

PRELIMINARY OFFICIAL STATEMENT

Dated July 15, 2025

RATINGS:

Moody's: "Aa3"

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 (the "Bonds") with certain covenants contained in the Ordinance (defined below) authorizing the Bonds and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be an item of tax preference for purposes of the alternative minimum tax; (the "Code"). See "TAX MATTERS" herein.

\$19,130,000*

CITY OF LAKE JACKSON, TEXAS

(A Home Rule City of the State of Texas Located in Brazoria County)

WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2025

Dated Date: August 1, 2025

Delivery Date: August 19, 2025

Due: April 15, as shown on inside cover page

PAYMENT TERMS . . . Interest on the \$19,130,000* City of Lake Jackson, Texas, Waterworks and Sewer System Revenue Bonds, Series 2025 (the "Bonds"), will accrue from the Delivery Date, currently estimated to be August 19, 2025, (the "Delivery Date") and will be payable April 15 and October 15 of each year commencing April 15, 2026, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. 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 Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania (see "THE BONDS – PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the general laws of the State of Texas, particularly Chapters 1502, Texas Government Code, and an ordinance (the "Ordinance") to be adopted on the date of sale of the Bonds by the City Council of the City of Lake Jackson (the "City"), and are special obligations of the City, payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues (as described and defined in the Ordinance) of the City's Waterworks and Sewer System (the "System") **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "THE BONDS – AUTHORITY FOR ISSUANCE").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to finance certain improvements to the System and (ii) to pay certain costs incurred in connection with the issuance of the Bonds.

MATURITY SCHEDULE

See page 2

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after April 15, 2035, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on April 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 on the inside cover are combined to create "Term Bonds", such Term Bonds will be subject to mandatory sinking fund redemption commencing on April 15 of the first year which has been combined to form such Term Bonds and continuing on April 15 in each year thereafter until the stated maturity date of such Term Bonds, and the amount required to be redeemed in any year will be equal to the principal amount for such year set forth 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 and subject to the approving opinion of the Attorney General of Texas and the 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.

BIDS ON THE BONDS DUE MONDAY, JULY 21, 2025 AT 10:45 A.M., CST

* Preliminary, subject to change

MATURITY SCHEDULE

\$19,130,000* Waterworks and Sewer System Revenue Bonds, Series 2025

Principal Amount*	Maturity April 15	Interest Rate	Price or Yield ⁽¹⁾	CUSIP ⁽²⁾	Principal Amount*	Maturity April 15	Interest Rate	Price or Yield ⁽¹⁾	CUSIP ⁽²⁾
\$ 960,000	2026				\$ 955,000	2036 ⁽³⁾			
960,000	2027				955,000	2037 ⁽³⁾			
960,000	2028				955,000	2038 ⁽³⁾			
960,000	2029				955,000	2039 ⁽³⁾			
960,000	2030				955,000	2040 ⁽³⁾			
960,000	2031				955,000	2041 ⁽³⁾			
955,000	2032				955,000	2042 ⁽³⁾			
955,000	2033				955,000	2043 ⁽³⁾			
955,000	2034				955,000	2044 ⁽³⁾			
955,000	2035 ⁽³⁾				955,000	2045 ⁽³⁾			

(Interest to accrue from August 19, 2025)

* Preliminary, subject to change.

- (1) The initial reoffering prices or yields on the Bonds are furnished by the Initial Purchaser of the Bonds (as defined herein) and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser of the Bonds 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, managed by FactSet Research Systems, Inc. on behalf of The American Bankers Association. This data is not intended to create a data base and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Initial Purchaser of the Bonds is responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (3) The Bonds maturing on or after April 15, 2035 are subject to redemption, at the option of the City, on April 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 elects to aggregate two or more maturities into a term bond, such term bonds will be subject to mandatory sinking fund redemption as provided in the Ordinance (see "THE BONDS – MANDATORY SINKING FUND REDEMPTION").

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For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission ("Rule 15c2-12"), this document constitutes an official statement of the City with respect to the Bonds that has been deemed "final" by the City as of the date except for the omission of no more than the information permitted by 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 dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

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

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

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

NEITHER THE CITY, THE INITIAL PURCHASER OF THE BONDS, NOR THE FINANCIAL ADVISOR, MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM AS SUCH INFORMATION HAS BEEN FURNISHED BY DTC.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. 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 FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

References to 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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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Elected Official	Title	Term Ends
Gerald Roznovsky	Mayor	May-26
Leonard Schooler	Council Position #1	May-27
Vinay Singhania	Council Position # 2	May-26
Rhonda Seth	Council Position # 3/Mayor Pro Tem	May-27
Ralph Buell, III	Council Position # 4	May-26
Jon "JB" Baker	Council Position # 5	May-27

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.....	HilltopSecurities Inc. Houston, Texas

For additional information regarding the City, please contact:

James Bryson
Director of Finance
City of Lake Jackson
25 Oak Drive
Lake Jackson, Texas 77566
(979) 415-2438

or

Joe Morrow
Managing Director
HilltopSecurities Inc.
700 Milam Street, Suite 1200
Houston, Texas 77002
(713) 654-8690

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

\$19,130,000*

CITY OF LAKE JACKSON, TEXAS

WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2025

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$19,130,000* City of Lake Jackson, Texas, Waterworks and Sewer System Revenue Bonds, Series 2025, (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance to be adopted on the date of sale of the Bonds which will authorize the issuance of the Bonds (the "Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City of Lake Jackson, Texas (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.

DESCRIPTION OF THE CITY

The City is a home rule city of the State of Texas (the "State"), 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 estimated 2025 population is 28,500. The City covers approximately 18 square miles.

PLAN OF FINANCING

PURPOSE

Proceeds from the sale of the Bonds will be used (i) to finance certain improvements to the System and (ii) to pay certain costs incurred in connection with the issuance of the Bonds.

SOURCES AND USES OF PROCEEDS

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

Sources of Funds

Par Amount	\$ -
Net Premium	-
Total Sources	<u>\$ -</u>

Uses of Funds

Deposit to Construction Fund	\$ -
Initial Purchasers' Discount	-
Cost of Issuance	-
Total Uses	<u>\$ -</u>

* Preliminary, subject to change.

THE BONDS

DESCRIPTION OF THE BONDS

The Bonds are dated August 1, 2025 (the "Dated Date"), and mature, or are subject to redemption prior to maturity, on April 15 in each of the years and in the amounts shown on the page 2. Interest will accrue from the Delivery Date as defined on the cover page hereof and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on April 15 and October 15, commencing April 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. (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 "BOOK-ENTRY-ONLY SYSTEM" herein.

AUTHORITY FOR ISSUANCE

The Bonds are issued pursuant to the general laws of the State of Texas, particularly Chapters 1502, Texas Government Code, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT

The Bonds are special obligations of the City payable, both as to principal and interest, solely from and, together with certain outstanding revenue bonds of the City (the "Previously Issued Bonds") and any additional parity bonds which may be issued in the future ("Additional Bonds" described below), secured by a first lien on and pledge of the "Net Revenues" of the City's Waterworks and Sewer System (the "System"). Net Revenue means all gross revenues of the System after deducting the necessary and reasonable expenses of operation and maintenance of the System. Maintenance and operating expenses include contractual payments which under Texas laws and their provisions are established as operating expenses. The City has entered into a contract with the Brazosport Water Authority and six other member cities for the purchase of water with payments established as an operating expense.

The City has outstanding Previously Issued Bonds secured by and payable from Net Revenues on parity with the Bonds, as follows:

Dated Date	Outstanding Debt ⁽¹⁾	Issue Description
6/1/2013	800,000	Waterworks and Sewer System Revenue Bonds, Series 2013
12/1/2016	1,780,000	Waterworks and Sewer System Revenue Refunding Bonds, Series 2016
11/1/2017	3,550,000	Waterworks and Sewer System Revenue Bonds, Series 2017
11/15/2019	3,925,000	Waterworks and Sewer System Revenue and Refunding Bonds, Series 2019
12/1/2022	5,220,000	Waterworks and Sewer System Revenue Bonds, Series 2022
	<u>\$ 15,275,000</u>	

(1) As of May 1, 2025.

The Bonds are not a charge upon any other income or revenues of the City and **will never constitute an indebtedness or pledge of the general credit or taxing powers of the City.** The Ordinance does not create a lien or mortgage on the System, except on the Net Revenues of the System, and any judgment against the City may not be enforced by levy and execution against any property owned by the City.

As additional security, a Reserve Fund is required to be maintained in an amount at least equal to the succeeding year's debt service requirements of the outstanding Previously Issued Bonds, the Bonds, and any Additional Bonds issued on a parity with the Bonds (collectively, the "Parity Bonds"). Any additional amount required to be accumulated in the fund by reason of the issuance of the Bonds will be funded within a 61-month period in accordance with the provisions of the Ordinance. In addition to the Reserve Fund, a Contingency Fund is required to be maintained. After making payments to the Interest and Sinking Fund and the Reserve Fund, the City must deposit \$200 per month from the Net Revenues to the Contingency Fund until such time there is \$50,000 on hand in the Contingency Fund. The money in the Contingency Fund may be used only (a) to pay unusual maintenance and operating expenses and (b) to pay the principal of or interest on the Parity Bonds at any time when there is not a sufficient amount in the Interest and Sinking Fund or the Reserve Fund for such purpose.

PLEDGED REVENUES

All of the Net Revenues of the System are irrevocably pledged for the payment of the Bonds and interest thereon. The Bonds and the Previously Issued Bonds are equally and ratably secured by a first lien upon the Net Revenues of the System.

PERFECTION OF SECURITY

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Net Revenues thereto, 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 Net Revenues 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.

RATES

The City has covenanted and agreed in the Ordinance that it will (a) fix and maintain rates and collect charges for the facilities and services afforded by the System which will provide revenues sufficient at all times: (i) to pay all operation, maintenance, depreciation, replacement, and betterment charges of the System; (ii) to establish and maintain the Interest and Sinking Fund, the Reserve Fund, and the Contingency Fund; and (iii) to pay promptly the Parity Bonds as and when the same become due; and (b) deposit as collected all revenues derived from the operation of the System into the System Fund.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after April 15, 2035, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on April 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 will select the maturities of Bonds to be redeemed. If less than all the Bonds in a maturity are to be redeemed by the City, the City will determine the amount thereof to be redeemed and will direct the Paying Agent/Registrar to call (or DTC while the Bonds are in Book-Entry-Only form) by lot the Bonds, or portions thereof, within such maturity and in such principal amounts for redemption. If a 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) has 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 on page 2 hereof are combined to create term bonds ("Term Bonds"), each such Term Bond will be subject to mandatory sinking fund redemption commencing on April 15 of the first year which has been combined to form such Term Bonds and continuing on April 15 in each year thereafter until the stated maturity date of that Term Bonds, and the amount required to be redeemed in any year will be equal to the principal amount for such year set forth on the inside cover of this Preliminary Official Statement. 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.

The principal amount of 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 Term Bonds of the same maturity which at least 50 days prior to the mandatory redemption date (i) have 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) have 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 OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF WILL CEASE TO ACCRUE.

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.

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 "Depository"), 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 Obligations, 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 Depository.

The Ordinance provides that "Government Obligations" are (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations 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 obligations 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 Depository to effectuate such defeasance, a report of an independent firm of nationally recognized certified public accountants or other qualified financial professional on the City's finances verifying the sufficiency of the escrow established to pay the Defeased Bonds in full on the maturity or, with respect to the Bonds, 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 or the City's financial advisor certifying that the amount deposited with a Depository 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 Obligations; provided, however, that 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.

ADDITIONAL BONDS

In addition to inferior lien bonds, the City expressly reserves the right hereafter to issue additional parity bonds and other evidences of indebtedness now or hereafter authorized by the Legislature of Texas (collectively, the "Additional Bonds"), and the Additional Bonds, when issued, may be secured by and payable from a first lien on and pledge of the Net Revenues, in the same manner and to the same extent as the outstanding Parity Bonds but subject to the remaining provisions hereof, and the Outstanding Parity Bonds, the Bonds, and the Additional Bonds may be in all respects of equal dignity. It is provided, however, that no Additional Bonds may be issued unless:

- (a) No default exists in connection with any of the covenants or requirements of the ordinance authorizing the issuance of all then outstanding Parity Bonds;
- (b) The Interest and Sinking Fund and the Reserve Fund contain the amount then required to be on deposit therein;
- (c) A certificate is executed by a Certified Public Accountant to the effect that in his opinion the Net Earnings (described below) of the System for the last fiscal year, or for any 12 consecutive calendar month period ending not more than 90 days prior to the adoption of the ordinance authorizing the issuance of such Additional Bonds, were at least 1.25 times the average annual principal and interest requirements for all then outstanding Parity Bonds and for the series of Additional Bonds then proposed to be issued. Provided, however, should the certificate of the accountant certify that the Net Earnings of the System for the period covered thereby were, in either case, less than required above, and a change in the rates and charges for services afforded by the System became effective at least 60 days prior to the scheduled date of adoption of the ordinance authorizing such Additional Bonds, then such Additional Bonds may be issued if a Certified Public Accountant or an independent registered professional engineer or engineering firm containing a registered professional engineer, certifies that, had such change in rates and charges been effective for the period covered by the accountant's certificate, the Net Earnings for the System for the period covered by the accountant's certificate would have met the tests specified herein.

The term "Net Earnings" means the operating revenues of the System (excluding amounts received specifically for capital items) after deducting the reasonable expenses of operation and maintenance of the System (excluding expenditures for capital items, provisions for depreciation, and interest on bonded debt).

- (d) The Additional Bonds are made to mature on April 15 in each of the years in which they are scheduled to mature.
- (e) The ordinance authorizing the issuance of such Additional Bonds must provide that the aggregate amount to be accumulated and maintained in the Reserve Fund be increased by an additional amount not less than the next succeeding year's principal and interest requirements for said Additional Bonds, and that such additional amount must be so accumulated within 61 months from the date of the Additional Bonds, by the deposit in the Reserve Fund of the necessary sums in equal monthly installments; provided, however, that the aggregate amount to be accumulated in the Reserve Fund will never be required to exceed the succeeding year's principal and interest requirements for all outstanding Parity Bonds or a surety bond or other credit instrument then authorized by law and of sufficient credit quality to not adversely affect the then rating or ratings on any Parity Bonds remaining outstanding may be obtained by the City.

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).

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 legally qualified bank, trust company, financial institution, 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. 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 designated 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 (i) transfer or exchange any Bond called for redemption, in whole or in part, within 30 calendar days of the date fixed for redemption; provided, however, that such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond or, (ii) issue, transfer or exchange any obligation subject to redemption during a period beginning at the opening of business 15 days before the day of first mailing of a notice of redemption and ending at close of business on the day of such mailing.

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 calendar 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 registered owner 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 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.

RECORD DATE FOR INTEREST PAYMENT. . . The date for determining the person to whom the interest is 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").

SPECIAL 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 holder of a 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.

MUTILATED, DESTROYED, LOST, OR STOLEN BONDS. . . The City has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and Paying Agent of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

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

DEFAULT AND REMEDIES . . . If the City defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the applicable Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the applicable Ordinance, the bondholders may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the applicable Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so it rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the bondholders. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("*Tooke*"), that a waiver of sovereign 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 sovereign immunity from a suit for money, bondholders may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance. Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary- Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson*"), the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy

to determine that "a city's proprietary functions are not done pursuant to the 'will of the people' and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources." While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that the Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed Wasson for a second time and issued an opinion on October 5, 2018, clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship.

Notwithstanding the foregoing, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

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 bondholders 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. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without bankruptcy court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9.

Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce bondholders' rights 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 and as to general principles of equity that permit the exercise of judicial discretion.

THE SYSTEM

WATERWORKS SYSTEM

The City purchases water from the Brazosport Water Authority (the "Authority"). The Authority was created by the Texas Legislature by virtue of Chapter 449, 1985 Tex. Laws, Reg. Sess., Ch 449 at 3063, as amended. The Authority has entered into contracts with the City and the cities of Angleton, Brazoria, Clute, Freeport, Oyster Creek and Richwood (the "Participating Customers") to provide treated surface water. The surface water treatment plant has the capacity to produce 17.9 million gallons of treated water every day. The facility became operational in March 1989 and obtains water from the Brazos River. Currently under construction is a 10 million gallons per day ("MGD") reverse osmosis plant that will take brackish groundwater from that is abundant in the aquifer under Brazoria County and treat it to potable water standards. Each of the Participating Customers has a contract with the Authority which makes provisions for the cities to pay all costs of the Authority, including principal and interest on the Authority's outstanding bonds in return for treated surface water supply. The contracts extend for 40 years from February 20, 1987 (except for the City of Brazoria, which is dated February 17, 1987). Such payments constitute operating expenses of the Participating Customers water systems. The Participating Customers currently are collectively purchasing 7.514 million gallons per day from the Authority under a "take or pay" provision in the contracts, leaving a reserve capacity of 2.6 million gallons per day in the plant. The plant was originally designed to accommodate an expansion to double its capacity to 20 million gallons per day. Pursuant to the contract, the City currently purchases 2 million gallons of water per day from the Authority. The current cost per 1,000 gallons is \$4.60. The Authority also sells to non-participating customers that include DOW Innovation Center, the Texas Department of Criminal Justice and the City of Rosenberg.

In addition to the above, the City operates 12 water wells, the primary use of which is to serve during peak usage periods and as backup to the Authority's facilities. The water wells peak production capacity is 7.3 million gallons per day. Water storage capacity includes five elevated tanks (2.55 million gallons of capacity) and four (4) ground storage tanks (4.5 million gallons of capacity).

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TABLE 1 - TEN LARGEST WATER SYSTEM CUSTOMERS (BASED ON GALLONS CONSUMED)

Name of Business	Type of Business	FY 2024 Consumption in 1,000's	Total Percent of Water Consumed
DOW Innovation Center	Research and Development	46,807	2.94%
Brazosport Memorial Hospital	Hospital	18,126	1.14%
TDCJ - Wayne Scott Unit	Prison	15,334	0.96%
InterUrban Wilshire OC Drive	Apartment	15,332	0.96%
Buc-ees #29	Retail	12,995	0.82%
Brazosport College	College	10,699	0.67%
Brazosport College	College	9,558	0.60%
Raamco Raintree	Apartment	8,880	0.56%
Linmark Oaks	Apartment	8,673	0.54%
Covey Plantation LP		7,775	0.49%
		154,179	9.69%

TABLE 2 – MONTHLY WATER AND SEWER RATES (EFFECTIVE OCTOBER 1, 2024)

Water:	First 2,000 gallons	\$17.62 Minimum (Residential)
		\$35.23 Minimum (Commercial/Apartment)
	Over 2,000 gallons	\$6.36 per 1,000 gallons
	Over 20,000 gallons	\$7.22 per 1,000 gallons
Sewer:	First 2,000 gallons	\$19.04 Minimum (Residential)
		\$38.08 Minimum (Commercial/Apartment)
	Over 2,000 gallons	\$6.88 per 1,000 gallons

* Residential Sewer charges stop at 15,000 gallons.

WASTEWATER SYSTEM

The City owns and operates one sewage treatment facility which has a capacity of 5.89 million gallons per day. Wastewater generated throughout the City flows through a series of lift stations prior to reaching the treatment plant. There are currently five "master" lift stations that pump directly to the treatment plant, and 44 lift stations that serve various subdivisions and convey wastewater to a "master" lift station.

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DEBT INFORMATION

TABLE 3 - PRO-FORMA WATERWORKS AND SEWER SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 30-Sep	Outstanding Debt			The Bonds ⁽¹⁾			Total Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
2025	\$ 1,245,000	\$ 584,270	\$ 1,829,270	\$ -	\$ -	\$ -	\$ 1,829,270
2026	1,240,000	535,020	1,775,020	960,000	627,039	1,587,039	3,362,059
2027	1,235,000	485,920	1,720,920	960,000	908,500	1,868,500	3,589,420
2028	1,145,000	439,720	1,584,720	960,000	860,500	1,820,500	3,405,220
2029	1,140,000	396,220	1,536,220	960,000	812,500	1,772,500	3,308,720
2030	1,140,000	352,920	1,492,920	960,000	764,500	1,724,500	3,217,420
2031	1,065,000	315,890	1,380,890	960,000	716,500	1,676,500	3,057,390
2032	1,065,000	280,435	1,345,435	955,000	668,500	1,623,500	2,968,935
2033	1,060,000	244,725	1,304,725	955,000	620,750	1,575,750	2,880,475
2034	955,000	209,125	1,164,125	955,000	573,000	1,528,000	2,692,125
2035	955,000	176,425	1,131,425	955,000	525,250	1,480,250	2,611,675
2036	955,000	146,625	1,101,625	955,000	477,500	1,432,500	2,534,125
2037	810,000	116,575	926,575	955,000	429,750	1,384,750	2,311,325
2038	810,000	90,538	900,538	955,000	382,000	1,337,000	2,237,538
2039	540,000	64,250	604,250	955,000	334,250	1,289,250	1,893,500
2040	290,000	46,400	336,400	955,000	286,500	1,241,500	1,577,900
2041	290,000	34,800	324,800	955,000	238,750	1,193,750	1,518,550
2042	290,000	23,200	313,200	955,000	191,000	1,146,000	1,459,200
2043	290,000	11,600	301,600	955,000	143,250	1,098,250	1,399,850
2044	-	-	-	955,000	95,500	1,050,500	1,050,500
2045	-	-	-	955,000	47,750	1,002,750	1,002,750
	<u>\$ 16,520,000</u>	<u>\$ 4,554,658</u>	<u>\$ 21,074,658</u>	<u>\$ 19,130,000</u>	<u>\$ 9,703,289</u>	<u>\$ 28,833,289</u>	<u>\$ 49,907,946</u>

(1) Shown as assumed interest rates for administration purposes only. Preliminary, subject to change.

AUTHORIZED BUT UNISSUED REVENUE BONDS

State law does not require revenue bonds to be approved through an election.

ANTICIPATED ISSUANCE OF REVENUE BONDS

The City expects to issue \$19,445,000* Limited Tax Bonds, Series 2025 (the "Limited Tax Bonds") concurrently with the Bonds on July 21, 2025. The issuance of the Limited Tax Bonds is not contingent upon the issuance of the Bonds, nor is the issuance of the Bonds contingent upon the issuance of the Limited Tax Bonds.

OTHER OBLIGATIONS

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

PENSION FUND

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System, a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" - Note # 9).

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.

* Preliminary, subject to change.

FINANCIAL INFORMATION

TABLE 4 - CONDENSED STATEMENT OF OPERATIONS

		Fiscal Year Ended September 30,					
		2025 ⁽¹⁾	2024	2023	2022	2021	2020
<u>Revenues</u>							
	Water Service	\$ 4,684,965	\$ 5,842,209	\$ 6,154,867	\$ 5,532,042	\$ 4,825,539	\$ 4,839,438
	Sewer Service	4,841,070	5,899,660	5,975,128	5,419,214	5,023,164	5,173,625
	Tapping and Connection Fees	234,828	413,179	364,552	270,822	229,633	217,913
	Other	222,308	330,679	296,151	304,912	295,475	282,703
	Interest Income	162,316	1,477,604	1,148,856	140,788	10,419	192,074
		<u>\$ 10,145,487</u>	<u>\$ 13,963,331</u>	<u>\$ 13,939,554</u>	<u>\$ 11,667,778</u>	<u>\$ 10,384,230</u>	<u>\$ 10,705,753</u>
<u>Expenditures</u>							
	Utility Administration	\$ 765,154	\$ 813,726	\$ 773,629	\$ 739,665	\$ 826,181	\$ 666,970
	Water Production and Treatment	3,748,574	5,049,916	4,978,874	4,128,711	4,234,988	3,737,187
	Sewer Collection and Treatment	2,396,471	2,672,643	2,482,055	2,201,991	2,333,837	2,135,755
		<u>\$ 6,910,198</u>	<u>\$ 8,536,285</u>	<u>\$ 8,234,558</u>	<u>\$ 7,070,367</u>	<u>\$ 7,395,006</u>	<u>\$ 6,539,912</u>
	Transfer for Administrative Expenses	(680,000)	(650,000)	(650,000)	(600,000)	(600,000)	(550,000)
	Available for Debt Service	N/A	\$ 4,777,046	\$ 5,054,996	\$ 3,997,411	\$ 2,389,224	\$ 3,615,841
	Revenue Bond Debt Service	N/A	\$ 1,829,270	\$ 1,930,320	\$ 1,407,470	\$ 1,643,770	\$ 1,780,420
	Coverage	N/A	2.61	2.62	2.84	1.45	2.03
	Customer Count	N/A	9,455	9,237	9,277	9,176	9,182

(1) Unaudited partial numbers through June 30, 2025.

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, input from advisory boards, and City Council direction. The plan identifies potential capital projects in the amount of \$24,500,000. It is currently estimated that approximately 18% of the capital projects will be funded on a pay-as-you-go basis. Debt funding accounts for 92% of capital project funding. 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.

INVESTMENTS

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

LEGAL INVESTMENTS

Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State or the United States or their respective agencies and instrumentalities, (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) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successors, (7) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State, that 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 (5) and clause (14) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (i) a broker that has its main office or branch office in this state and is selected from a list

adopted by the City; (ii) a depository institution that has a main office or branch office in this state and that is selected by the City; (b) the broker or depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; and (d) the City appoints the depository institution acts as a custodian for the City with respect to the certificates of deposit, an entity described by Section 2257.041(d) 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), (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased 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 or a financial institution doing business in the State, (9) bankers' acceptances with the remaining term of 270 days or less from the date of issuance, 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, (10) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least "A-1" or "P-1" or the equivalent by at least (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, (11) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7, (12) no-load mutual fund registered with the United States Securities and Exchange Commission that: have an average weighted maturity of less than two years; and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities, (13) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days, and (14) bonds issued, assumed or guaranteed by the State of Israel. State law also permits the City to invest bond proceeds in a guaranteed investment contract subject to the limitations set forth in Chapter 2256, as amended, Texas Government Code.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (5) and (14) 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 (5) above, clauses (11) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

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

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City; (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 is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform

an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the City's designated Investment Officer; (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 non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 5 - 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	5.85%	\$ 4,878,634
TexPool ⁽¹⁾	45.20%	37,425,425
TexStar ⁽²⁾	9.95%	8,235,696
First Public	38.88%	32,191,408
CDs:		
Texas Gulf Bank	0.12%	100,000
	<u>100.00%</u>	<u>\$ 82,831,163</u>

- (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 of the Texas Government Code. 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 of the Texas Government Code.

- (2) TexSTAR is a local government investment pool for whom First Southwest Asset Management, Inc., an affiliate of HilltopSecurities Inc., the City's financial advisor, provides customer service and marketing for the pool. TexSTAR currently maintains a "AAAm" rating from Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investments or redemptions of funds are allowed by the participants.

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TAX MATTERS

TAX EXEMPTION . . . The delivery of the Bonds is subject to the opinion of Winstead PC, Houston, 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 Ordinance subsequent to the issuance of the Bonds. The Ordinance 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.

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. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the headings "TAX INFORMATION," "FINANCIAL INFORMATION," "DEBT INFORMATION" and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year.

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.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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. Neither the Bonds nor the Ordinance makes provisions for credit enhancement, liquidity enhancement, or debt service reserves.

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.

AVAILABILITY OF INFORMATION . . . The City shall also provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, notice of a failure by the City to provide required annual financial information and notices of material events. All documents provided to the MSRB pursuant to this section shall be accompanied by identifying information as prescribed by the MSRB.

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 revenue debt of the City are rated "Aa3" 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 relating 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 OPINION 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 legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding special 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

HilltopSecurities 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. HilltopSecurities Inc. has agreed not to submit a bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds. HilltopSecurities 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

After requesting competitive bids for the Bonds, the City accepted the bid of _____ (the "Initial Purchaser" or the "Underwriter") to purchase the Bonds 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(s) can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

HURRICANE HARVEY

The Houston area, including Brazoria County, sustained widespread rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The City is located approximately 10 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances.

According to the City, the City did not sustain any significant damage and there was minimal interruption of water and sewer service. Further, according to the City, fewer than 5 homes within the City experienced flooding or other significant damage.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this

Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

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

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.

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.

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

Mayor
City of Lake Jackson, Texas

ATTEST:

City Secretary
City of Lake Jackson, Texas

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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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.

Year	Population ⁽¹⁾
2021	28,625
2022	29,085
2023	27,314
2024	28,443
2025	28,500

(1) Estimated by City

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 Brazoria 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 1,609 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 372,031 as of the 2020 Census estimate. In 2017 the total Gross Domestic Product in Brazoria County was slightly over \$21 billion, with manufacturing contributing the largest portion of that at 10.2 billion. 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 Complex employs 3,600 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 comprises 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 \$150,000 to over \$750,000. In addition, there are 24 apartment projects containing a total of 3,483 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 Dillards and J.C. Penny. There are approximately 65 shops and services offered, including Bath & Body Works TJ Maxx, Home Goods and Ashley Furniture. 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

As part of Dow Chemical Company's ongoing commitment to innovation they are now fully operational in their state-of-the-art research and development labs and office facilities in the heart of Lake Jackson.

Additionally, the industrial complex of the area continues to expand. More than \$20 billion in projects have been complete over the last 10 years, with another \$5 billion nearing completion. This includes projects of Dow, BASF, INEOS, Olin, Praxair, Phillips 66 and Freeport LNG. With the start-up of train 1 and first shipment of Liquefied Natural Gas, Freeport LNG also announced it would starting the construction of Train 4, another \$3 billion investment.

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 3,600 people.

Other major employers in the area include Texas Department of Criminal Justice; Infinity Group; Solutia, Inc.; Industrial Specialist; SI Group; BASF Corporation; Brazosport Memorial Hospital; and ConocoPhillips.

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

Company	Type	Estimated Number of Employees
Various Industrial Contractors	Contractor	3,399
Dow Chemical Company	Chemical	3,510
Texas Dept. of Criminal Justice	Criminal Justice	2,102
Brazosport ISD	Education	1,900
Olin Corporation	Chemical	1,250
Phillips 66	Refining	1,039
Wood Group	Contractor	1,000
BASF Corporation	Chemical	906
Marquis Construction Service	Construction	804
Chi St. Lukes Health	Medical	526

THE INDUSTRIAL DISTRICT

The City of Lake Jackson along with the cities of Clute and Freeport have entered into an Industrial District Contract with Dow Chemical Company, BASF Corporation and the Brock Interests. The revised contract calls for industry to make payments to the cities in lieu of being annexed and paying the full tax rate. In exchange, this relieves the cities from having to provide full city services, such as police and fire, to the industrial complexes. The Industrial District contract was renegotiated in December 2011; and ends December, 2026. \$4.1 million was paid to the City of Lake Jackson in Fiscal Year 2012 and Fiscal Year 2013. Starting in Fiscal Year 2014, the payments are calculated in accordance with the application of a growth factor based on the Consumer Price Index – All Urban Consumers ("CPI-U"). In fiscal year 2014, 2015 and 2016 \$4,186,100, \$4,249,304 and \$4,317,295 was received, respectively. In fiscal year 2017, \$4,394,000 was received. In fiscal year 2018 we received \$4,501,353. For fiscal year 2019 the industrial district payment was based on industrial values \$3,995,709,104. The total payment to the three cities was \$11,432,188, Lake Jackson's share of the payment was \$5,208,506.

SCHOOL FACILITIES

The City is in the Brazosport Independent School District, 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.

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

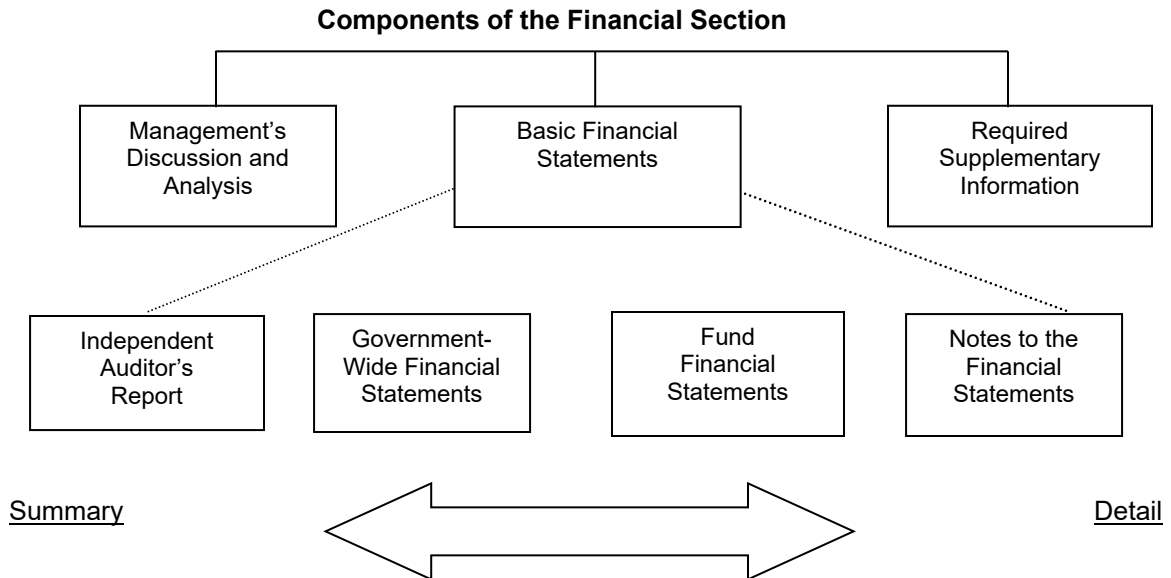
Houston, Texas
April 29, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

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



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

Government-Wide Statements

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

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

(Continued)

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

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.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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.

(Continued)

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

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.

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2024	2023	2024	2023	2024	2023
ASSETS						
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

(Continued)

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

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.

(Continued)

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

Statement of Activities

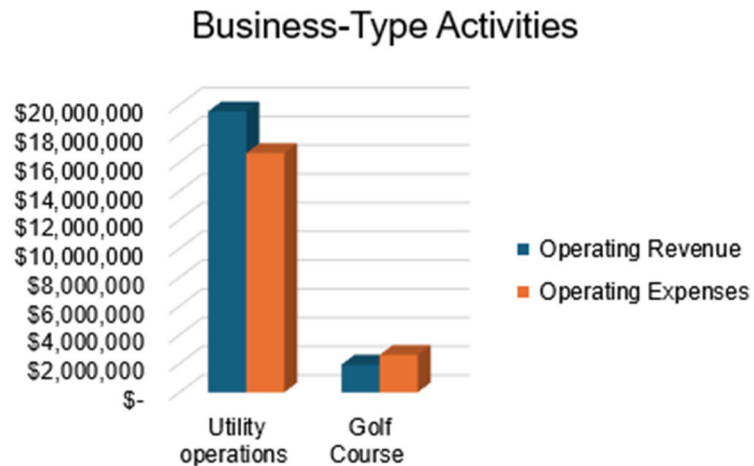
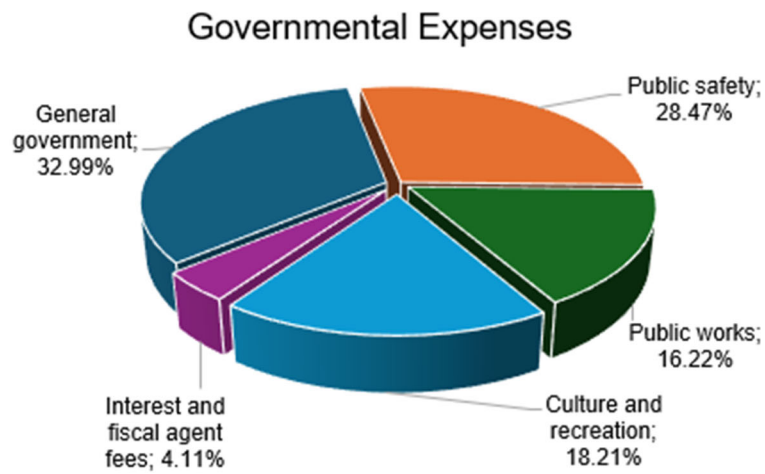
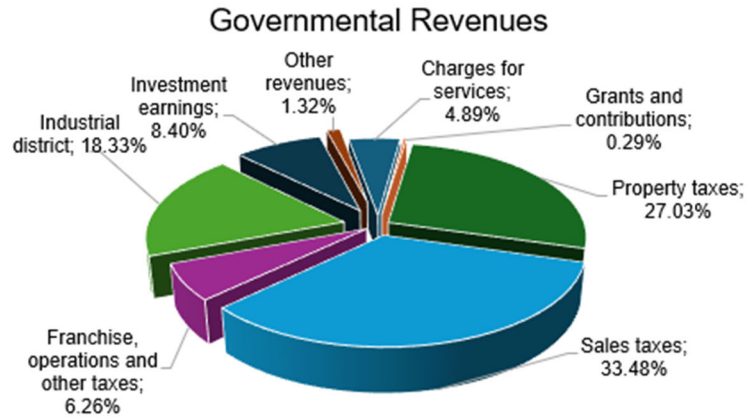
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2024			For the Year Ended September 30, 2023		
	Governmental 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	<u>37,155,640</u>	<u>21,469,510</u>	<u>58,625,150</u>	<u>36,945,557</u>	<u>23,250,566</u>	<u>60,196,123</u>
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	<u>38,827,162</u>	<u>19,246,259</u>	<u>58,073,421</u>	<u>30,214,493</u>	<u>19,689,325</u>	<u>49,903,818</u>
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)	<u>1,775,660</u>	<u>(1,775,660)</u>	<u>-</u>	<u>1,434,168</u>	<u>(1,434,168)</u>	<u>-</u>
Change in net position	104,138	447,591	551,729	8,165,232	2,127,073	10,292,305
Net position-beginning of year	<u>77,074,964</u>	<u>46,633,381</u>	<u>123,708,345</u>	<u>68,909,732</u>	<u>44,506,308</u>	<u>113,416,040</u>
Net position-end of year	<u>\$ 77,179,102</u>	<u>\$ 47,080,972</u>	<u>\$ 124,260,074</u>	<u>\$ 77,074,964</u>	<u>\$ 46,633,381</u>	<u>\$ 123,708,345</u>

(Continued)

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

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



(Continued)

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

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

(Continued)

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

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.

(Continued)

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

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 <u>Services</u>	Standard and Poor's <u>Poor's</u>
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.

(Continued)

CITY OF LAKE JACKSON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2024

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

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

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
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	<u>132,385,482</u>	<u>70,021,618</u>	<u>202,407,100</u>
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	<u>3,753,439</u>	<u>976,447</u>	<u>4,729,886</u>
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	<u>58,388,363</u>	<u>21,713,215</u>	<u>80,101,578</u>

(Continued)

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

	Primary Government		
	Governmental	Business-Type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
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	<u>571,456</u>	<u>2,203,878</u>	<u>2,775,334</u>
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	<u>20,439,137</u>	<u>10,463,995</u>	<u>30,903,132</u>
Total net position	<u>\$ 77,179,102</u>	<u>\$ 47,080,972</u>	<u>\$ 124,260,074</u>

See notes to financial statements.

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

Functions/Programs Primary Government	Program Revenues				Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Government Activities	Business-Type Activities	Total
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

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	<u>\$ 20,756,343</u>	<u>\$ 740,370</u>	<u>\$ 4,933,599</u>	<u>\$ 17,117,357</u>	<u>\$ 16,154,248</u>	<u>\$ 59,701,917</u>
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	<u>2,008,326</u>	<u>-</u>	<u>165,487</u>	<u>151,280</u>	<u>963,578</u>	<u>3,288,671</u>
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	<u>648,622</u>	<u>44,989</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>693,611</u>

(Continued)

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

	<u>General</u>	<u>General Governmental Debt Service</u>	<u>Economic Development</u>	<u>2023 Capital Bond Fund</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
FUND BALANCES						
Nonspendable	145,783	-	-	-	-	145,783
Inventories	-	-	-	-	-	-
Restricted	-	695,381	-	-	98,146	793,527
Debt service	-	-	-	-	542,139	542,139
Enabling legislation	-	-	4,768,112	-	-	4,768,112
Economic development	-	-	-	-	-	-
Capital projects	-	-	-	16,966,077	9,559,878	26,525,955
Committed	-	-	-	-	-	-
Contingencies	1,038,847	-	-	-	-	1,038,847
Assigned	-	-	-	-	-	-
General construction	24	-	-	-	4,990,507	4,990,507
Unemployment insurance	6,505,749	-	-	-	-	24
Equipment replacement	66,747	-	-	-	-	6,505,749
Special events	324,042	-	-	-	-	66,747
Park improvement	10,018,203	-	-	-	-	324,042
Unassigned	18,099,395	695,381	4,768,112	16,966,077	15,190,670	10,018,203
Total fund balances						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
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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	<u>70,410</u>

Net position of governmental activities	<u>\$ 77,179,102</u>
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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
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation/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	<u>(25,322)</u>

Change in net position of governmental activities	<u>\$ 104,138</u>
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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	<u>28,192,247</u>	<u>382,854</u>	<u>28,575,101</u>
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	<u>(60,043,917)</u>	<u>(6,341,647)</u>	<u>(66,385,564)</u>
Total noncurrent assets	<u>36,363,583</u>	<u>5,082,934</u>	<u>41,446,517</u>
Total assets	<u>64,555,830</u>	<u>5,465,788</u>	<u>70,021,618</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pensions	955,012	-	955,012
Deferred outflows - OPEB	21,435	-	21,435
Total deferred outflows of resources	<u>976,447</u>	<u>-</u>	<u>976,447</u>

(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	<u>18,063,662</u>	<u>1,917,521</u>	<u>19,981,183</u>
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	<u>16,074,038</u>	<u>2,585,594</u>	<u>18,659,632</u>
Operating income (loss)	<u>1,989,624</u>	<u>(668,073)</u>	<u>1,321,551</u>
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)	<u>908,226</u>	<u>(6,526)</u>	<u>901,700</u>
Income (loss) before transfers and contributions	<u>2,897,850</u>	<u>(674,599)</u>	<u>2,223,251</u>
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	<u>(2,215,566)</u>	<u>439,906</u>	<u>(1,775,660)</u>
Change in net position	682,284	(234,693)	447,591
Beginning net position	<u>41,658,707</u>	<u>4,974,674</u>	<u>46,633,381</u>
Ending net position	<u>\$ 42,340,991</u>	<u>\$ 4,739,981</u>	<u>\$ 47,080,972</u>

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 <u>Operations</u>	Nonmajor Golf Course <u>Operations</u>	Total <u>Funds</u>
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	<u>5,646,489</u>	<u>(161,651)</u>	<u>5,484,838</u>
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	<u>(2,215,566)</u>	<u>288,232</u>	<u>(1,927,334)</u>
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	<u>(6,756,956)</u>	<u>(248,699)</u>	<u>(7,005,655)</u>
Cash flows from investing activities			
Interest on investments	<u>1,477,604</u>	<u>10,723</u>	<u>1,488,327</u>
Net cash provided by investing activities	<u>1,477,604</u>	<u>10,723</u>	<u>1,488,327</u>
Net Increase in cash and cash equivalents	(1,848,429)	(111,395)	(1,959,824)
Beginning cash and cash equivalents	<u>28,836,509</u>	<u>341,896</u>	<u>29,178,405</u>
Ending cash and cash equivalents	<u>\$ 26,988,080</u>	<u>\$ 230,501</u>	<u>\$ 27,218,581</u>
Ending cash and cash equivalents			
Unrestricted cash and cash equivalents	\$ 10,264,051	\$ 230,501	\$ 10,494,552
Restricted cash and cash equivalents	<u>16,724,029</u>	<u>-</u>	<u>16,724,029</u>
	<u>\$ 26,988,080</u>	<u>\$ 230,501</u>	<u>\$ 27,218,581</u>

(Continued)

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

	Business-Type Activities		
	Utility <u>Operations</u>	Nonmajor Golf Course <u>Operations</u>	Total <u>Funds</u>
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)
Prepays	-	(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	<u>\$ 5,646,489</u>	<u>\$ (161,651)</u>	<u>\$ 5,484,838</u>
Noncash investing, capital, and financing activities			
Capital contributions	<u>\$ -</u>	<u>\$ 151,674</u>	<u>\$ 151,674</u>

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.

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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Assets Depreciation</u>	<u>Estimated Useful Life</u>
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.

(Continued)

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.

(Continued)

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.

(Continued)

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.

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
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	<u>\$ 80,273,010</u>	
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 depository 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.

(Continued)

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.

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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					
	<u>General</u>	<u>Governmental Debt Service</u>	<u>Economic Development</u>	<u>Nonmajor</u>	<u>Total</u>
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	<u>(991,684)</u>	<u>(14,996)</u>	<u>-</u>	<u>(68,425)</u>	<u>(1,075,105)</u>
Total	<u>\$ 2,327,360</u>	<u>\$ 44,989</u>	<u>\$ 720,978</u>	<u>\$ 58,001</u>	<u>\$ 3,151,328</u>

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

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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 <u>September 30,</u>	<u>Lease Receipts</u>			<u>Amortization of Deferred Inflows</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
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	<u>\$ 2,237,880</u>	<u>\$ 563,527</u>	<u>\$ 2,801,407</u>	<u>\$ 2,046,812</u>

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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
<u>Governmental activities</u>				
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	<u>\$ 71,622,442</u>	<u>\$ 12,280,288</u>	<u>\$ (11,219,165)</u>	<u>72,683,565</u>
			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	<u>\$ 50,626,258</u>

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	<u>\$ 5,567,104</u>

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

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

<u>Project Description</u>	<u>Authorized Contract</u>	<u>Contract Expenditures</u>	<u>Remaining Contract</u>
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	<u>\$ 7,652,691</u>	<u>\$ 1,870,065</u>	<u>\$ 5,782,626</u>

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

	<u>Primary Government</u>		
	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)/ Reclassifications</u>
<u>Business-type activities</u>			
Capital assets not being depreciated/ amortized			
Land	\$ 3,821,585	\$ -	\$ -
Construction in progress	248,374	2,986,574	(32,240)
Total capital assets not being depreciated/amortized	<u>4,069,959</u>	<u>2,986,574</u>	<u>(32,240)</u>
Other capital assets			
Buildings	7,428,372	1,480,488	-
Improvements other than buildings	79,413,161	422,815	-
Machinery and equipment	8,986,550	117,447	-
Right-to-use assets - equipment	836,689	-	-
Total other capital assets	<u>96,664,772</u>	<u>2,020,750</u>	<u>-</u>
Less accumulated depreciation/ amortization for			
Buildings	(6,665,148)	(241,594)	-
Improvements other than buildings	(49,261,954)	(2,948,160)	-
Machinery and equipment	(6,511,042)	(431,641)	-
Right-to-use assets - equipment	(93,157)	(232,868)	-
Total accumulated depreciation/ amortization for	<u>(62,531,301)</u>	<u>(3,854,263)</u>	<u>-</u>
Other capital assets, net	<u>34,133,471</u>	<u>(1,833,513)</u>	<u>-</u>
Business-type activities capital assets, net	<u>\$ 38,203,430</u>	<u>\$ 1,153,061</u>	<u>\$ (32,240)</u>
		Plus unspent bond proceeds	11,218,054
		Less associated debt	(17,794,162)
		Net investment in capital assets	<u>\$ 32,748,143</u>

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

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

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

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

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

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.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities</u>					
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
	<u>36,169,351</u>	<u>16,781,211</u>	<u>(4,300,575)</u>	<u>48,649,987</u>	<u>3,894,315</u>
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 absences	673,368	789,522	(606,031)	856,859	771,173
Total governmental activities	<u>\$ 44,843,519</u>	<u>\$ 17,803,821</u>	<u>\$ (7,586,393)</u>	<u>\$ 55,060,947</u>	<u>\$ 4,680,847</u>
Long-term liabilities due in more than one year				<u>\$ 50,380,100</u>	
*Debt associated with governmental activities capital assets				<u>\$ 48,649,987</u>	

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.

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Business-type activities</u>					
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
	<u>19,366,220</u>	<u>-</u>	<u>(1,572,058)</u>	<u>17,794,162</u>	<u>1,482,658</u>
Other liabilities					
Net pension liability - 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	<u>\$ 21,495,385</u>	<u>\$ 133,313</u>	<u>\$ (2,304,482)</u>	<u>\$ 19,324,216</u>	<u>\$ 1,601,772</u>
Long-term liabilities due in more than one year				<u>\$ 17,722,444</u>	

*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:

<u>Description</u>	<u>Interest Rate</u>	<u>Balance</u>
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		<u>41,480,000</u>
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		<u>4,400,000</u>
Leases payable		
Postage machine and copiers	2.65%	34,485
Total leases payable		<u>34,485</u>
Total governmental activities long-term debt		<u>\$ 45,914,485</u>

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

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

<u>Description</u>	<u>Interest Rate</u>	<u>Balance</u>
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		<u>16,520,000</u>
Leases payable		
Golf carts and golf maintenance equipment	2.65%	525,044
Total leases payable		<u>525,044</u>
Total business-type activities long-term debt		<u>\$ 17,045,044</u>

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 Year Ended September 30,	Governmental Activities				
	General Obligation Bonds		Certificates of Obligation		Total
	Principal	Interest	Principal	Interest	
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
	<u>\$ 41,480,000</u>	<u>\$ 11,286,752</u>	<u>\$ 4,400,000</u>	<u>\$ 656,400</u>	<u>\$ 57,823,152</u>

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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		Total
	Principal	Interest	
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
	<u>\$ 16,520,000</u>	<u>\$ 4,554,658</u>	<u>\$ 21,074,658</u>

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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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 <u>Revenue Bonds</u>
Gross revenues (1)	\$ 13,632,652
Operating expenses (2)	<u>(8,536,285)</u>
	<u>\$ 5,096,367</u>
 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.

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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:

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

Fiscal Year Ended <u>September 30,</u>	<u>Business-Type Activities</u>			Amortization of Right-to-Sse <u>Assets</u>
	<u>Leases Payable</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
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	<u>56,041</u>	<u>496</u>	<u>56,537</u>	<u>52,897</u>
	<u>\$ 525,044</u>	<u>\$ 20,261</u>	<u>\$ 545,305</u>	<u>\$ 510,664</u>

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amounts</u>
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	<u>288,232</u>
		<u>\$ 4,547,140</u>

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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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:

	<u>TMRS</u>	<u>TESRS</u>	<u>Total</u>
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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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/yr/s 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:

	<u>Primary Government</u>
Inactive employees or beneficiaries currently receiving benefits	174
Inactive employees entitled to, but not yet receiving, benefits	258
Active employees	<u>237</u>
Total	<u>669</u>

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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
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	<u>10%</u>	11.6%
Total	<u>100%</u>	

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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	<u>\$ 84,115,315</u>	<u>\$ 78,471,390</u>	<u>\$ 5,643,925</u>

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

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

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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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	\$ -
Changes 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	<u>\$ 4,337,374</u>	<u>\$ 515,815</u>

\$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:

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

Texas Emergency Services Retirement System

Plan Description: The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by 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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

NOTE 4 - OTHER INFORMATION (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
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	<u>30%</u>	1.95%
Total	<u>100%</u>	
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:

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

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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*	<u>146,736</u>
	<u>\$ 700,378</u>

*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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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	<u>49,990</u>	<u>-</u>
Total	<u>\$ 223,718</u>	<u>\$ 1,068</u>

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:

<u>Fiscal Year ended September 30,</u>	<u>Pension Expense</u>
2025	\$ 43,431
2026	45,096
2027	78,474
2028	<u>5,659</u>
Total	<u>\$ 172,660</u>

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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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:

	<u>Primary Government</u>
Inactive employees or beneficiaries currently receiving benefits	129
Inactive employees entitled to, but not yet receiving, benefits	46
Active employees	<u>237</u>
Total	<u><u>412</u></u>

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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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	<u>\$ 758,783</u>

* 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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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:

<u>Fiscal Year ended September 30,</u>	<u>OPEB Expense Amount</u>
2025	\$ (39,147)
2026	(64,804)
2027	(34,090)
2028	6,045
Total	\$ (131,996)

(Continued)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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:

<u>City</u>	<u>Amount</u>
Clute	\$ 2,447,860
Freeport	6,122,012
Lake Jackson	6,810,636
	<u>\$ 15,380,508</u>

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 the 15 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)

CITY OF LAKE JACKSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2024

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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_____, 2025

**CITY OF LAKE JACKSON, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE 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 the City and the adequacy of the “Net Revenues”, described in the Ordinance defined below, for payment of the Bonds.

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 Official Notice of Sale; the awarded bid; the approving opinion of the Attorney General of the State of Texas; 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 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 and bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors' rights generally.

4. The Net Revenues of the System, as described in the Ordinance, necessary to pay the interest on and principal of the Bonds have been pledged irrevocably for such purpose on parity with certain outstanding bonds.

5. Interest on the Bonds is 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.

The City reserves the right, subject to the restrictions stated in the Ordinance, and without obtaining the consent of the registered owners of the Bonds, to issue Additional Bonds (as defined in the Ordinance) that also may be secured by and payable from a first lien on and pledge of the Net Revenues in the same manner and to the same extent as the Bonds. The City may also issue obligations secured by subordinate liens on the Net Revenues.

The registered owners of the Bonds shall never have the right to demand payment of the principal thereof or interest thereon out of any funds raised or to be raised by taxation or from any source whatsoever other than the source specified in the Ordinance.

In rendering these opinions, we have relied upon the 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.

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, owners of an interest in a financial asset securitization investment trust, certain S corporations with Subchapter C earnings and profits, taxpayers qualifying for the health insurance premium assistance credit, 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.

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.

The opinions set forth above are based on existing laws of the United States and the State of Texas, which are subject to change. Such opinions are further based on our knowledge of facts as of the

date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may 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.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed therein. 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,

Municipal Advisory Services
Provided By

