 3.50%-5.00% | 6,605,000 |
| Limited Tax, Series 2021 | 2.00%-4.00% | 6,605,000 |
| Limited Tax Refunding, Series 2021 | 2.00%-4.00% | 5,945,000 |
| Limited Tax, Series 2023 | 2.00%-4.00% | 15,035,000 |
| Total general obligation bonds | | 41,480,000 |
| Certificates of obligation | | |
| Certificates of Obligation, Series 2016 | 2.00%-3.00% | 1,695,000 |
| Certificates of Obligation, Series 2022 | 3.00%-5.00% | 2,705,000 |
| Total certificates of obligation | | 4,400,000 |
| Leases payable | | |
| Postage machine and copiers | 2.65% | 34,485 |
| Total leases payable | | 34,485 |
| Total governmental activities long-term debt | | $ 45,914,485 |

(Continued)

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

Business-type activities long-term debt at year end was comprised of the following debt issues:

| Description | Interest Rate | Balance |
|---|---|---|
| Business-type activities | | |
| Revenue bonds | | |
| Revenue Bonds, Series 2013 | 2.50%-3.00% | $ 900,000 |
| Revenue Bonds, Refunding, Series 2016 | 3.00% | 2,025,000 |
| Revenue Bonds, Series 2017 | 3.00%-4.00% | 3,825,000 |
| Revenue Bonds, Refunding Bonds, Series 2019 | 2.10%-4.00% | 4,260,000 |
| Revenue Bonds, Series 2022 | 4.00%-5.00% | 5,510,000 |
| Total general obligation bonds | | 16,520,000 |
| Leases payable | | |
| Golf carts and golf maintenance equipment | 2.65% | 525,044 |
| Total leases payable | | 525,044 |
| Total business-type activities long-term debt | | $ 17,045,044 |

Certificates of Obligation and General Obligation Bonds: The City issues certificates of obligation and general obligation bonds to provide funds for the acquisition and construction of major capital facilities. This debt represents direct obligations of the City for which its full faith and credit are pledged. Repayment of this debt for governmental activities is secured by taxes levied on all taxable property located within the City. A number of limitations and restrictions are contained in the various bond ordinances. The City has complied with all significant limitations and restrictions. Annual debt service requirements for governmental activities are as follows:

| Fiscal | Governmental Activities | | | | |
|---|---|---|---|---|---|
| Year Ended | General Obligation Bonds | | Certificates of Obligation | | |
| September 30, | Principal | Interest | Principal | Interest | Total |
| 2025 | $ 3,260,000 | $ 1,420,141 | $ 610,000 | $ 146,000 | $ 5,436,141 |
| 2026 | 3,235,000 | 1,307,023 | 610,000 | 122,250 | 5,274,273 |
| 2027 | 3,220,000 | 1,194,448 | 460,000 | 101,350 | 4,975,798 |
| 2028 | 2,950,000 | 1,081,941 | 455,000 | 83,700 | 4,570,641 |
| 2029 | 2,950,000 | 970,810 | 455,000 | 67,800 | 4,443,610 |
| 2030-2034 | 12,420,000 | 3,463,910 | 1,580,000 | 128,400 | 17,592,310 |
| 2035-2039 | 9,190,000 | 1,553,938 | 230,000 | 6,900 | 10,980,838 |
| 2040-2043 | 4,255,000 | 294,541 | - | - | 4,549,541 |
| | $ 41,480,000 | $ 11,286,752 | $ 4,400,000 | $ 656,400 | $ 57,823,152 |

(Continued)

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

The City authorized a portion of the certificates of obligation and general obligation bonds to be paid from revenues generated from sales taxes within the economic development fund since the majority of this debt provided funds for capital projects for economic development. The debt service payments during fiscal year 2024 that was paid by taxes levied on taxable property was for repayment of all of the limited tax series general obligation bonds series 2016, 2017, 2018, 2021, and 2023, along with a portion of the limited tax refunding general obligation bonds series 2021 and limited tax general obligation bonds series 2015. The remaining debt service payments during fiscal year 2024 for certificates of obligation and general obligation bonds were funded by sales taxes within the economic development fund.

Revenue Bonds: The City issues revenue bonds to provide funds for the acquisition and construction of major capital improvements to the utility fund for business-type activities. The annual debt service requirements for business-type activities are as follows:

| Fiscal Year Ended September 30, | Business-Type Activities Revenue Bonds Principal | Business-Type Activities Revenue Bonds Interest | Total |
|---|---|---|---|
| 2025 | $ 1,245,000 | $ 584,270 | $ 1,829,270 |
| 2026 | 1,240,000 | 535,020 | 1,775,020 |
| 2027 | 1,235,000 | 485,920 | 1,720,920 |
| 2028 | 1,145,000 | 439,720 | 1,584,720 |
| 2029 | 1,140,000 | 396,220 | 1,536,220 |
| 2030-2034 | 5,285,000 | 1,403,095 | 6,688,095 |
| 2035-2039 | 4,070,000 | 594,413 | 4,664,413 |
| 2040-2043 | 1,160,000 | 116,000 | 1,276,000 |
| | $ 16,520,000 | $ 4,554,658 | $ 21,074,658 |

During the fiscal year, the City issued $15,830,000 in general obligation bonds, limited tax series 2023 (the “Bonds”) for financing of improvements to the City’s roads and facilities. The Bonds carry an interest rate of 2.00 to 4.00 percent and will mature in 2043.

(Continued)

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

The bond ordinance for the revenue bonds requires pledged revenue for repayment of the revenue bonds. The table below represents the pledged amount and coverage requirements at September 30, 2024:

| | Net Revenues Available for Debt Service of Revenue Bonds |
|---|---|
| Gross revenues (1) | $ 13,632,652 |
| Operating expenses (2) | (8,536,285) |
| | $ 5,096,367 |
| Average annual requirement (3) | $ 1,379,456 |
| Average coverage (5) | 3.69 |
| Maximum annual requirement (4) | $ 1,829,270 |
| Maximum coverage (5) | 2.79 |

1) Gross revenues, as defined in the revenue bond ordinance, include water, sewer, tapping and connection fees, and investment earnings.
2) Total operating expenses, as defined in the revenue bond ordinances, do not include amortization, depreciation, interest and fiscal agent fees, sanitation, and fiscal charges.
3) Average annual requirement is based on the annual average of future debt service payments.
4) Maximum annual requirement is based on the annual debt service payments for fiscal year 2024.
5) The average and maximum coverage shall be at least equal to or greater than 1.25 per bond ordinance.

The revenue bond ordinance requires that funds be restricted for future debt service payments that exceed the fiscal year 2025 and fiscal year 2026 principal and interest payments for the revenue bonds. The utility fund restricted $3,868,834 for debt service payments as of year end, which complied with the bond ordinance restricted requirement.

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

Leases Payable: The City has entered into lease agreements as lessee for the acquisition and use of equipment. The lease interest rates used to determine the initial leases payable and right-to-use lease assets is based on an incremental borrowing rate of 2.65%. In addition, the City's right-to-use lease assets are amortized using a straight-line basis over the remaining terms of the leases.

The City's governmental activities has lease agreements for the use of postage machines and copiers. The lease agreement payments are paid monthly and quarterly. The remaining terms of the lease agreements as of September 30, 2024 are through fiscal year 2026. The future principal and interest lease payments and amortization of right-to-use assets as of September 30, 2024 for governmental activities were as follows:

The City's business-type activities has lease agreements for the use of golf carts and maintenance equipment for the golf operations fund. The remaining terms for these lease agreements as of September 30, 2024 are from 14 to 43 months. The future principal and interest lease payments and amortization of right-to-use assets as of September 30, 2024 for business-type activities were as follows:

| Fiscal Year Ended September 30, | Governmental Activities Leases Payble Principal | Interest | Payments | Amortization of Right-to-Sse Assets |
|---|---|---|---|---|
| 2025 | $ 24,315 | $ 630 | $ 24,945 | $ 23,490 |
| 2026 | 10,170 | 83 | 10,253 | 9,707 |
| | $ 34,485 | $ 713 | $ 35,198 | $ 33,197 |

| Fiscal Year Ended September 30, | Business-Type Activities Leases Payble Principal | Interest | Total | Amortization of Right-to-Sse Assets |
|---|---|---|---|---|
| 2025 | $ 237,658 | $ 11,041 | $ 248,699 | $ 232,868 |
| 2026 | 128,722 | 5,807 | 134,529 | 126,048 |
| 2027 | 102,623 | 2,917 | 105,540 | 98,851 |
| 2028 | 56,041 | 496 | 56,537 | 52,897 |
| | $ 525,044 | $ 20,261 | $ 545,305 | $ 510,664 |

**NOTE 3 - DETAILED NOTES ON ALL FUNDS** (Continued)

Federal Arbitrage: The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

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

| Transfer In | Transfer Out | Amounts |
|---|---|---|
| General | Utility operations | $ 1,540,973 |
| Nonmajor governmental | Economic development | 1,967,935 |
| Nonmajor governmental | Nonmajor governmental | 75,407 |
| Nonmajor governmental | Utility operations | 674,593 |
| Golf course operations | Economic development | 288,232 |
| | | $ 4,547,140 |

Amounts transferred to the general fund are related to specific activity for reimbursement of administrative costs during the fiscal year. Transfers to the nonmajor governmental funds are related to fiscal year 2024 and future debt service payments and projects for development. Transfers to the golf course operations fund are related to fiscal year 2024 development projects.

Fund Balance: As of September 30, 2024, $542,139 of the City's total fund balance is restricted by enabling legislation for tourism, police equipment, and public education.

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 2,824 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

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

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

(Continued)

**NOTE 4 - OTHER INFORMATION**

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

Pension Plans: The City provides for two pension plans; one is a defined benefit cash-balance plan administered through Texas Municipal Retirement System (TMRS) and one has a special funding situation administered by Texas Emergency Services Retirement System (TESRS). Both plans are described in detail below. Aggregate amounts for both pension plans are as follows:

| | TMRS | TESRS | Total |
|---|---|---|---|
| Pension liability | $ 5,643,925 | $ 553,642 | $ 6,197,567 |
| Deferred outflows of resources | 4,337,374 | 223,718 | 4,561,092 |
| Deferred inflows of resources | 515,815 | 1,068 | 516,883 |
| Pension expense | 1,870,375 | 131,001 | 2,001,376 |

**Texas Municipal Retirement System**

Plan Description: The City participates as one of 934 plans in the defined benefit cash-balance plan administered by TMRS. TMRS is a statewide public retirement plan created by the State and administered in accordance with the Texas Government Code, Title 8, Subtitle G (the “TMRS Act”) as an agent multipleemployer retirement system for municipal employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees (the “Board”); however, TMRS is not fiscally dependent the State. TMRS issues a publicly available annual comprehensive financial report that can be obtained at tmrs.com.

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

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

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

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

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

| | 2024 | 2023 |
|---|---|---|
| Employee deposit rate | 6.00% | 6.00% |
| Matching ratio (City to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service requirement eligibility (expressed as age/yrs of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity increase (to retirees) | 70% of CPI | 70% of CPI |

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

| | Primary Government |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 174 |
| Inactive employees entitled to, but not yet receiving, benefits | 258 |
| Active employees | 237 |
| Total | 669 |

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

Employees for the City were required to contribute six percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.18% and 12.26% in calendar years 2023 and 2024, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2024 were $1,833,516, which were equal to the required contributions.

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

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

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

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

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by the most recent Scale MP2021 to account for future mortality improvements subject to the 3% floor.

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

The long-term expected rate of return on pension plan investments was determined by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage.

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Global public equity | 35% | 6.7% |
| Core fixed income | 6% | 4.7% |
| Non-core fixed income | 20% | 8.0% |
| Other public and private markets | 12% | 8.0% |
| Real estate | 12% | 7.6% |
| Hedge funds | 5% | 6.4% |
| Private equity | 10% | 11.6% |
| Total | 100% | |

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

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

Changes in the NPL

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (A) | Plan Fiduciary Net Position (B) | Net Pension Liability (A) - (B) |
| Changes for the year: | | | |
| Service cost | $ 2,000,339 | $ - | $ 2,000,339 |
| Interest | 5,370,143 | - | 5,370,143 |
| Difference between expected and actual experience | 755,388 | - | 755,388 |
| Changes in assumptions | (794,634) | - | (794,634) |
| Contributions - employer | - | 1,595,927 | (1,595,927) |
| Contributions - employee | - | 856,490 | (856,490) |
| Net investment income | - | 8,243,667 | (8,243,667) |
| Benefit payments, including refunds of employee contributions | (3,546,840) | (3,546,840) | - |
| Administrative expense | - | (52,554) | 52,554 |
| Other changes | - | (367) | 367 |
| Net Changes | 3,784,396 | 7,096,323 | (3,311,927) |
| Balance at December 31, 2022 | 80,330,919 | 71,375,067 | 8,955,852 |
| Balance at December 31, 2023 | $ 84,115,315 | $ 78,471,390 | $ 5,643,925 |

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

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|---|---|---|---|
| City's net pension liability/(asset) | $ 16,780,518 | $ 5,643,925 | $ (3,511,960) |

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

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions: For the fiscal year ended September 30, 2024, the City recognized pension expense of $1,870,375.

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

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

| | Primary Government | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual economic experience | $ 907,528 | $ - |
| Chamges in assumptions | - | 515,815 |
| Net difference between projected and actual investment earnings | 1,993,836 | - |
| Contributions subsequent to the measurement date | 1,436,010 | - |
| Total | $ 4,337,374 | $ 515,815 |

$1,436,010 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year ended September 30, | Pension Expense |
|---|---|
| 2025 | $ 923,913 |
| 2026 | 621,019 |
| 2027 | 1,525,787 |
| 2028 | (685,170) |
| Total | $ 2,385,549 |

**Texas Emergency Services Retirement System**

Plan Description: The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by TESRS and established and administered by the State to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2023, there were 241 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2023, the TESRS membership consisted of:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | 3,929 |
| Terminated members entitled to, but not yet receiving benefits | 1,689 |
| Active participants | 3,343 |

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

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

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

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

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

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

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

The Board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percentage of the Part One portion (not to exceed 15 percent), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2022, the Part Two contributions are not required for an adequate contribution arrangement.

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

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

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

Ultimately, the contribution policy also depends upon the total return of the System's assets, which varies from year to year. Investment policy decisions are established and maintained by the board of trustees. For the year ending August 31, 2023, the money-weighted rate of return on pension plan investments was 5.68%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

Contributions: The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule, and there is no maximum contribution rate. For the measurement year ending August 31, 2023, total contributions (dues, prior service, and interest on prior service financing) of $59,497 were paid by the City. The State appropriated $146,736 for the measurement year ending August 31, 2023 to the plan as a whole.

Actuarial Assumptions: The TPL in the August 31, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Actuarial valuation date | August 31, 2022 |
| Actuarial cost method | Entry age |
| Amortization method | Level dollar, open |
| Amortization period | 30 years |
| Asset valuation method | Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market value |
| Actuarial assumptions | |
| Investment rate of return* | 7.50% investment expense, including inflation |
| Projected salary increases | N/A |
| * Includes inflation at | 3.00% |
| Cost-of-living adjustments | None |

Mortality rates were based on the PubS-2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 4.61%) and by adding expected inflation (3.00%). In addition, the final 7.50% assumption was selected by rounding down.

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

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

| Asset Class | Target Allocation | Long-Term Expected Net Real Rate of Return |
|---|---|---|
| Equities | | |
| Large cap domestic | 20% | 5.83% |
| Small/mid cap domestic | 10% | 5.94% |
| Developed international | 15% | 6.17% |
| Emerging markets | 5% | 7.36% |
| Global infrastructure | 5% | 6.61% |
| Real estate | 10% | 4.48% |
| Multi-asset income | 5% | 3.86% |
| Fixed income | 30% | 1.95% |
| Total | 100% | |
| Weighted Average | | 4.61% |

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. No projection of cash flows was used to determine the discount rate because the August 31, 2022 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity Analysis: The following presents the NPL of the City, calculated using the discount rate of 7.50%, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

| | 1% Decrease in Discount Rate (6.5%) | Discount Rate (7.5%) | 1% Increase in Discount Rate (8.5%) |
|---|---|---|---|
| City's proportionate share of the net pension liability (asset) | $ 857,271 | $ 553,642 | $ 307,366 |

**NOTE 4 - OTHER INFORMATION** (Continued)

Pension Liability, Pension Expense, and Deferred Outflows/Deferred Inflows of Resources Related to Pensions: At September 30, 2024, the City reported a liability of $533,642 for its proportionate share of TESRS NPL. The amount recognized by the City as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the City were as follows:

| | | |
|---|---|---|
| City's proportionate share of the collective NPL | $ | 553,642 |
| State's proportionate share that is associated with the City* | | 146,736 |
| | $ | 700,378 |

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

The TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2022, which was rolled forward to a measurement date of August 31, 2023. GASB Statement No. 68 requires the net pension liability to be measured as of a date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward (nor did they provide the necessary information for the participants to roll forward) the NPL to be measured as of a date no earlier than the end of the City's prior fiscal year. While the City acknowledges that the measurement date does not fall within this 12-month period, the City elected to honor the conservatism principle and report a NPL measured as of August 31, 2023. The City used the assumption that any differences in the NPL measured as of August 31, 2023 versus September 30, 2023 would be immaterial. The employer's proportion of the NPL was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2022 thru September 30, 2023.

At September 30, 2024, the employer's proportion of the collective NPL was 1.279 percent, which was an increase of 0.354 percent from its proportion measured as of September 30, 2023.

There were no changes of assumptions or other inputs that affected measurement of the TPL during the measurement period.

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

For the measurement year ended August 31, 2023, the City recognized pension expense of $131,001. On-behalf revenues and expenses were immaterial and not recognized by the City.

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

At August 31, 2023, the City reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net difference between projected and actual investment earnings | $ 165,642 | $ - |
| Changes in assumptions | - | 1,068 |
| Difference between expected and actual experience | 8,086 | - |
| Contributions paid to TESRS subsequent to the measurement date | 49,990 | - |
| Total | $ 223,718 | $ 1,068 |

The contributions paid to TESRS subsequent to the measurement date of the NPL but before the end of the City's reporting period will be recognized as a reduction of the NPL in the subsequent fiscal year.

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year ended September 30, | Pension Expense |
|---|---|
| 2025 | $ 43,431 |
| 2026 | 45,096 |
| 2027 | 78,474 |
| 2028 | 5,659 |
| Total | $ 172,660 |

**Other Postemployment Benefits**

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

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

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

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

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

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

| | Primary Government |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 129 |
| Inactive employees entitled to, but not yet receiving, benefits | 46 |
| Active employees | 237 |
| Total | 412 |

Total OPEB Liability: The City's total OPEB liability of $758,783 was measured as of December 31, 2023 and was determined by an actuarial valuation as of that date.

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

Actuarial Assumptions and Other Inputs: The total OPEB liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases | 3.60% to 11.85% including inflation |
| Discount rate* | 3.77% |
| Retirees' shares of benefit-related costs | Zero |
| Administrative expenses | All administrative expenses are paid through the PTF and accounted for under reporting requirements of GASB Statement No. 68. |
| Mortality rates-service retirees | 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. |
| Mortality rates-disabled retirees | 2019 Municipal Retirees of Texas Mortality Tables. Males 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). |

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2023.

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

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|---|---|
| Changes for the year: | |
| Service cost | $ 24,255 |
| Interest | 27,610 |
| Difference between expected and actual experience | 10,997 |
| Changes of assumptions | 39,872 |
| Benefit payments* | (27,109) |
| Net changes | 75,625 |
| Balance at December 31, 2022 | 683,158 |
| Balance at December 31, 2023 | $ 758,783 |

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

The discount rate increased from 4.05% as of December 31, 2022 to 3.77% as of December 31, 2023. There were no other changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

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

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

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

| | 1% Decrease in Discount Rate (2.77%) | Discount Rate (3.77%) | 1% Increase in Discount Rate (4.77%) |
|---|---|---|---|
| Primary government's total OPEB liability | $ 909,135 | $ 758,783 | $ 641,938 |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: For the year ended September 30, 2024, the City recognized OPEB expense of $29,952. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 9,675 | $ 9,063 |
| Changes in actuarial assumptions | 69,968 | 202,576 |
| Contributions subsequent to the measurement date | 18,741 | - |
| Total | $ 98,384 | $ 211,639 |

$18,741 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2025.

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

| Fiscal Year ended September 30, | OPEB Expense Amount |
|---|---|
| 2025 | $ (39,147) |
| 2026 | (64,804) |
| 2027 | (34,090) |
| 2028 | 6,045 |
| Total | $ (131,996) |

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

Deferred Compensation Plan: The City offers its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan's trust arrangements are established to protect deferred compensation amounts of employees under the Plan from any other use than intended under the Plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under Plan provisions are disbursed monthly by the City to a third-party administrator. The third-party administrator handles all funds in the Plan and makes investment decisions and disburses funds to employees in accordance with Plan provisions.

Industrial District Agreement: In 2011, the City, in conjunction with the cities of Clute and Freeport, Texas, entered into a new contract (the "Contract") with the Dow Chemical Company (Dow), BASF Corporation, and the Brock interests.

In the Contract, the City removed the need to determine what value was in each city's jurisdiction and instead created an all inclusive "district" where all industrial value is "taxed" at 50% of value at a set 55 cent district "tax rate" as one of the potential growth factors.

The 15-year Contract set floor payments of $9 million. The floor payment stayed in place for the first two years of the Contract. Since 2013, the payment has been based on the higher percentage growth factor of either the Department of Labor's consumer price index-unit (CPI-U) or the value based formula described above.

A ceiling was also set in which no payment could exceed what would be generated by the industrial values at 80% at the 55 cent Industrial District tax rate.

Payments could only drop below the $9 million floor in the event of a natural disaster (such as a hurricane) negatively affecting property values.

The 2024 payment of $15,380,508 is split as follows:

| City | Amount |
|---|---|
| Clute | $ 2,447,860 |
| Freeport | 6,122,012 |
| Lake Jackson | 6,810,636 |
| | $ 15,380,508 |

In year three of the Contract, the higher percentage of the CPI-U or growth in the Industrial District values will be applied to each city's allotment to determine that year's payment.

The Contract will help provide certainty to both the cities and industry for the15 year term of the Contract. It also keeps our Industrial District among the most competitive along the Gulf Coast, in order to encourage industry's efforts to grow this site. Recent announcements by industry seem to indicate this had the desired effect – at least it was not a hindrance.

The Industrial District revenues received during the year ended September 30, 2024 amounted to $6,810,636. This revenue is not restricted to a specific function or program.

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

Economic Development Agreements: On November 13, 2013, the City entered into an Economic Development Agreement (the “Agreement”) with the Dow Chemical Company (Dow) in accordance with Chapter 380 of the Texas Local Government Code. Under terms of the Agreement, Dow was expected to expend up to $2,500,000 on infrastructure cost related to a project in the City, and the City would reimburse them. Total reimbursable infrastructure costs were $2,344,103. In addition, the City will provide certain rebates according to terms of the Agreement for real and personal property taxes. The term of the Agreement is 15 years. Both the City and Dow have agreed to various covenants, warranties, obligations and duties as a part of the Agreement. As of September 30, 2024, the City has made rebate payments of $4,167,458 under the Agreement, and $532,900 was paid during the fiscal year 2024.

On December 9, 2013, the City entered into an Economic Development Agreement (the “Agreement”) with HEB Grocery Company, LP (HEB) in accordance with Chapter 380 of the Texas Local Government Code. Under terms of the Agreement, HEB constructed a store and retail center in the City, and the City reimbursed HEB $3 million in infrastructure costs related to the project. In addition the City will provide certain rebates according to terms of the Agreement for real and personal property taxes and sales taxes. In no event shall the sum total of the tax rebates exceed $5 million. Both the City and HEB have agreed to various covenants, warranties, obligations and duties as a part of the Agreement. A $3,000,000 reimbursement was paid in 2018. As of September 30, 2024, the City paid a total of $1,085,652 under the Agreement, and $191,274 was paid during fiscal year 2024.

On August 3, 2015, the City entered into a hotel occupancy tax (HOT) agreement (the “Agreement) with Omkar Enterprise Management LLC. The terms of the Agreement are for 15 years or a maximum total hotel occupancy tax reimbursements of $2,750,000, whichever is reached first. The maximum HOT reimbursed for any year is 75% of the total of the City’s assessed HOT collected and remitted to the City by Courtyard by Marriott. Under the Agreement, Omkar agreed to build a Courtyard by Marriott with a minimum investment of $12 million. Omkar agreed to employ a minimum of 25 employees and build the Courtyard by Marriott to include at least 108 guest rooms, 18 of which will be executive suites. At least 6 of the executive suites should have a minimum of 450 square feet and at least 12 executive suites should have a minimum of 550 square feet. All guest rooms shall have a refrigerator and microwave and 5% of all guest rooms shall have a separate shower and jacuzzi type bath tub. The hotel shall have a minimum 6,500 square foot meeting space inclusive of pre-event areas, restrooms, catering/serving kitchen, main meeting room, and at least one boardroom or break out room. The hotel shall also have a bar/lounge; sit down restaurant/room service; full kitchen, minimum 600 square foot workout room; guest laundry; home theatre area in lobby; business area with computer access; and swimming pool. The hotel formally opened in January 2018. As of September 30, 2024, the City paid a total of $1,118,450 under the Agreement, of which $212,395 was paid during the fiscal year 2024.

On November 16, 2015, the City entered into a hotel occupancy tax (HOT) agreement (the “Agreement”) with Vighnershwerll, LLC (Staybridge). The term of the Agreement is 15 years or when the HOT reimbursement reaches $1,500,000, whichever is first. The first day of the term is May 14, 2018, the day Staybridge received their Certificate of Occupancy. The maximum hotel tax reimbursed for any quarter is 65% of the City HOT collected and remitted to the City by Staybridge. The reimbursement will be for Staybridge’s marketing expenses that meet the guidelines established by the Texas Tax Code section 351.101(a)(3), which are advertising and conducting solicitations and promotional programs to attract tourists and convention delegates or registrants to the municipality or its vicinity. As of September 30, 2024, the City paid a total of $579,663 under the Agreement, of which $146,211 was paid in fiscal year 2024.

(Continued)

**NOTE 4 - OTHER INFORMATION** (Continued)

Tax Abatement: The City has not entered into any property tax abatement agreements with local businesses. The City has worked with local businesses through their Industrial District Contracts and Economic Development Agreements.

**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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*An opinion in substantially the following form will be delivered by Winstead PC, Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.*

____________________, 2025

**CITY OF LAKE JACKSON, TEXAS**
**LIMITED TAX BONDS, SERIES 2025**
**IN THE ORIGINAL PRINCIPAL AMOUNT OF $____________**

We have acted as Bond Counsel to the City of Lake Jackson, Texas (the "City") in connection with the issuance of the bonds described above (the "Bonds") for the sole purpose of providing legal advice and traditional legal services to the City including rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. We have relied solely on information and certifications furnished to us by the City with respect to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the City Council of the City (the "Council"); an ordinance of the Council authorizing the Bonds adopted on July 21, 2025 (the "Ordinance"); the approving opinion of the Attorney General of the State of Texas; the Official Notice of Sale; the awarded bid; customary certificates of officers, agents, and representatives of the City (including a "Federal Tax Certificate"), and other public officials; and other documents relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have examined executed Bond No. I-1.

Based on said examination and in accordance with customary legal opinion practice, it is our opinion that:

1. The City is a validly existing municipal corporation and home-rule city of the State of Texas with power to adopt the Ordinance, perform its agreements therein, and issue the Bonds.

2. The Bonds have been authorized, sold, and delivered in accordance with law.

3. The Bonds constitute valid and legally binding obligations of the City enforceable in accordance with their terms except as the enforceability thereof may be limited by principles of sovereign

immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors' rights generally.

4. Ad valorem taxes, within legal limitations, upon all taxable property within the City, necessary to pay the interest on and principal of the Bonds, have been pledged irrevocably for such purpose.

5. Interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103 of the Code and is not an item of tax preference for purposes of the federal alternative minimum tax; however, such interest may be taken into account in determining the "annual adjusted financial statement income" (as defined in section 56A of the Code) of "applicable corporations" (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations.

In rendering these opinions, we have relied upon representations and certifications of the City, the City's financial advisor, and the initial purchaser of the Bonds with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified, and we assume continuing compliance by the City with covenants pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations and certifications are determined to be inaccurate or incomplete, or the City fails to comply with the foregoing covenants, interest on the Bonds could become includable in gross income retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Bonds.

We call your attention to the fact that the ownership of obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, taxpayers qualifying for the health insurance premium assistance credit, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred expenses allocable to, tax-exempt obligations.

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

The Service has an ongoing audit program to determine compliance with rules relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the City as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that, if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Bonds, the sufficiency of the security for the Bonds, or the marketability of the Bonds.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed therein and is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

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Provided By

HilltopSecurities
Investment Banking Solutions