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Dated January 11, 2024

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

NEW ISSUE - Book-Entry-Only

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

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



\$47,000,000*
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris County)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2024

Dated Date: January 15, 2024

Interest Accrual Date: Delivery Date (defined below)

Due: February 15, as shown on page ii hereof

PAYMENT TERMS . . . Interest on the \$47,000,000* City of League City, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2024 (the "Certificates") will accrue from the Delivery Date (as defined below) to the purchaser thereof and will be payable August 15 and February 15 of each year commencing August 15, 2024, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" herein). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A. (see "THE CERTIFICATES - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the City, payable from (i) a direct and continuing annual ad valorem tax, levied within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of a subordinate lien on the net revenues of the City's waterworks and sewer system, in an amount not to exceed \$1,000, as provided in the ordinance authorizing the Certificates (the "Ordinance").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of providing funds for permanent public improvements including (i) acquisition, construction, extension and improvement of the City's waterworks and sewer system and (ii) payment of costs of professional services related thereto.

MATURITY SCHEDULE
See page ii

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2034, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").

MANDATORY REDEMPTION . . . In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedule on page ii hereof are combined to create one or more term certificates (the "Term Certificates"), each such Term Certificate shall be subject to mandatory sinking fund redemption as provided herein (see "THE CERTIFICATES - MANDATORY SINKING FUND REDEMPTION").

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser (the "Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel (see APPENDIX C - "FORM OF BOND COUNSEL OPINION").

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on or about February 21, 2024 ("Delivery Date").

BIDS DUE ON TUESDAY, JANUARY 23, 2024, AT 10:15 AM CST

* Preliminary, subject to change.

\$47,000,000*
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024

MATURITY SCHEDULE*

CUSIP PREFIX: 521769⁽²⁾

| Principal Amount | Maturity Feb 15 | Interest Rate | Yield ⁽¹⁾ | CUSIP Suffix ⁽²⁾ | Principal Amount | Maturity Feb 15 | Interest Rate | Yield ⁽¹⁾ | CUSIP Suffix ⁽²⁾ |
|---------------------|---------------------|------------------|----------------------|--------------------------------|---------------------|---------------------|------------------|----------------------|--------------------------------|
| \$ 700,000 | 2025 | | | | \$ 1,480,000 | 2040 ⁽³⁾ | | | |
| 735,000 | 2026 | | | | 1,555,000 | 2041 ⁽³⁾ | | | |
| 775,000 | 2027 | | | | 1,635,000 | 2042 ⁽³⁾ | | | |
| 810,000 | 2028 | | | | 1,720,000 | 2043 ⁽³⁾ | | | |
| 855,000 | 2029 | | | | 1,810,000 | 2044 ⁽³⁾ | | | |
| 900,000 | 2030 | | | | 1,900,000 | 2045 ⁽³⁾ | | | |
| 945,000 | 2031 | | | | 2,000,000 | 2046 ⁽³⁾ | | | |
| 990,000 | 2032 | | | | 2,100,000 | 2047 ⁽³⁾ | | | |
| 1,045,000 | 2033 | | | | 2,210,000 | 2048 ⁽³⁾ | | | |
| 1,095,000 | 2034 ⁽³⁾ | | | | 2,310,000 | 2049 ⁽³⁾ | | | |
| 1,155,000 | 2035 ⁽³⁾ | | | | 2,405,000 | 2050 ⁽³⁾ | | | |
| 1,210,000 | 2036 ⁽³⁾ | | | | 2,500,000 | 2051 ⁽³⁾ | | | |
| 1,275,000 | 2037 ⁽³⁾ | | | | 2,605,000 | 2052 ⁽³⁾ | | | |
| 1,340,000 | 2038 ⁽³⁾ | | | | 2,710,000 | 2053 ⁽³⁾ | | | |
| 1,410,000 | 2039 ⁽³⁾ | | | | 2,820,000 | 2054 ⁽³⁾ | | | |

- (1) The initial yields on the Certificates are established by and are the sole responsibility of the Initial Purchaser and may be changed by the Initial Purchaser at any time.
- (2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Fact Set Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (3) The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2034, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption.

* Preliminary, subject to change.

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

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

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

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

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

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

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

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

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

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

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

References to 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 final official statement for any purpose.

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

PAYMENT RECORD The City has never defaulted in payment of its general obligation tax debt.

LEGALITY..... The Certificates are offered for delivery when, as and if issued and received by the initial purchaser (the "Initial Purchaser") and subject to the approving opinion of the Attorney General of the State and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel. The form of the legal opinion of Bond Counsel appears in APPENDIX C.

SELECTED FINANCIAL INFORMATION

| Fiscal Year Ended 9/30 | Estimated City Population ⁽¹⁾ | Net Taxable Assessed Valuation ⁽²⁾ | Per Capita Taxable Assessed Valuation | G.O. Tax | Per Capita G.O. Tax Debt | Ratio Tax | Total Tax Collections as a Percent of Total Levy |
|------------------------|--|---|---------------------------------------|--|--------------------------|------------------------------------|--|
| | | | | Debt Outstanding at End of Year ⁽³⁾ | | Debt to Taxable Assessed Valuation | |
| 2020 | 109,087 | \$ 7,800,976,436 | \$ 71,512 | \$ 250,660,000 | \$ 2,298 | 3.21% | 99.88% |
| 2021 | 110,467 | 8,557,182,078 | 77,464 | 295,010,000 | 2,671 | 3.45% | 99.85% |
| 2022 | 116,834 | 9,229,006,165 | 78,992 | 237,850,000 | 2,036 | 2.58% | 99.79% |
| 2023 | 118,740 | 10,637,206,860 | 89,584 | 239,095,000 | 2,014 | 2.25% | 99.28% ⁽⁵⁾ |
| 2024 | 120,190 | 11,578,279,605 | 96,333 | 267,445,000 ⁽⁴⁾ | 2,225 ⁽⁴⁾ | 2.31% ⁽⁴⁾ | NA |

- (1) Source: The City.
- (2) As reported by the Galveston Central Appraisal District and Harris Central Appraisal District, subject to adjustments throughout the year. Fiscal year end taxable assessed valuation reflects valuation from the previous tax year (i.e. fiscal year ended September 30, 2024 reflects the tax year 2023 valuation).
- (3) Includes self-supporting debt.
- (4) Preliminary, subject to change. Projected to fiscal year end. Includes the Certificates.
- (5) Collections through September 30, 2023; Source: The City.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

| | For Fiscal Year Ended September 30 | | | | | |
|-------------------------------------|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2023 ⁽¹⁾ | 2022 | 2021 | 2020 | 2019 | 2018 |
| Total Revenue | \$90,673,629 | \$83,972,636 | \$80,645,289 | \$75,562,395 | \$72,152,167 | \$72,152,167 |
| Total Expenditures | 83,787,651 | 77,008,882 | 74,081,234 | 65,353,258 | 66,637,667 | 61,687,186 |
| Other Sources (Uses) | (4,537,542) | (7,791,604) | (5,834,633) | (10,631,000) | (5,435,089) | (6,990,431) |
| Beginning Fund Balance | 26,406,554 | 27,234,404 | 25,743,160 | 26,165,023 | 26,085,622 | 23,642,003 |
| Increase (decrease) in Fund Balance | 2,348,436 | (827,850) | 729,422 | (421,863) | 79,401 | 2,443,619 |
| Ending Fund Balance | <u>\$ 28,754,990</u> | <u>\$ 26,406,554</u> | <u>\$ 26,472,582</u> | <u>\$ 25,743,160</u> | <u>\$ 26,165,023</u> | <u>\$ 26,085,622</u> |

- (1) Unaudited. The unaudited information has not been prepared or reviewed by the city's independent auditor. The unaudited information is derived from internal account balances of the city. The unaudited information is subject to revision upon completion of the city's annual audit.

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OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Certificates to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE CITY**..... The City of League City, Texas (the "City"), is a political subdivision and municipal corporation of the State of Texas (the "State"), located in Galveston County and Harris County, Texas. The City covers approximately 53 square miles (see "INTRODUCTION - DESCRIPTION OF CITY").
- THE CERTIFICATES** The Certificates are issued as \$47,000,000* Combination Tax and Revenue Certificates of Obligation, Series 2024. The Certificates are issued as serial certificates maturing February 15, 2025, through February 15, 2054, inclusive, unless the Initial Purchaser designates two or more consecutive maturities as a Term Certificate (see "THE CERTIFICATES -DESCRIPTION OF THE CERTIFICATES").
- PAYMENT OF INTEREST** Interest on the Certificates accrues from the Delivery Date, and is payable August 15, 2024, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES").
- AUTHORITY FOR ISSUANCE** The Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance adopted by the City Council of the City (the "Ordinance") (see "THE CERTIFICATES – AUTHORITY FOR ISSUANCE OF THE CERTIFICATES").
- SECURITY FOR THE CERTIFICATES**..... The Certificates constitute direct obligations of the City, payable from (i) a direct and continuing annual ad valorem tax levied, within the limit prescribed by law, on all taxable property located within the City and (ii) a limited pledge of a subordinate lien on the net revenues of the City's Waterworks and Sewer System in an amount not to exceed \$1,000, as provided in the Ordinance (see "The CERTIFICATES – SECURITY AND SOURCE OF PAYMENT" and "AD VALOREM PROPERTY TAXATION – PUBLIC HEARING AND TAX RATE LIMITATIONS").
- REDEMPTION** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2034, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption (see "THE CERTIFICATES – MANDATORY SINKING-FUND REDEMPTION").
- TAX EXEMPTION**..... In the opinion of Bond Counsel, under existing law, interest on the Certificates (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.
- USE OF PROCEEDS** Proceeds from the sale of the Certificates will be used for the purpose of providing funds for permanent public improvements including (i) acquisition, construction, extension and improvement of the City's waterworks and sewer system and (ii) payment of costs of professional services related thereto.
- RATINGS** The Certificates and presently outstanding general obligation debt of the City are rated "Aa1" by Moody's Investors Service, Inc. ("Moody's") and "AA+" by S&P Global Ratings, a division of S&P Global Inc. ("S&P") (see "OTHER INFORMATION - RATINGS").
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM").

* Preliminary, subject to change.

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

| City Council | Title | Current | Term Expires | Occupation |
|---------------|----------------------------------|-------------------|--------------|---------------------|
| | | Length of Service | November | |
| Nick Long | Mayor | 9 Years | 2026 | Benefits Consultant |
| Justin Hicks | Council Position 5/Mayor Pro Tem | 3 Years | 2024 | Engineer |
| Andy Mann | Council Position 1 | 6 Years | 2026 | IT Manager |
| Tommy Cones | Council Position 2 | 1 Year | 2026 | Retired |
| Tom Crews | Council Position 3 | 1 Year | 2024 | CPA |
| Vacant | Council Position 4 | N/A | N/A | N/A |
| Chad Tressler | Council Position 6 | 5 Years | 2026 | Systems Engineer |
| Sean Saunders | Council Position 7 | 1 Year | 2026 | Engineer/Paramedic |

SELECTED ADMINISTRATIVE STAFF

| Name | Position | Service | Total |
|---------------------|---|-----------|----------------------|
| | | To City | Governmental Service |
| John Baumgartner | City Manager | 12 Years | 36 Years |
| Rick Davis | Assistant City Manager | 1 Year | 29 Years |
| Angie Steelman | Assistant City Manager, Chief Financial Officer | 16 Years | 16 Years |
| Kimberly Corell | Director of Finance | 2 Years | 14 Years |
| Diana Stapp | City Secretary | 20 Years | 21 Years |
| Michelle Villarreal | Interim City Attorney | 8.5 Years | 17 Years |

CONSULTANTS AND ADVISORS

AuditorsBelt Harris Pechacek, LLLP.
Houston, Texas

Bond Counsel Bracewell LLP
Houston, Texas

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

For additional information regarding the City, please contact:

| | | |
|--|----|---|
| Kimberly Corell City of League City Director of Finance 300 West Walker League City, Texas 77573 (281) 554-1000 Phone (281) 554-1354 Fax | or | Joe Morrow Financial Advisor Hilltop Securities Inc. 700 Milam, Suite 1200 Houston, Texas 77002 (713) 654-8690 Phone (713) 654-8658 Fax |
|--|----|---|

**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$47,000,000*
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris Counties)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024**

INTRODUCTION

This Official Statement, which includes the cover page and Appendices hereto, provides certain information regarding the issuance of \$47,000,000* City of League City, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2024 (the "Certificates"). The Certificates are being authorized for issuance under an ordinance (the "Ordinance"), expected to be adopted by the City Council of the City on January 23, 2024. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "OTHER INFORMATION - FORWARD-LOOKING STATEMENTS").

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

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized under the laws of the State, including the City's Home Rule Charter, and located in Galveston and Harris Counties. The City was incorporated in 1961, and first adopted its Home Rule Charter on March 27, 1962. The City operates with a City Council comprised of the Mayor and seven Councilmembers serving four-year terms with biennial elections. By virtue of municipal elections conducted on May 8, 2010, the City's Home Rule Charter was amended to adopt the Council-Manager form of government. A City Manager now serves as the Chief Administrative and Executive Officer of the City, appointed by the City Council to administer all municipal affairs of the City. Some of the services that the City provides are public safety, highways and streets, water and sanitary sewer utilities, culture-recreation, planning and zoning, and general administrative services. The 2020 Census population for the City was 109,087, while the estimated 2024 population is 120,190. The City covers approximately 53 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated January 15, 2024, and interest will accrue from the Date of Delivery and will mature on February 15 in each of the years and in the amounts shown on page ii hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15, commencing August 15, 2024. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM" herein).

PURPOSE

Proceeds from the sale of the Certificates will be used for the purpose of providing funds for permanent public improvements including (i) acquisition, construction, extension and improvement of the City's waterworks and sewer system and (ii) payment of costs of professional services related thereto.

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* Preliminary, subject to change.

SOURCES AND USES OF PROCEEDS

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

| | |
|---------------------------------|-------------|
| <u>Sources of Funds:</u> | |
| Par Amount | \$ - |
| [Net] Premium | - |
| Total: | <u>\$ -</u> |
| <u>Uses of Funds:</u> | |
| Deposit to Construction Fund | \$ - |
| Initial Purchaser's Discount | - |
| Cost of Issuance ⁽¹⁾ | - |
| Total: | <u>\$ -</u> |

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

AUTHORITY FOR ISSUANCE

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

SECURITY AND SOURCE OF PAYMENT

The Certificates are direct obligations of the City, payable from (i) a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property in the City, and (ii) a limited pledge of a subordinate lien on the net revenues of the City's waterworks and sewer system in an amount not to exceed \$1,000, as provided in the Ordinance.

PAYMENT RECORD

The City has never defaulted in payment of its general obligation tax debt.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2034, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof (or mandatory sinking fund payment with respect to Term Certificates (as defined below), if any) to be redeemed and shall direct the Paying Agent/Registrar to call by lot, or other customary method that results in random selection, the Certificates, or portions thereof, within such maturity or maturities and in such principal amounts for redemption. If any Certificates (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION

In addition to the foregoing optional redemption provision, if the principal amounts for two or more consecutive maturities designated in the serial maturity schedules shown on page ii hereof are combined to create term certificates (the "Term Certificates"), each such Term Certificate shall be subject to mandatory sinking fund redemption commencing on February 15 of the maturity that was combined to form such Term Certificate and continuing on February 15 in each year thereafter until the stated maturity date of that Term Certificate, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the applicable Maturity Schedule shown on page ii of this Official Statement. Term Certificates to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot or other random selection method from the Term Certificates then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Certificates of the maturity then subject to redemption which at least 45 days prior to the mandatory sinking fund redemption date have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation or have been redeemed pursuant to the optional redemption provisions of the Ordinance and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

NOTICE OF REDEMPTION

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

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

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

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

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

DEFEASANCE

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of

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

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

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

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

PAYING AGENT/REGISTRAR

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

TRANSFER, EXCHANGE AND REGISTRATION

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

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each owner of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

REMEDIES OF HOLDERS OF THE CERTIFICATES

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

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

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

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

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

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

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AD VALOREM PROPERTY TAXATION

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

VALUATION OF TAXABLE PROPERTY

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

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

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

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

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

STATE MANDATED HOMESTEAD EXEMPTIONS

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to exemptions state mandated homestead.

LOCAL OPTION HOMESTEAD EXEMPTIONS

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

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

LOCAL OPTION FREEZE FOR THE ELDERLY AND DISABLED

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

PERSONAL PROPERTY

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

FREEPORT EXEMPTIONS

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

OTHER EXEMPT PROPERTY

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

TAX INCREMENT REINVESTMENT ZONES

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

The City has three TIRZs that are currently in existence and one (TIRZ No.3 defined below) that has expired. Tax increments have been used to finance the development of major infrastructure within the City.

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

The Tax Increment Reinvestment Zone No. 3 – Centerpointe ("TIRZ No. 3") was created with a base year of January 1, 2000 and encompasses an area of approximately 352 acres. Tax increments generated within the zone are used for public improvements including streets, drainage, and water and sewer infrastructure. TIRZ No. 3 expired February 2020. Remaining funds are to be used by the City to complete certain infrastructure projects. There is a remaining cash balance of \$819,000.00, no additional revenue expected.

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

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

The City participates at 100% for TIRZ No. 2 and TIRZ No. 5 but contributions to TIRZ No. 4 are 75% of the incremental value.

Incremental value created within the tax increment financing zones produces tax increment revenues that are separate and apart from ad valorem tax revenues that are not pledged to pay the Certificates. The tax year 2023 Taxable Assessed Value within the three existing zones is equal to approximately \$1,042,891,523. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT."

PUBLIC IMPROVEMENT DISTRICTS

The City has created certain public improvement districts, of which public improvement district No. 1 and No. 3 are currently active. Any debt incurred by the City from such public improvement district are self-supporting. See "TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT".

TAX ABATEMENT AGREEMENTS

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City does not currently have any tax abatement agreements. See "AD VALOREM PROPERTY TAXATION – TAX ABATEMENT POLICY" for descriptions of the City's tax abatement agreements. For a discussion of how the various exemptions described above are applied by the City, see "AD VALOREM PROPERTY TAXATION – CITY APPLICATION OF PROPERTY TAX CODE" herein.

380 AGREEMENTS

On October 28, 2014, the City entered into a Chapter 380 Economic Development Agreement with 101 League City I45/646, L.P. and Cabela's Wholesale, Inc. in order to encourage economic development within the City. The City makes certain payments derived from annual sales tax and property tax rebates associated with the development through December 31, 2030, or totaling \$9,346,000, whichever occurs first. The remaining amount to be paid to 101 League City I45/646, L.P., if and only if the company meets the terms of the agreement, is approximately \$6,304,0936.

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

TAX ABATEMENT POLICY

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

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

The tax abatement on the Tax Year 2023 assessed valuation is \$20,173,186.

PUBLIC HEARING AND TAX RATE LIMITATIONS

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

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

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

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

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

"unused increment rate" means the cumulative difference between a city's voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city's tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

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

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

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

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

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

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

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

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

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

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Certificates. During the 2021 legislative session, the Texas Legislature adopted House Bill 1869. House Bill 1869 treats the ad valorem taxes levied to pay debt service on certain non-voted debt approved after September 1, 2021 as part of the maintenance and operations tax rate calculations. The result is that the tax levied for debt service on such non-voted debt will be subject to the maintenance and operations tax limitations described in this subcaption. The Certificates are not subject to the limitations imposed by House Bill 1869.

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

DEBT TAX RATE LIMITATIONS

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

THE CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES

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

ISSUER AND TAXPAYER REMEDIES

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount," as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$57,216,456 for the 2023 tax year and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

PROPERTY ASSESSMENT AND TAX PAYMENT

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

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PENALTIES AND INTEREST

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

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

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$75,000; the disabled are also granted an exemption of \$75,000.

The City has granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000. See Table 1 for a listing of the amounts of the exemptions described above.

Pursuant to Article VIII, Section I-b of the Constitution of the State of Texas, the City has granted an ad valorem tax freeze on residence homesteads of the disabled and of individuals 65 years of age or older. Tax year 2006 serves as the base valuation year. The freeze loss for tax year 2021, 2022 and 2023 was, \$1,241,744,242, \$1,200,620,450 and \$6,858,745, respectively.

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

The City does not tax nonbusiness personal property.

Galveston County collects taxes for the City.

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

The City has adopted a tax abatement policy.

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Table 1 - Valuation, Exemptions and General Obligation Debt

2023/2024 Market Valuation Established by Galveston Central and Harris Central Appraisal Districts (excluding totally exempt property) \$ 17,209,115,015

Less Exemptions/Reductions at 100% Market Value:

| | | |
|----------------------------------|------------------|----------------------|
| Homestead Exemptions | \$ 2,067,816,686 | |
| Disabled Veteran | 218,345,343 | |
| Homestead Cap Adjustment Over 65 | 1,071,141,545 | |
| Over 65 | 346,239,550 | |
| Disabled Persons | 33,992,738 | |
| Freeport Exemptions | 60,895,594 | |
| Solar | 370,275 | |
| Pollution | 3,829 | |
| Personal Vehicle | 1,182,019 | |
| Productivity Loss | 119,952,255 | |
| Transfer Adjustment | 1,707,771,274 | |
| Adjustment for Frozen Values | 22,125 | <u>5,630,835,410</u> |

2023/2024 Net Taxable Valuation \$ 11,578,279,605

General Obligation Debt Payable from Ad Valorem Taxes (as of 9/30/2023) ⁽¹⁾

| | | |
|------------------|----------------------------------|-----------------------|
| Outstanding Debt | \$ 219,545,000 ⁽²⁾ | |
| The Certificates | <u>47,000,000 ⁽³⁾</u> | <u>\$ 266,545,000</u> |

Less: Self-Supporting Debt (as of 9/30/23) ⁽⁴⁾

| | |
|--|-------------------------------|
| Water and Sewer System General Obligation Debt | \$ 142,838,430 ⁽⁵⁾ |
| Economic Development Corporation General Obligation Debt | 3,515,000 |
| Tax Increment Reinvestment Zone General Obligation Debt | 2,915,000 |
| Public Improvement District | <u>135,000</u> |

Net Funded Debt Payable From Ad Valorem Taxes \$ 117,141,570

Interest and Sinking Fund Balance (as of 9/30/2023) \$ 5,220,307

Ratio Net General Obligation Debt to Taxable Assessed Valuation 1.01%

2024 Estimated Population - 120,190
 Per Capita Taxable Assessed Valuation - \$96,333
 Per Capita Net General Obligation Funded Debt - \$975

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

(2) Includes self-supporting debt.

(3) Preliminary, subject to change.

(4) See "TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT."

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

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

| Category | Fiscal Year Ended September 30, | | | | | |
|---|---------------------------------|------------|-------------------|------------|-------------------|------------|
| | 2024 ⁽¹⁾ | | 2023 | | 2022 | |
| | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Real Residential, Single- Family | \$ 13,710,681,009 | 79.67% | \$ 12,042,068,780 | 79.02% | \$ 10,223,579,643 | 80.76% |
| Real, Residential, Multi-Family | 899,285,164 | 5.23% | 855,821,494 | 5.62% | 760,428,100 | 3.86% |
| Real, Vacant Platted Lots/Tracts | 172,856,389 | 1.00% | 149,061,973 | 0.98% | 132,292,846 | 1.50% |
| Real, Acreage (Land Only) | 120,826,202 | 0.70% | 55,818,060 | 0.37% | 57,977,055 | 0.48% |
| Real, Farm and Ranch Improvements | 74,140,226 | 0.43% | 58,051,816 | 0.38% | 58,735,137 | 0.54% |
| Real, Commercial and Industrial | 1,600,019,794 | 9.30% | 1,522,263,449 | 9.99% | 1,259,421,290 | 7.70% |
| Real, Oil, Gas & Other Mineral Reserves | 12,041,713 | 0.07% | 5,464,203 | 0.04% | 4,300,643 | 0.00% |
| Real and Intangible Personal, Utilities | 167,399,347 | 0.97% | 149,129,176 | 0.98% | 132,556,547 | 1.20% |
| Tangible Personal, Business | 380,499,791 | 2.21% | 346,943,200 | 2.28% | 354,592,604 | 3.43% |
| Tangible Personal, Other | 4,375,720 | 0.03% | 4,319,020 | 0.03% | 5,897,620 | 0.06% |
| Real, Inventory | 33,981,270 | 0.20% | 8,623,036 | 0.06% | 11,413,080 | 0.14% |
| Special Inventory | 33,008,390 | 0.19% | 41,991,820 | 0.28% | 35,127,973 | 0.34% |
| Total Appraised Value Before Exemptions | \$ 17,209,115,015 | 100.00% | \$ 15,239,556,027 | 100.00% | \$ 13,036,322,538 | 100.00% |
| Less: Total Exemption/Reductions | (3,923,042,011) | | (3,166,321,480) | | (2,606,695,923) | |
| Total Assessed Value ⁽²⁾ | \$ 13,286,073,004 | | \$ 12,073,234,547 | | \$ 10,429,626,615 | |
| Less: Adjustment for Frozen Values | (1,707,793,399) | | (1,436,027,687) | | (1,200,620,450) | |
| Plus: Adjustments Made after Certification ⁽³⁾ | - | | - | | - | |
| Taxable Assessed Value | \$ 11,578,279,605 | | \$ 10,637,206,860 | | \$ 9,229,006,165 | |

| Category | Fiscal Year Ended September 30, | | | |
|---|---------------------------------|------------|-------------------|------------|
| | 2021 | | 2020 | |
| | Amount | % of Total | Amount | % of Total |
| Real, Residential, Single-Family | \$ 9,302,186,579 | 80.80% | \$ 8,470,748,010 | 81.01% |
| Real, Residential, Multi-Family | 517,775,187 | 4.50% | 393,908,089 | 3.77% |
| Real, Vacant Platted Lots/Tracts | 149,014,000 | 1.29% | 156,770,645 | 1.50% |
| Real, Acreage (Land Only) | 59,569,988 | 0.52% | 47,925,977 | 0.46% |
| Real, Farm and Ranch Improvements | 77,114,118 | 0.67% | 53,967,948 | 0.52% |
| Real, Commercial and Industrial | 848,623,412 | 7.37% | 780,964,016 | 7.47% |
| Real, Oil, Gas & Other Mineral Reserves | - | 0.00% | - | 0.00% |
| Real and Intangible Personal, Utilities | 123,413,552 | 1.07% | 129,124,820 | 1.23% |
| Tangible Personal, Business | 381,672,169 | 3.32% | 364,515,244 | 3.49% |
| Tangible Personal, Other | 6,034,220 | 0.05% | 6,043,050 | 0.06% |
| Real, Inventory | 11,659,720 | 0.10% | 15,365,408 | 0.15% |
| Special Inventory | 35,811,670 | 0.31% | 36,673,977 | 0.35% |
| Total Appraised Value Before Exemptions | \$ 11,512,874,615 | 100.00% | \$ 10,456,007,184 | 100.00% |
| Less: Total Exemption/Reductions | (2,276,326,705) | | (1,996,470,084) | |
| Total Assessed Value ⁽²⁾ | \$ 9,236,547,910 | | \$ 8,459,537,100 | |
| Less: Adjustment for Frozen Values | (1,038,062,177) | | (900,873,011) | |
| Plus: Adjustments Made after Certification ⁽³⁾ | 358,696,345 | | 242,312,347 | |
| Taxable Assessed Value | \$ 8,557,182,078 | | \$ 7,800,976,436 | |

(1) Certified values as of August 18, 2023.

(2) Source: The City's audited financial statements. Information provided by Harris Central Appraisal District & Galveston Central Appraisal District. Certified values are subject to change over time as contested values are resolved and the Appraisal District updates record.

(3) Supplemental values added after certification.

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

Fiscal year and taxable assessed valuation reflects valuation from previous tax year (i.e. fiscal year ended September 30, 2024 reflects the tax year 2023 valuation).

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

| Fiscal Year Ended 9/30 | Estimated Population ⁽¹⁾ | Net Taxable Assessed Valuation ⁽²⁾ | Taxable Assessed Valuation Per Capita | G.O. Tax Debt Outstanding at End of Year ⁽³⁾ | Ratio of G.O. Tax Debt to Taxable Assessed Valuation | G.O. Tax Debt Per Capita |
|------------------------|-------------------------------------|---|---------------------------------------|---|--|--------------------------|
| 2020 | 109,087 | \$ 7,800,976,436 | \$ 71,512 | \$ 250,660,000 | 3.21% | 2,298 |
| 2021 | 110,467 | 8,557,182,078 | 77,464 | 295,010,000 | 3.45% | 2,671 |
| 2022 | 116,834 | 9,229,006,165 | 78,992 | 237,850,000 | 2.58% | 2,036 |
| 2023 | 118,740 | 10,637,206,860 | 89,584 | 239,095,000 | 2.25% | 2,014 |
| 2024 | 120,190 | 11,578,279,605 | 96,333 | 267,445,000 ⁽⁴⁾ | 2.31% ⁽⁴⁾ | 2,225 ⁽⁴⁾ |

- (1) Source: The City.
- (2) As reported by the Galveston Central Appraisal District and Harris Central Appraisal District, subject to adjustments.
- (3) Includes self-supporting debt.
- (4) Preliminary, subject to change. Includes the Certificates. Projected to fiscal year end.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

| Fiscal Year | Tax Year | Total Tax Rate ⁽²⁾ | Total Tax Levy for Fiscal Year | Collected Within the Fiscal Year of the Levy | Percent of Levy | Collections in Subsequent Years | Total Collections To Date | Percent of Levy | |
|-------------|----------|-------------------------------|--------------------------------|--|-----------------|---------------------------------|---------------------------|-----------------|--|
| | | | | Amount | | Amount | Amount | | |
| 2020 | 2019 | \$0.5486 | \$ 47,123,923 | \$46,840,920 | 99.40% | \$ 224,905 | \$47,065,825 | 99.88% | |
| 2021 | 2020 | 0.5150 | 48,734,859 | 48,333,048 | 99.18% | 329,999 | 48,663,047 | 99.85% | |
| 2022 | 2021 | 0.4655 | 48,747,954 | 48,466,300 | 99.42% | 180,273 | 48,646,573 | 99.79% | |
| 2023 | 2022 | 0.4155 | 48,829,096 | 48,479,156 ⁽¹⁾ | 99.28% | - | 48,479,156 ⁽¹⁾ | 99.28% | |
| 2024 | 2023 | 0.3968 | 48,822,000 | In Process of Collection | | | | | |

- (1) Preliminary information provided by City staff.

TABLE 5 - TEN LARGEST TAXPAYERS

| Name of Taxpayer | Nature of Property | 2023/2024 Taxable Assessed Valuation | % of Total Taxable Assessed Valuation |
|---|----------------------|--------------------------------------|---------------------------------------|
| Texas-New Mexico Power Co | Utility | \$ 70,089,090 | 0.61% |
| VL Town Center Associates LLC | Limited Liability Co | 65,760,510 | 0.57% |
| Amalfi & Sorrento Property LLC ⁽¹⁾ | Developer | 62,441,700 | 0.54% |
| Regan LP | Apartments | 60,433,182 | 0.52% |
| W Walker Street TX Partners LLC | Apartments | 56,107,100 | 0.48% |
| Centennial South Shore LP | Apartments | 52,500,000 | 0.45% |
| CAF Victory Owner LLC | Apartments | 49,758,445 | 0.43% |
| KV Beacon Lakes Apartments LLC | Apartments | 48,662,700 | 0.42% |
| TL II Apartments LLC | Apartments | 44,400,500 | 0.38% |
| HZ Signature Point Dst | Apartments | 41,861,100 | 0.36% |
| | | <u>\$ 552,014,327</u> | <u>4.16%</u> |

Source: Harris Central Appraisal District and Galveston Central Appraisal District.

GENERAL OBLIGATION DEBT LIMITATION

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

TABLE 6 - TAX ADEQUACY

| | |
|--|------------------------------|
| 2024 Principal and Interest Requirements on Net Funded Debt | \$ 14,420,166 ⁽¹⁾ |
| \$0.1271 Tax Rate at 98% Collection Produces | \$ 14,421,674 |
| Average Annual Principal and Interest Requirements on Net Funded Debt, 2024 - 2054 | \$ 6,743,882 ⁽¹⁾ |
| \$0.0595 Tax Rate at 98% Collection Produces | \$ 6,751,295 |
| Maximum Principal and Interest Requirements on Net Funded Debt, 2024 | \$ 14,420,166 ⁽¹⁾ |
| \$0.1271 Tax Rate at 98% Collection Produces | \$ 14,421,674 |

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

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

| | 2023/24 Taxable Assessed Value | 2023/24 Tax Rate | Total G.O. Debt as of 12/31/23 | Estimated % Applicable | City's Overlapping G.O. Debt as of 12/31/23 |
|---|--------------------------------------|---------------------|--------------------------------------|------------------------------|--|
| City of League City | \$ 11,578,279,605 | \$ 0.415526 | \$ 117,141,570 ⁽¹⁾ | 100.00% | \$ 117,141,570 |
| Bay Colony West MUD | 380,541,697 | 0.900000 | 25,805,000 | 100.00% | 24,185,000 |
| Clear Creek ISD | 3,125,812,223 | 0.974600 | 993,980,000 | 35.79% | 355,745,442 |
| College of the Mainland | 18,819,812,163 | 0.268500 | 154,975,000 | 11.26% | 16,919,276 |
| Dickinson ISD | 6,110,188,704 | 1.178000 | 466,390,000 | 29.40% | 137,118,660 |
| Galveston Co | 49,768,378,971 | 0.341964 | 174,315,041 | 25.84% | 45,043,007 |
| Galveston Co Mgmt Dist #1 | 64,934,380 | 0.950000 | 3,045,000 | 100.00% | 3,045,000 |
| Galveston Co MUD # 6 | 881,236,893 | 0.120000 | 5,635,000 | 100.00% | 5,635,000 |
| Galveston Co MUD # 14 | 490,951,871 | 0.360000 | 5,540,000 | 100.00% | 3,770,000 |
| Galveston Co MUD # 39 | 554,898,960 | 0.405000 | 15,290,000 | 100.00% | 15,290,000 |
| Galveston Co MUD # 43 | 583,344,193 | 0.500000 | 25,545,000 | 100.00% | 25,545,000 |
| Galveston Co MUD # 44 | 352,183,749 | 0.650000 | 28,820,000 | 100.00% | 28,820,000 |
| Galveston Co MUD # 45 | 552,522,631 | 0.760000 | 50,455,000 | 100.00% | 50,455,000 |
| Galveston Co MUD # 46 | 551,178,411 | 0.600000 | 33,135,000 | 100.00% | 33,135,000 |
| Galveston WC&ID # 1 | 2,011,570,183 | 0.256991 | 7,165,000 | 2.20% | 157,630 |
| Galveston WC&ID # 12 | 900,003,456 | 0.208000 | 17,635,000 | 0.00% | - |
| Harris Co | 657,392,033,184 | 0.343800 | 1,977,981,319 | 0.04% | 745,551 |
| Harris Co Department of Education | 657,495,065,646 | 0.004900 | 13,865,000 | 0.04% | 5,546 |
| Harris Co Flood Control Dist | 643,403,543,965 | 0.010120 | 1,009,015,000 | 0.04% | 396,438 |
| Harris Co Hospital District | 643,505,831,765 | 0.001530 | 70,970,000 | 0.04% | 28,388 |
| Harris Co Toll Road | 657,392,033,184 | - | - | 0.04% | - |
| Port of Houston Auth | 643,343,216,618 | 0.007990 | 445,749,397 | 0.04% | 170,454 |
| Santa Fe ISD | 1,938,578,570 | 1.216900 | 74,740,000 | 1.32% | 986,568 |
| South Shore Harbour MUD # 7 | 530,887,957 | 0.378850 | 14,585,000 | 100.00% | 14,585,000 |
| Westwood Management District | 337,004,622 | 0.380000 | 20,875,000 | 100.00% | 20,875,000 |
| Total Direct and Overlapping Funded Debt | | | | | \$ 920,673,529 |
| Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation | | | | | 7.95% |
| Per Capita Overlapping Funded Debt | | | | | \$ 7,754 |

(1) Excludes the Certificates and self-supporting debt. Preliminary, subject to change.

DEBT INFORMATION

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

| Fiscal Year Ending | Outstanding Debt Service ⁽¹⁾ | | The Certificates ⁽²⁾ | | Total | Water and | Sales Tax | TIRZ No. 2 | TIRZ No. 4 | PID No. 3 | Total |
|--------------------------|---|---------------------|---------------------------------|---------------------|----------------------|-----------------------|---------------------|-------------------|---------------------|-------------------|-----------------------|
| | | | | | Outstanding | Self-Supporting | Self | Self | Self | Self | Net Debt |
| | Principal | Interest | Principal | Interest | Debt Service | Requirements | Supporting | Supporting | Supporting | Supporting | Service |
| 9/30 | Principal | Interest | Principal | Interest | Debt Service | Requirements | Requirements | Requirements | Requirements | Requirements | Requirements |
| 2024 | \$ 18,650,000 | \$ 8,957,430 | \$ - | \$ 1,104,351 | \$ 28,711,781 | \$ 13,126,776 | \$ 583,400 | \$ 150,800 | \$ 363,375 | \$ 67,265 | \$ 14,420,166 |
| 2025 | 19,220,000 | 8,090,316 | 700,000 | 2,179,000 | 30,189,316 | 14,897,543 | 581,400 | - | 365,250 | 50,995 | 14,294,128 |
| 2026 | 18,725,000 | 7,181,349 | 735,000 | 2,143,125 | 28,784,474 | 14,287,096 | 583,275 | - | 361,500 | 20,221 | 13,532,382 |
| 2027 | 19,095,000 | 6,312,153 | 775,000 | 2,105,375 | 28,287,528 | 14,292,455 | 583,900 | - | 362,125 | - | 13,049,047 |
| 2028 | 19,660,000 | 5,469,181 | 810,000 | 2,065,750 | 28,004,931 | 14,103,096 | 583,275 | - | 363,550 | - | 12,955,010 |
| 2029 | 20,185,000 | 4,602,340 | 855,000 | 2,024,125 | 27,666,465 | 14,062,024 | 586,275 | - | 360,950 | - | 12,657,216 |
| 2030 | 19,770,000 | 3,748,006 | 900,000 | 1,980,250 | 26,398,256 | 14,033,446 | 588,700 | - | 362,850 | - | 11,413,260 |
| 2031 | 18,910,000 | 3,028,471 | 945,000 | 1,934,125 | 24,817,596 | 14,175,064 | - | - | 360,975 | - | 10,281,557 |
| 2032 | 14,180,000 | 2,482,831 | 990,000 | 1,885,750 | 19,538,581 | 8,933,702 | - | - | 365,400 | - | 10,239,479 |
| 2033 | 10,945,000 | 2,076,728 | 1,045,000 | 1,834,875 | 15,901,603 | 7,660,952 | - | - | - | - | 8,240,651 |
| 2034 | 10,790,000 | 1,727,193 | 1,095,000 | 1,781,375 | 15,393,568 | 7,597,361 | - | - | - | - | 7,796,207 |
| 2035 | 8,940,000 | 1,409,446 | 1,155,000 | 1,725,125 | 13,229,571 | 5,465,702 | - | - | - | - | 7,763,869 |
| 2036 | 7,930,000 | 1,143,340 | 1,210,000 | 1,666,000 | 11,949,340 | 4,421,730 | - | - | - | - | 7,527,610 |
| 2037 | 7,260,000 | 904,183 | 1,275,000 | 1,603,875 | 11,043,058 | 4,160,490 | - | - | - | - | 6,882,568 |
| 2038 | 6,725,000 | 682,331 | 1,340,000 | 1,538,500 | 10,285,831 | 3,661,425 | - | - | - | - | 6,624,406 |
| 2039 | 6,360,000 | 482,850 | 1,410,000 | 1,469,750 | 9,722,600 | 3,661,225 | - | - | - | - | 6,061,375 |
| 2040 | 5,270,000 | 313,050 | 1,480,000 | 1,397,500 | 8,460,550 | 3,661,850 | - | - | - | - | 4,798,700 |
| 2041 | 3,630,000 | 175,150 | 1,555,000 | 1,321,625 | 6,681,775 | 3,658,175 | - | - | - | - | 3,023,600 |
| 2042 | 1,395,000 | 86,100 | 1,635,000 | 1,241,875 | 4,357,975 | 2,876,875 | - | - | - | - | 1,481,100 |
| 2043 | 1,455,000 | 29,100 | 1,720,000 | 1,158,000 | 4,362,100 | - | - | - | - | - | 4,362,100 |
| 2044 | - | - | 1,810,000 | 1,069,750 | 2,879,750 | - | - | - | - | - | 2,879,750 |
| 2045 | - | - | 1,900,000 | 977,000 | 2,877,000 | - | - | - | - | - | 2,877,000 |
| 2046 | - | - | 2,000,000 | 879,500 | 2,879,500 | - | - | - | - | - | 2,879,500 |
| 2047 | - | - | 2,100,000 | 777,000 | 2,877,000 | - | - | - | - | - | 2,877,000 |
| 2048 | - | - | 2,210,000 | 669,250 | 2,879,250 | - | - | - | - | - | 2,879,250 |
| 2049 | - | - | 2,310,000 | 567,800 | 2,877,800 | - | - | - | - | - | 2,877,800 |
| 2050 | - | - | 2,405,000 | 473,500 | 2,878,500 | - | - | - | - | - | 2,878,500 |
| 2051 | - | - | 2,500,000 | 375,400 | 2,875,400 | - | - | - | - | - | 2,875,400 |
| 2052 | - | - | 2,605,000 | 273,300 | 2,878,300 | - | - | - | - | - | 2,878,300 |
| 2053 | - | - | 2,710,000 | 167,000 | 2,877,000 | - | - | - | - | - | 2,877,000 |
| 2054 | - | - | 2,820,000 | 56,400 | 2,876,400 | - | - | - | - | - | 2,876,400 |
| | <u>\$239,095,000</u> | <u>\$58,901,545</u> | <u>\$47,000,000</u> | <u>\$40,446,251</u> | <u>\$385,442,797</u> | <u>\$ 168,736,986</u> | <u>\$ 4,090,225</u> | <u>\$ 150,800</u> | <u>\$ 3,265,975</u> | <u>\$ 138,481</u> | <u>\$ 209,060,330</u> |

(1) "Outstanding Debt" does not include lease/purchase obligations. See "TABLE 10 – REVENUES OF WATERWORKS AND SANITARY SEWER SYSTEM USED TO PAY GENERAL OBLIGATION DEBT SERVICE" and "OTHER OBLIGATIONS."

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

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

| | | |
|--|----------------|---------------------|
| Tax Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2024 | | \$ 14,420,166 |
| Budgeted Interest and Sinking Fund, 9/30/23 ⁽²⁾ | \$ 5,220,307 | |
| Budgeted Interest and Sinking Fund Collections ⁽²⁾ | 9,110,000 | |
| Budgeted Sales Tax Collections ⁽²⁾ | 6,500,000 | |
| Less: Rebates to Municipal Utility Districts ⁽²⁾ | (667,788) | |
| Less: Rebates to Tax Increment Zone ⁽²⁾ | (507,691) | |
| Less: Estimated Fees ⁽²⁾ | (7,000) | |
| Budgeted Investment Income / Penalty & Interest ⁽¹⁾ | <u>205,000</u> | <u>19,852,828</u> |
| Estimated Balance, 9/30/2024 | | <u>\$ 5,432,662</u> |

(1) These amounts are from the Fiscal Year 2024 Budget. Subject to change

(2) Unaudited. The unaudited information has not been prepared or reviewed by the City's independent auditor. The unaudited information is derived from internal account balances of the City. The unaudited information is subject to revision upon completion of the City's annual audit.

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

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

TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT

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

| Issue | Percent Attributed to Self-Supporting Revenue | Revenue Source Fund | Self-Supporting Debt Due in 2024 Fiscal Year |
|---|--|-----------------------------|---|
| Combination Tax and Revenue Certificates of Obligation, Series 2010 | 100% | TIRZ 2 | \$ 150,800 |
| General Obligation Refunding Bonds, Series 2011A | 41% | Waterworks and Sewer System | 250,372 |
| General Obligation Refunding Bonds, Series 2014A | 100% | PID 3 | 67,265 |
| General Obligation Refunding Bonds, Series 2013A | 100% | PID 1 | - |
| General Obligation Refunding Bonds, Series 2015 | 100% | Waterworks and Sewer System | 1,606,000 |
| Combination Tax and Revenue Certificates of Obligation, Series 2015 | 83% | Waterworks and Sewer System | 1,023,269 |
| General Obligation Refunding Bonds, Series 2016 | 56% | Waterworks and Sewer System | 2,039,750 |
| Combination Tax and Revenue Certificates of Obligation, Series 2016 | 29% | Waterworks and Sewer System | 249,450 |
| General Obligation Refunding Bonds, Series 2016A | 81% | Waterworks and Sewer System | 227,375 |
| Combination Tax and Revenue Certificates of Obligation, Series 2017 | 50% | Waterworks and Sewer System | 378,405 |
| Combination Tax and Revenue Certificates of Obligation, Series 2017 | 23% | TIRZ 4 | 363,375 |
| General Obligation Refunding and Improvement Bonds, Series 2019 | 15% | Waterworks and Sewer System | 810,675 |
| General Obligation Refunding and Improvement Bonds, Series 2019 | 9% | 4B Corporation | 583,400 |
| General Obligation Refunding Bonds, Series 2020 | 38% | Waterworks and Sewer System | 2,043,704 |
| Combination Tax and Revenue Certificates of Obligation, Series 2021 | 100% | Waterworks and Sewer System | 783,800 |
| General Obligation Refunding Bonds, Series 2021 | 100% | Waterworks and Sewer System | 2,609,625 |
| GCWA Contract Revenue Bonds 2021 | 100% | Waterworks and Sewer System | 400,556 |
| GCWA Contract Revenue Bonds 2022 | 100% | Waterworks and Sewer System | 417,150 |
| | | | <u>\$ 14,004,970</u> |

The debt issues described in this table are general obligation debt for which repayment is provided from surplus net revenues of the water and sewer system for the general obligation bonds, payments from Tax Increment Reinvestment Zone No. 2 ("TIRZ #2") for Combination Tax and Revenue Certificates of Obligation, Series 2010, payments from the Public Improvement District No. 1 ("PID #1") for General Obligation Refunding Bonds, Series 2014A and payments from the Public Improvement District No. 3 ("PID #3") for General Obligation Refunding Bonds, Series 2013A. It is the City's current policy to provide these payments from such respective sources. There is no assurance that the use of these sources to make these payments will continue in the future. If payments are not made from such sources in the future, the difference will be paid for with ad valorem taxes.

Waterworks and Sewer System Computation

| | |
|--|---------------|
| Net Revenues Available for Debt Service from Waterworks and Sewer System (9/30/2024) | \$ 29,818,615 |
| Waterworks and Sewer System Revenue Bond Requirements (9/30/2024) | - |
| Balance Available | \$ 29,818,615 |
| Waterworks and Sewer System General Obligation Bond Requirements (9/30/2024) | 13,270,947 |
| Balance | \$ 16,547,668 |
| Percentage of Waterworks and Sewer System General Obligation Bonds Self-Supporting | 100.00% |

4B Industrial Corporation Computation

| | |
|--|--------------|
| Gross Revenues Available for Debt Service from 4B Industrial Corp. (9/30/2023) | \$ 4,875,371 |
| 4B Industrial Corp. General Obligation Bond Requirements (9/30/2024) | 583,400 |
| Balance | \$ 4,291,971 |
| Percentage of 4B Industrial Corp. General Obligation Bonds Self-Supporting | 100.00% |

TIRZ #2 Computation

| | |
|---|--------------|
| Gross Revenues Available for Debt Service from TIRZ #2 Fund (9/30/2023) | \$ 2,294,146 |
| TIRZ #2 General Obligation Bond Requirements (9/30/2024) | 150,800 |
| Balance | \$ 2,143,346 |
| Percentage of TIRZ #2 General Obligation Bonds Self-Supporting | 100.00% |

PID #3 Computation

| | |
|--|------------|
| Gross Revenues Available for Debt Service from PID #3 Fund (9/30/2023) | \$ 117,338 |
| PID #1 Fund General Obligation Bond Requirements (9/30/2024) | 67,265 |
| Balance | \$ 50,073 |
| Percentage of PID #1 General Obligation Bonds Self-Supporting | 100.00% |

TIRZ #4 Computation

| | |
|---|--------------|
| Gross Revenues Available for Debt Service from TIRZ #4 Fund (9/30/2023) | \$ 1,182,104 |
| TIRZ #4 General Obligation Bond Requirements (9/30/2024) | 363,375 |
| Balance | \$ 818,729 |
| Percentage of TIRZ #4 General Obligation Bonds Self-Supporting | 100.00% |

TABLE 12 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

| <u>Purpose</u> | <u>Date of Authorization</u> | <u>Amount Authorized</u> | <u>Issued to Date</u> | <u>Unissued Balance</u> |
|----------------------------|------------------------------|--------------------------|-----------------------|-------------------------|
| Public Safety Improvements | 9/19/1992 | \$ 400,000 | \$ - | \$ 400,000 |
| Drainage | 5/4/2019 | 73,000,000 | 47,375,298 | 25,624,702 |
| Mobility Projects | 5/4/2019 | 72,000,000 | 49,324,459 | 22,675,541 |
| | | <u>\$ 145,400,000</u> | <u>\$ 96,699,757</u> | <u>\$ 48,700,243</u> |

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City anticipates the issuance of approximately \$37.77 million of additional tax-supported debt in the next 12 months, but the City makes no assurances as to the timing or amount of such potential issuance.

TABLE 13 – OTHER OBLIGATIONS

As of the date hereof, the City has no other debt obligations outstanding other than as described in this Official Statement.

PENSION FUND

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

OTHER POST-EMPLOYMENT BENEFITS

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

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

The City recognizes its share of the costs of providing these benefits when paid, on a "pay-as-you-go" basis. These payments are budgeted annually. The aggregate total of OPEB expenses for the fiscal year ending September 30, 2023 was \$1,013,876. Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

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

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FINANCIAL INFORMATION

TABLE 14 - CHANGE IN NET ASSETS

| Revenue: | For Fiscal Year Ended September 30, | | | | |
|--|-------------------------------------|-----------------------------------|------------------------------|------------------------------|------------------------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 |
| <u>Program Revenues</u> | | | | | |
| Charges for Services | \$ 18,827,222 | \$ 17,143,326 | \$ 16,538,413 | \$ 16,543,765 | \$ 13,257,754 |
| Operating Grants and Contributions | 4,575,898 | 5,852,877 | 8,615,070 | 2,967,240 | 7,687,939 |
| Capital Grants and Contributions | 31,802,045 ⁽¹⁾ | 2,522,052 | 8,261,934 | 8,037,406 | 14,169,985 |
| <u>General Revenues</u> | | | | | |
| Property Tax | 48,623,693 | 48,703,833 | 47,132,177 | 44,999,295 | 44,795,450 |
| Franchise Tax | 7,137,928 | 6,705,925 | 6,470,968 | 7,006,665 | 7,073,151 |
| Sales and Uses Taxes | 30,334,581 | 27,992,166 | 25,146,874 | 19,601,376 | 20,194,495 |
| Unrestricted Investment Earnings | (1,319,776) | 185,165 | 1,266,888 | 2,433,285 | 1,403,426 |
| Miscellaneous | 2,999,816 | 3,384,272 | 4,450,304 | 4,502,642 | 1,599,979 |
| Total Revenue | <u>\$ 142,981,407</u> | <u>\$ 112,489,616</u> | <u>\$ 117,882,628</u> | <u>\$ 106,091,674</u> | <u>\$ 110,182,179</u> |
| <u>Expenses:</u> | | | | | |
| General Government | \$ 18,651,470 | \$ 17,804,102 | \$ 15,884,893 | \$ 15,975,808 | \$ 15,496,208 |
| Public Safety | 33,663,627 | 34,123,481 | 32,599,855 | 31,783,422 | 30,778,053 |
| Public Works | 30,012,343 | 26,914,023 | 26,005,043 | 29,096,542 | 26,773,910 |
| Community Services | 11,707,900 | 11,741,041 | 10,802,477 | 10,600,334 | 7,802,691 |
| Interest on Long-Term Debt | 3,704,991 | 4,408,917 | 4,426,280 | 3,746,383 | 3,548,694 |
| Total Expenses | <u>\$ 97,740,331</u> | <u>\$ 94,991,564</u> | <u>\$ 89,718,548</u> | <u>\$ 91,202,489</u> | <u>\$ 84,399,556</u> |
| Increase in Net Assets before Transfers | \$ 45,241,076 | \$ 17,498,052 | \$ 28,164,080 | \$ 14,889,185 | \$ 25,782,623 |
| Transfers | 4,273,239 | 4,454,257 | 4,511,513 | 3,312,000 | 3,165,089 |
| Gain/Loss on Disposition of Capital Assets | 4,187 | - | - | 103,448 | 63,775 |
| Increase (Decrease) in Net Assets | <u>\$ 49,518,502</u> | <u>\$ 21,952,309</u> | <u>\$ 32,675,593</u> | <u>\$ 18,304,633</u> | <u>\$ 29,011,487</u> |
| Net Assets at Beginning of Year | 376,973,573 | 355,021,264 | 322,436,757 | 304,132,124 | 280,020,254 |
| Implementation of change in accounting principle | - | - | - | - | (4,899,617) |
| Net Assets at Beginning of Year | <u>376,973,573</u> | <u>355,021,264 ⁽²⁾</u> | <u>322,436,757</u> | <u>304,132,124</u> | <u>275,120,637</u> |
| Net Assets at End of Year | <u><u>\$ 426,492,075</u></u> | <u><u>\$ 376,973,573</u></u> | <u><u>\$ 355,112,350</u></u> | <u><u>\$ 322,436,757</u></u> | <u><u>\$ 304,132,124</u></u> |

(1) Increase reflects capital assets that have been completed and transferred to the City by developers.

(2) Restated.

Source: The City's audited financial statements.

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TABLE 14A – GENERAL FUND REVENUES & EXPENDITURES

| | For Fiscal Year Ended September 30, | | | | | |
|--|-------------------------------------|---------------------------|-----------------------|------------------------|-----------------------|-----------------------|
| | 2023 ⁽¹⁾ | 2022 | 2021 | 2020 | 2019 | 2018 |
| Revenues: | | | | | | |
| Taxes | \$ 69,798,505 | \$ 66,758,805 | \$ 64,749,118 | \$ 59,520,373 | \$ 56,228,199 | \$ 56,128,696 |
| Licenses & Permits | 3,741,717 | 2,571,046 | 2,838,015 | 3,161,640 | 2,845,117 | 3,329,320 |
| Fines and Forfeitures | 1,613,060 | 1,361,671 | 1,147,083 | 1,057,805 | 1,614,174 | 1,694,557 |
| Intergovernmental | 737,038 | 467,209 | 606,344 | 826,504 | 327,211 | 344,227 |
| Charges for Services | 12,388,188 | 11,979,998 | 10,272,199 | 9,541,657 | 9,259,580 | 8,307,524 |
| Interest on Investments | 842,514 | (684,728) | 82,511 | 475,797 | 766,521 | 420,622 |
| Other | 1,552,607 | 1,518,635 | 950,019 | 978,619 | 1,111,365 | 896,290 |
| Total Revenues | \$ 90,673,629 | \$ 83,972,636 | \$ 80,645,289 | \$ 75,562,395 | \$ 72,152,167 | \$ 71,121,236 |
| Expenditures: | | | | | | |
| General Government | \$ 17,028,699 | \$ 15,891,884 | \$ 14,981,921 | \$ 13,633,713 | \$ 13,117,829 | \$ 12,032,359 |
| Public Safety | 35,837,691 | 32,394,353 | 30,771,821 | 25,764,935 | 28,814,962 | 26,653,236 |
| Public Works | 20,600,372 | 18,829,350 | 18,095,880 | 16,755,240 | 15,692,899 | 17,207,706 |
| Community Services | 9,803,457 | 9,097,800 | 9,318,508 | 8,348,499 | 8,306,001 | 5,319,255 |
| Capital Outlay | 517,432 | 795,495 | 913,104 | 850,871 | 705,976 | 474,630 |
| Total Expenditures | \$ 83,787,651 | \$ 77,008,882 | \$ 74,081,234 | \$ 65,353,258 | \$ 66,637,667 | \$ 61,687,186 |
| Excess (Deficit) of Revenues Over Expenditures | \$ 6,885,978 | \$ 6,963,754 | \$ 6,564,055 | \$ 10,209,137 | \$ 5,514,500 | \$ 9,434,050 |
| Other Financing sources (Uses): | | | | | | |
| Proceeds from Sale of Capital Assets | \$ 33,905 | \$ 37,125 | \$ 12,762 | \$ 66,312 | \$ 152,911 | \$ 17,853 |
| Operating Transfers In | 5,302,909 | 4,283,239 | 4,361,947 | 3,494,513 | 3,322,000 | 3,322,000 |
| Operating Transfers (Out) | (9,874,356) | (12,111,968) | (10,209,342) | (14,191,825) | (8,910,000) | (10,330,284) |
| Total Other Financing Sources (Uses) | \$ (4,537,542) | \$ (7,791,604) | \$ (5,834,633) | \$ (10,631,000) | \$ (5,435,089) | \$ (6,990,431) |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses | \$ 2,348,436 | \$ (827,850) | \$ 729,422 | \$ (421,863) | \$ 79,401 | \$ 2,443,619 |
| Fund Balance, Beginning of Year | 26,406,554 | 27,234,404 ⁽²⁾ | 25,743,160 | 26,165,023 | 26,085,622 | 23,642,003 |
| Fund Balance, End of Year | <u>\$ 28,754,990</u> | <u>\$ 26,406,554</u> | <u>\$ 26,472,582</u> | <u>\$ 25,743,160</u> | <u>\$ 26,165,023</u> | <u>\$ 26,085,622</u> |

(1) Unaudited. The unaudited information has not been prepared or reviewed by the City’s independent auditor. The unaudited information is derived from internal account balances of the City. The unaudited information is subject to revision upon completion of the City’s annual audit..

(2) Restated.

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TABLE 15 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On May 7, 1994, the voters of the City approved the imposition of an additional one-half of one percent (½ of 1%) for property tax reduction and another one-quarter of one percent (¼ of 1%) for the Section 4B Industrial Development Corporation. The sales tax increase went into effect on October 1, 1994. On May 4, 2019, the voters of the City approved the imposition of an additional one-quarter of one percent (1/4 of 1%) for City Sales and Use Tax. The sales tax increase went into effect on October 1, 2019.

| Fiscal Year Ended 9/30 | City Sales Tax ⁽¹⁾ | 4B Corporation Sales Tax ⁽¹⁾ | % of Ad Valorem Tax Levy | Equivalent of Ad Valorem Tax Rate | Per Capita ⁽¹⁾ |
|---------------------------|----------------------------------|--|--------------------------------|---|------------------------------|
| 2019 | \$ 19,601,376 | \$ 3,266,896 | 50.79% | \$ 0.2864 | \$ 214 |
| 2020 | 21,554,463 | 3,592,411 | 53.36% | 0.2928 | 231 |
| 2021 | 23,313,900 | 3,795,283 | 55.63% | 0.2865 | 245 |
| 2022 | 26,001,069 | 4,333,512 | 62.23% | 0.2897 | 260 |
| 2023 ⁽²⁾ | 26,829,959 | 4,471,660 | 64.10% | 0.2664 | 264 |

(1) Source: The City.

(2) Preliminary information provided by City staff.

The sales tax breakdown for the City is as follows:

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

CAPITAL IMPROVEMENT PROGRAM

The City prepares a multi-year capital improvement plan that addresses all major categories of improvements and addresses all forms of funding. The current plan includes FY2023 through FY2025, with the first year of the CIP to serve as its Capital Budget for FY2023. The approved CIP includes financing plans that account for all capital funding sources, including current year pay-as-you-go cash funded projects, proceeds from prior years' bond sales, and new funds needed from future bond sales. The CIP includes debt service models for tax supported and revenue supported projects to anticipate and demonstrate the affordability of new bonds within revenue streams from existing property tax rates and water and wastewater rates. Projects are not included in the five-year CIP unless financing can be made available through allocation of existing or projected funding sources.

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THE SYSTEM

WATERWORKS SYSTEM

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

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

During fiscal year 2022/2023 the City pumped approximately 4.52 billion gallons of water (combined surface and ground). This water was delivered to approximately 36,878 accounts. The estimated population of League City is 120,190 at January 1, 2024.

Existing Water Supply— The City maintains 10 Booster stations throughout the distribution system. These Booster stations are strategically placed to provide the required demand flows throughout the distribution system.

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

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

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

Elevated Storage— The City has 3 operational elevated storage tanks. All three tanks are 2 million-gallon tanks, two located on South Shore Boulevard and the other at Rustic Oaks Subdivision.

Ground Storage— Ground storage tanks are located at 10 of the Booster station locations with a total capacity of 28.9 million gallons. The combined elevated and ground storage will be 34.9 million gallons.

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

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

Distribution System— The City has over 526 miles of water lines from 2 inch up to 42 inch. All transmission lines are 24 inch and larger. Various 12 to 18-inch lines interconnect most major transmission lines. New lines are being planned to create a complete transmission loop around the City.

WASTEWATER SYSTEM

The City's wastewater system consists of over 360 miles of gravity lines from 6 inch to 54-inch, 76 lift stations and 2 treatment plants. The Dallas-Salmon treatment plant was expanded from a 7.5 MGD plant to a 12 MGD plant. This plant serves the majority of the City. The new Southwest Water Reclamation Facility (SWWRF) was completed in 2012 and is rated at 4.0 MGD. It serves the far west service areas of the City and will treat water for reuse on public accessible land. Dallas-Salmon is also a plant producing reuse water which is sold to South Shore Country Club for irrigation of the golf course.

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TABLE 16 – CONDENSED STATEMENT OF OPERATIONS

| | Fiscal Year Ended September 30, | | | | | |
|---|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2023 ⁽¹⁾ | 2022 | 2021 | 2020 | 2019 | 2018 |
| Revenues: | | | | | | |
| Charges for Services | \$ 45,910,450 | \$ 41,776,868 | \$ 37,961,242 | \$ 36,990,951 | \$ 34,575,788 | \$ 37,257,244 |
| Interest Earned | - | - ⁽²⁾ | 120,246 | 876,314 | 1,753,961 | 1,017,809 |
| Gain on Sale of Assets | 9,613 | 7,202 | 10,522 | 15,725 | 1,819 | 5,689 |
| Other Revenues | 883,104 | 229,167 | 4,799,063 | 164,403 | 280,454 | 107,384 |
| Total Revenues | \$ 46,803,167 | \$ 42,013,237 | \$ 42,891,073 | \$ 38,047,393 | \$ 36,612,022 | \$ 38,388,126 |
| Operating Expenses: | | | | | | |
| Personnel | \$ 7,307,116 | \$ 6,133,840 | \$ 6,089,489 | \$ 6,266,064 | \$ 5,297,535 | \$ 5,822,111 |
| Utilities | 1,434,412 | 1,455,073 | 1,342,059 | 1,310,371 | 1,283,555 | 1,334,009 |
| Repairs and Maintenance | 2,293,622 | 1,999,487 | 1,693,346 | 1,698,178 | 1,532,563 | 1,288,233 |
| Supplies | 935,455 | 800,043 | 637,135 | 759,443 | 945,265 | 774,692 |
| Contractual Services | 9,937,626 | 7,909,539 | 7,276,101 | 7,039,647 | 5,648,542 | 6,266,400 |
| Gulf Coast Water Authority Debt Service ⁽³⁾ | 740,507 | 291,388 | 336,263 | 270,400 | 334,627 | 337,345 |
| | \$ 22,648,737 | \$ 18,589,370 | \$ 17,374,393 | \$ 17,344,103 | \$ 15,042,087 | \$ 15,822,790 |
| Net Revenue From Operations | \$ 24,154,430 | \$ 23,423,867 | \$ 25,516,680 | \$ 20,703,290 | \$ 21,569,935 | \$ 22,565,336 |
| Impact Fees | 5,664,185 | 2,092,471 | 4,637,431 | 4,983,497 | 4,173,349 | 5,502,644 |
| Available for Debt Service | \$ 29,818,615 | \$ 25,516,338 | \$ 30,154,111 | \$ 25,686,787 | \$ 25,743,284 | \$ 28,067,980 |
| City's Ensuing Year Revenue Debt Service ⁽⁴⁾ | \$ - | \$ - | \$ - | \$ - | \$ 630,850 | \$ 2,567,925 |
| Surplus Net Revenue Available ⁽⁵⁾ | \$ 29,818,615 | \$ 25,516,338 | \$ 30,154,111 | \$ 25,686,787 | \$ 25,112,434 | \$ 25,500,055 |
| Water Customers | 36,878 | 36,514 | 35,981 | 35,611 | 34,617 | 34,102 |
| Sewer Customers | 36,313 | 34,713 | 35,184 | 34,814 | 33,843 | 32,639 |

(1) Unaudited. The unaudited information has not been prepared or renewed by the city's independent auditor. The unaudited information is derived from internal account balances of the city. The unaudited information is subject to revision upon completion of the city's annual audit.

(2) Interest earnings are shown at mark to market. In Fiscal year 2022 there was a book loss however, the City intends to hold the securities to maturity.

(3) Contract Revenue Bonds issued by the Gulf Coast Water Authority that are treated as an operating expense of the System.

(4) Revenue Bonds have a prior lien on the net revenues of the Water and Sewer System.

(5) Surplus Net Revenue is available to pay system general obligation debt and contract revenue debt with a revenue pledge.

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

| Customer | Type of Industry | Fiscal Year 2023 | |
|------------------------------|--------------------|------------------------|------------------------|
| | | Water Usage in Gallons | % of Total Water Usage |
| South Shore Golf Course | Golf Course | 84,735,000 | 1.88% |
| Fairways @ SSH HOA | Apartments | 17,712,000 | 0.39% |
| The Regan LP | Apartments | 13,394,000 | 0.30% |
| Century South Shore | Apartments | 12,549,000 | 0.28% |
| Allerton South Shore LP | Apartments | 10,371,000 | 0.23% |
| Clear Creek ISD | School | 9,245,000 | 0.20% |
| Blue Wave Express Car Wash | Business / Car Was | 8,965,000 | 0.20% |
| South Shore Lakes Apartments | Apartments | 7,981,000 | 0.18% |
| JSJW League City LLC | Business / Car Was | 7,264,000 | 0.16% |
| Rancho Del Rey Mob PK | Mobile Home Park | 6,882,000 | 0.15% |
| | | 179,098,000 | 3.96% |

TABLE 18 - HISTORICAL WATER CONSUMPTION (GALLONS)

| Year Ended 9/30 | Estimated City Population ⁽¹⁾ | Number of Customers | Water Usage (MGD) | | | | Total Water & Sewer Sales |
|-----------------|--|---------------------|-------------------|----------------|------------------|---------------|---------------------------|
| | | | Average Day Usage | Peak Day Usage | Peak Month Usage | Total Usage | |
| 2018 | 104,857 | 34,102 | 12.034 | 19.586 | 486.225 | \$ 37,364,628 | |
| 2019 | 106,803 | 34,617 | 11.118 | 17.471 | 423.743 | 33,850,775 | |
| 2020 | 109,087 | 35,611 | 11.664 | 18.910 | 468.416 | 37,504,214 | |
| 2021 | 110,467 | 36,074 | 11.829 | 24.625 | 476.345 | 39,962,382 | |
| 2022 | 116,834 | 36,514 | 12.320 | 21.942 | 540.962 | 41,776,868 | |
| 2023 | 118,740 | 36,878 | 12.379 | 23.540 | 617.921 | 45,910,450 | |

(1) Population estimated by the City.

FINANCIAL POLICIES

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

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

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

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

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

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

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

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

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

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

INVESTMENTS

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

Authorized Investments . . . Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of

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

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

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

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

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

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

TABLE 19 – CURRENT INVESTMENTS

As of September 30, 2023, the City's investable funds were invested in the following categories:

| Description | Percent of Total | Book Value | Market Value |
|-----------------------|---------------------|-----------------------|-----------------------|
| Cash | 3.35% | \$ 7,840,886 | \$ 7,840,886 |
| Texpool | 3.09% | 7,233,697 | 7,233,697 |
| TexStar | 2.13% | 4,978,512 | 4,978,512 |
| Lone Star | 1.43% | 3,356,334 | 3,356,334 |
| Texas Class | 1.54% | 3,600,985 | 3,600,985 |
| Money Market | 6.94% | 16,231,740 | 16,231,740 |
| Portfolio Investments | 81.52% | 190,728,927 | 187,996,937 |
| | <u>100.00%</u> | <u>\$ 233,971,081</u> | <u>\$ 231,239,091</u> |

TAX MATTERS

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

TAX EXEMPTION

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

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

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

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

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

COLLATERAL TAX CONSEQUENCES

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

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

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

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

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM

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

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

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

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

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

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

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

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

TAX LEGISLATIVE CHANGES

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

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS

The City will provide annually to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access system ("EMMA"), within six months after the end of each fiscal year ending in and after September 30, 2024, financial information and operating data with respect to the City of the general type included in the Official Statement provided to the Purchaser in connection with its initial approval of its purchase of the Certificates, being the information included in Tables 1 through 6 and Tables 8 through 19, and in Appendix B if audited financial statements of the City are then available. Any financial statements so to be provided will be (1) prepared in accordance with the accounting principles set forth in Appendix B to the Official Statement, or as may otherwise hereafter be established consistent with Texas law or regulation, and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within twelve months after any such fiscal year end, then the City will provide audited financial statements for the applicable fiscal year to the MSRB through EMMA, when and if audited financial statements become available but if such audited financial statements are unavailable the City will provide such financial statements on an unaudited basis within such twelve-month period.

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

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

MATERIAL NOTICES

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

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Certificates, or other material events affecting the tax status of the Certificates;
- (7) Modifications to rights of Holders of the Certificates, if material;
- (8) Certificate calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Certificates; if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership, or similar event of the City, which will occur as described below;
- (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

- (15) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

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

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

AVAILABILITY OF INFORMATION FROM MSRB

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

LIMITATIONS, DISCLAIMERS, AND AMENDMENTS

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

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

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

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

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

COMPLIANCE WITH PRIOR UNDERTAKINGS

During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

WEATHER EVENTS

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

INFECTIOUS DISEASE OUTBREAK – COVID-19

On April 10, 2023, the President of the United States signed into law a bill that ended the national emergency declaration resulting from COVID-19, a respiratory disease caused by a strain of coronavirus, and on May 5, 2023, the World Health Organization declared the outbreak of COVID-19 over as a global health emergency. However, COVID-19 continues to affect many parts of the world, including the United States and the State.

The outbreak of COVID-19, characterized as a pandemic by the World Health Organization for over three years, negatively affected travel, commerce, the global supply chain, and financial markets globally, and may negatively affect economic growth and financial markets worldwide in the future. The City has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however, the City cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

EXPOSURE TO OIL AND GAS INDUSTRY

In the past, the greater Houston area has been particularly affected by conditions in the oil and gas industry, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the City, resulting in a reduction in property tax revenue. The Certificates are secured by an ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Certificates.

CYBER SECURITY

The City's operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. The City has 12 positions devoted to Information Technology. While the City continually assesses and monitors its cybersecurity risks, the city has been (and may be in the future) subject to cyber-attacks from time to time. The City regularly monitors its systems and devices to assess and respond to any cyber-attack to minimize the disruption to City services; it regularly obtains technology improvements to mitigate cybersecurity risks; it has in place cybersecurity training programs for its personnel and it takes other actions it deems appropriate to prepare for and address cybersecurity risks. No assurance can be given that the City will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the City's control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated by criminal activities of individuals or organizations. There have been no recent cyber security incidents.

OTHER INFORMATION

RATINGS

The Certificates and presently outstanding general obligation debt of the City are rated "Aa1" by Moody's Investors Service, Inc. ("Moody's") and "AA+" by S&P Global Ratings, a division of S&P Global Inc. ("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. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by (either or both) of such rating companies (company), if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates.

LITIGATION

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

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REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

LEGAL MATTERS

The City will furnish to the Initial Purchaser a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bracewell LLP, Houston, Texas, Bond Counsel, in substantially the form attached hereto as Appendix C.

Though such firm represents the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel, Bracewell LLP, Houston, Texas, has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. Bond Counsel's role in connection with the Official Statement was limited to reviewing the information describing the Certificates in the Official Statement to verify that such descriptions conform to the provisions of the Ordinance. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent upon the sale and delivery of the Certificates.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

Hilltop Securities Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Hilltop Securities Inc., in its capacity as Financial Advisor, has not verified and does not assume any

responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

AUDITED FINANCIAL STATEMENTS

Belt Harris Pechacek, LLLP, the City's independent auditor, (the "Auditor") has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of the Auditor relating to City's financial statements for the fiscal year ended September 30, 2022 is included in this Official Statement in Appendix B; however, the Auditor has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

INITIAL PURCHASER

The Initial Purchaser, _____ has agreed, subject to certain conditions, to purchase the Certificates from the City, at par plus a cash premium of \$ _____. The Initial Purchaser will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Initial Purchaser and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates and such public offering prices may be changed, from time to time, by the Initial Purchaser.

MISCELLANEOUS

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

CERTIFICATION OF THE OFFICIAL STATEMENT AND NO-LITIGATION CERTIFICATE

At the time of payment for and delivery of the Certificates, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to 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 Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City,

and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; (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 and (e) except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, of which the City has notice to restrain or enjoin the issuance, execution or delivery of the Certificates, in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Certificates; or which would affect the provisions made for their payment or security, or in any manner question the validity of the Certificates..

The Ordinance authorizing the issuance of the Certificates 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 Certificates by the Initial Purchaser.

Mayor
City of League City, Texas

ATTEST:

City Secretary

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

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

ECONOMICS

The City is located 25 miles from the Houston Central Business District, the energy capital of the world. The City is also located approximately 14 to 20 miles from the industrial and petrochemical complexes located in Harris County along the Houston Ship Channel and 10 miles from the petrochemical refineries located in Texas City in Galveston County. The National Aeronautics and Space Administration's ("NASA") Johnson Space Center is located just north of the City in Harris County, and approximately 16% of NASA's employees and contractors live in the City.

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

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

BUILDING PERMITS

| Fiscal Year Ended 9/30 | Residential Gross Value | Commercial Gross Value | Total Gross Value |
|---------------------------|----------------------------|---------------------------|----------------------|
| 2018 | \$ 186,977,407 | \$ 69,142,896 | \$ 256,120,303 |
| 2019 | 188,351,992 | 16,940,660 | 205,292,652 |
| 2020 | 150,960,673 | 43,625,306 | 194,585,979 |
| 2021 | 140,290,099 | 93,703,000 | 233,993,099 |
| 2022 | 92,055,530 | 25,282,375 | 117,337,905 |
| 2023 | 134,906,545 ⁽¹⁾ | 19,569,699 | 154,476,244 |

(1) Preliminary, year-end estimate.

EDUCATION

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

Higher education institutions serve the local area, including the University of Houston-Clear Lake, located three miles from the City. The University of Houston-Clear Lake, constructed on a 524-acre site, has an 8,200-student enrollment, and includes four schools: The School of Human Sciences and Humanities, the School of Business, the School of Education, and the School of Sciences and Computer Engineering. These four schools offer undergraduate degrees in 39 fields of study, master's degrees in 45 fields of study and one doctoral degree.

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

HEALTHCARE AND FACILITIES

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

The construction of a 190,000-square foot M.D. Anderson Cancer Center, which opened in fall 2018, and a 47,0000-square foot Memorial Hermann Convenient Care Clinic which opened in April 2018 will further expand the healthcare options for residents of the League City-Clear Lake area.

TRANSPORTATION

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

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

JOHNSON SPACE CENTER

The Johnson Space Center (JSC) of NASA, which was responsible for NASA’s prior space shuttle program and remains the central control point for the space station project, is an important part of the Clear Lake City area economy. The JSC Civil Service workforce consists of about 3000 employees, the majority of whom are professional engineers and scientists. Of these, approximately 110 are astronauts. The Johnson Space Center is an attraction to over 50 private companies who act as subcontractors to provide contract personnel to JSC.

SPACE CENTER HOUSTON

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

MAJOR EMPLOYERS IN LEAGUE CITY

| <u>Employer</u> | <u>Nature of Business</u> | <u>Number of Employees</u> |
|---|---------------------------|----------------------------|
| Clear Creek Independent School District | School District | 5,459 |
| H.E.B. | Supermarket | 934 |
| UTMB | Acad Health Center | 700 |
| City of League City | Government | 657 |
| American National Insurance | Insurance | 653 |
| Walmart | Retail | 393 |
| Kroger | Supermarket | 338 |
| INEOS USA | Manufacturer | 319 |
| MD Anderson | Hospital | 250 |
| Devereaux Texas Treatment Network | Hospital | 135 |

Source: The City.

THE COUNTY

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

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

EMPLOYMENT STATISTICS

| | November | Average Annual | | | | |
|-------------------------|----------|----------------|---------|---------|---------|---------|
| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
| <u>League City</u> | | | | | | |
| Civilian Labor Force | 61,331 | 59,180 | 57,662 | 56,625 | 57,516 | 56,615 |
| Total Employment | 59,469 | 57,049 | 54,701 | 52,785 | 55,695 | 54,541 |
| Unemployed | 1,862 | 2,131 | 2,961 | 3,840 | 1,821 | 2,074 |
| Percent of Unemployed | 3.0% | 3.6% | 5.1% | 6.8% | 3.2% | 3.7% |
| <u>Galveston County</u> | | | | | | |
| Civilian Labor Force | 175,194 | 169,058 | 165,872 | 163,981 | 164,492 | 162,052 |
| Total Employment | 168,498 | 161,647 | 154,992 | 149,565 | 157,827 | 154,486 |
| Unemployed | 6,696 | 7,411 | 10,880 | 14,416 | 6,665 | 7,566 |
| Percent of Unemployed | 3.8% | 4.4% | 6.6% | 8.8% | 4.1% | 4.7% |

Source: Texas Workforce Commission

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APPENDIX B

EXCERPTS FROM THE
CITY OF LEAGUE CITY, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2022

The information contained in this Appendix consists of excerpts from the City of League City, Texas Annual Financial Report for the Year Ended September 30, 2022, 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 AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of League City, Texas:

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of League City, Texas (the "City"), as of and for the year ended September 30, 2022, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2022, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' 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.

Change in Accounting Principle

As described in Note I.F.15 to the financial statements, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*, in fiscal year 2022. Our opinion is not modified with respect to this matter.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility 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 auditors' 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, 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, and schedules of changes in net pension and total other postemployment benefits liability and related ratios, and the schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and

comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 accompanying combining statements and schedules are presented for purposes of additional analysis and are not required parts 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 auditors' 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

The logo for Belt Harris Pechacek, LLP features the names 'BELT HARRIS PECHACEK' in a stylized, cursive font, with 'LLP' in a smaller, plain font to the right.

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 17, 2023

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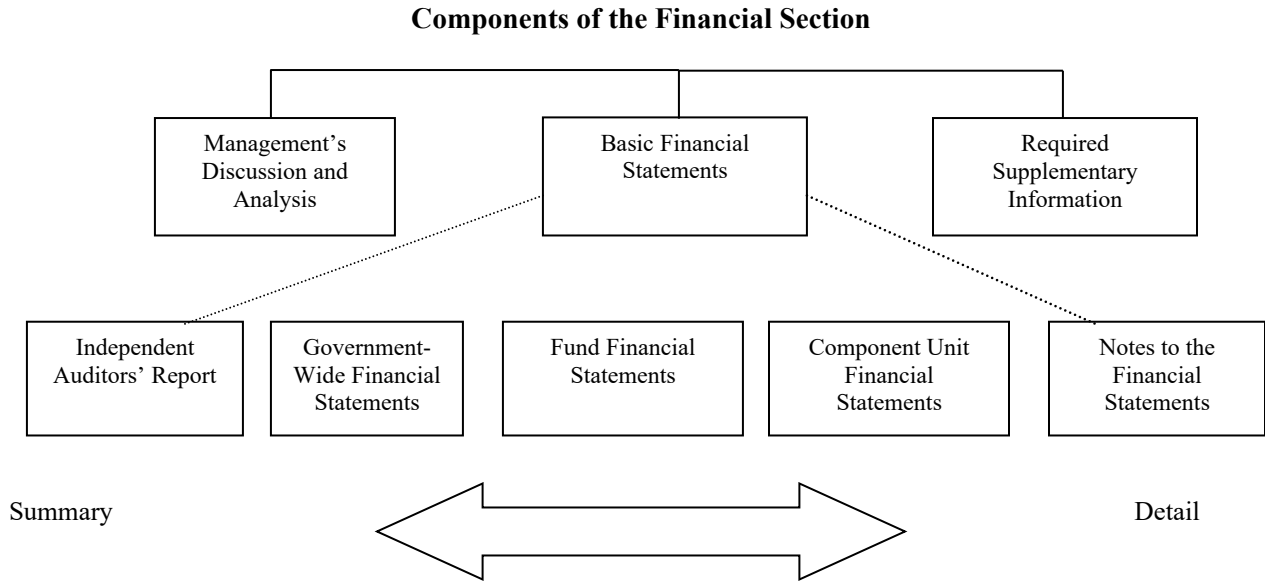
***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2022

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of League City, Texas (the "City") for the year ending September 30, 2022. 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 transmittal letter at the front of this report and 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 inflows/outflows 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.

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

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

occurs, regardless of the timing of related cash flows, and using the full 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* – include the City's tax-supported services: police and fire protection (public safety), streets and drainage (public works), community services, general administrative services (general government), and interest payments on the City's tax-supported debt. Property tax, sales tax, franchise fees, municipal court fines, and permit fees fund most of these activities.
2. *Business-Type Activities* – include the City's water and wastewater services, as well as interest payments on debt issued for water and wastewater improvements. Charges for services cover all or most of the cost of these activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate industrial development corporation and a legally separate volunteer fire department for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The tax increment reinvestment zones and public improvement districts, although also legally separate, function for all practical purposes as departments of the City and, therefore, have been included as integral parts of the primary government.

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

FUND FINANCIAL STATEMENTS

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 City uses two fund types – 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 54 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the coronavirus state and local fiscal recovery fund which are considered to be major funds for reporting purposes.

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

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

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and wastewater collection/treatment operations. The proprietary fund financial statements provide separate information for the water distribution and wastewater collection/treatment operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

The City also uses internal service funds to account for its motor pool services, employee insurance, and capital replacement program. These internal service funds have been included within governmental activities in the government-wide financial statements.

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 basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of changes in net pension and total other postemployment benefits (OPEB) liability and related ratios for the Texas Municipal Retirement System (TMRS), schedule of contributions for TMRS, and schedule of changes in total OPEB liability and related ratios for the City's retiree medical program. RSI can be found after 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 exceeded liabilities and deferred inflows by \$734,371,433 as of September 30, 2022 for the primary government. This compares with \$663,575,725 from the prior fiscal year. The largest portion of the City's net position, 83 percent, reflects its investments in capital assets (e.g., land, buildings and improvements, equipment, construction in progress, and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|----------------------------|-----------------------|-----------------------------|-----------------------|--------------------------------|-----------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Current and other assets | \$ 179,758,912 | \$ 179,386,698 | \$ 67,083,033 | \$ 78,272,013 | \$ 246,841,945 | \$ 257,658,711 |
| Capital assets, net | 455,306,427 | 413,948,256 | 376,673,714 | 349,320,678 | 831,980,141 | 763,268,934 |
| Total Assets | 635,065,339 | 593,334,954 | 443,756,747 | 427,592,691 | 1,078,822,086 | 1,020,927,645 |
| Deferred charge on refunding | 939,563 | 1,055,214 | 1,170,091 | 1,315,483 | 2,109,654 | 2,370,697 |
| Deferred outflows - pensions | 5,166,941 | 3,992,096 | 851,638 | 514,380 | 6,018,579 | 4,506,476 |
| Deferred outflows - OPEB | 1,585,248 | 1,581,656 | 215,413 | 207,928 | 1,800,661 | 1,789,584 |
| Total Deferred Outflows of Resources | 7,691,752 | 6,628,966 | 2,237,142 | 2,037,791 | 9,928,894 | 8,666,757 |
| Long-term liabilities | 176,322,992 | 193,769,764 | 126,585,840 | 131,629,542 | 302,908,832 | 325,399,306 |
| Other liabilities | 23,615,335 | 18,893,980 | 6,782,374 | 7,593,287 | 30,397,709 | 26,487,267 |
| Total Liabilities | 199,938,327 | 212,663,744 | 133,368,214 | 139,222,829 | 333,306,541 | 351,886,573 |
| Deferred gain on refunding | 2,764,312 | 3,058,592 | 1,827,034 | 1,537,080 | 4,591,346 | 4,595,672 |
| Deferred inflows - pensions | 9,856,929 | 5,106,646 | 1,537,198 | 747,030 | 11,394,127 | 5,853,676 |
| Deferred inflows - OPEB | 797,594 | 932,894 | 105,888 | 128,394 | 903,482 | 1,061,288 |
| Deferred inflows - leases | 2,907,854 | 1,228,471 | 1,276,197 | 1,392,997 | 4,184,051 | 2,621,468 |
| Total Deferred Inflows of Resources | 16,326,689 | 10,326,603 | 4,746,317 | 3,805,501 | 21,073,006 | 14,132,104 |
| Net Position: | | | | | | |
| Net investment in capital assets | 353,693,613 | 316,160,653 | 256,846,258 | 240,595,951 | 610,539,871 | 556,756,604 |
| Restricted | 31,555,854 | 34,191,954 | - | - | 31,555,854 | 34,191,954 |
| Unrestricted | 41,242,608 | 26,620,966 | 51,033,100 | 46,006,201 | 92,275,708 | 72,627,167 |
| Total Net Position | \$ 426,492,075 | \$ 376,973,573 | \$ 307,879,358 | \$ 286,602,152 | \$ 734,371,433 | \$ 663,575,725 |

A portion of the primary government's net position, \$31,555,854 or four percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$92,275,708 or 13 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position increased by \$70,795,708 during the current fiscal year. This included an increase to net position of \$49,518,502 in governmental activities and an increase in business-type activities net position of \$21,277,206. The City had a decrease in current and other assets of \$10,816,766 mainly due to the spending of bond proceeds for capital related expenditures. Capital assets increased by \$68,711,207 due to current year capital projects. Deferred outflows and inflows of resources increased \$1,262,137 and \$6,940,902, respectively. The increase in deferred outflows and inflows for pensions from the prior year is mainly due to the net difference between projected and actual investment earnings on pension plan assets. Total liabilities decreased by \$18,580,032 with most of the decrease in long-term liabilities due to current year debt service payments and a reduction in the net pension liability.

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

Statement of Activities

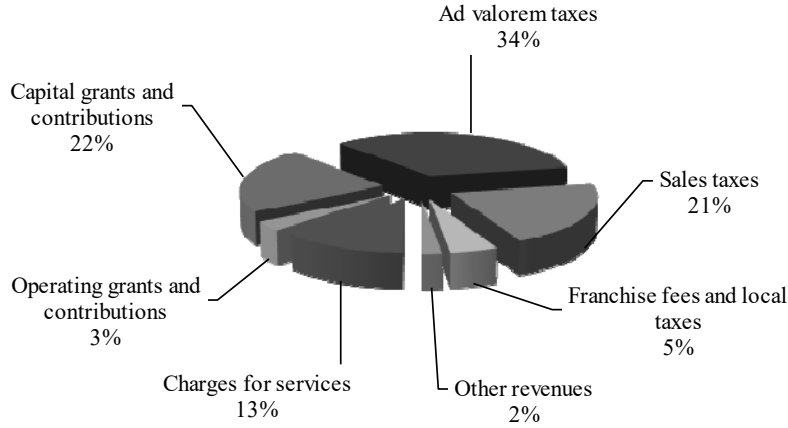
The following table provides a summary of the City's changes in net position:

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|----------------------------|-----------------------|-----------------------------|-----------------------|--------------------------------|-----------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 18,827,222 | \$ 17,143,326 | \$ 44,908,507 | \$ 42,760,305 | \$ 63,735,729 | \$ 59,903,631 |
| Operating grants and contributions | 4,575,898 | 5,852,877 | - | 24,790 | 4,575,898 | 5,877,667 |
| Capital grants and contributions | 31,802,045 | 2,522,052 | 10,813,900 | 1,027,435 | 42,615,945 | 3,549,487 |
| General revenues: | | | | | | |
| Ad valorem taxes | 48,623,693 | 48,703,833 | - | - | 48,623,693 | 48,703,833 |
| Sales taxes | 30,334,581 | 27,992,166 | - | - | 30,334,581 | 27,992,166 |
| Franchise fees and local taxes | 7,137,928 | 6,705,925 | - | - | 7,137,928 | 6,705,925 |
| Investment earnings, net | (1,319,776) | 185,165 | (182,241) | 120,246 | (1,502,017) | 305,411 |
| Other revenues | 2,999,816 | 3,384,272 | - | - | 2,999,816 | 3,384,272 |
| Total Revenues | <u>142,981,407</u> | <u>112,489,616</u> | <u>55,540,166</u> | <u>43,932,776</u> | <u>198,521,573</u> | <u>156,422,392</u> |
| Expenses | | | | | | |
| General government | 18,651,470 | 17,804,102 | - | - | 18,651,470 | 17,804,102 |
| Public safety | 33,663,627 | 34,123,481 | - | - | 33,663,627 | 34,123,481 |
| Public works | 30,012,343 | 26,914,023 | - | - | 30,012,343 | 26,914,023 |
| Community services | 11,707,900 | 11,741,041 | - | - | 11,707,900 | 11,741,041 |
| Interest and fiscal agent fees | 3,704,991 | 4,408,917 | - | - | 3,704,991 | 4,408,917 |
| Water and sewer | - | - | 29,996,923 | 28,971,952 | 29,996,923 | 28,971,952 |
| Total Expenses | <u>97,740,331</u> | <u>94,991,564</u> | <u>29,996,923</u> | <u>28,971,952</u> | <u>127,737,254</u> | <u>123,963,516</u> |
| Increase in Net Position Before Transfers and Gain | 45,241,076 | 17,498,052 | 25,543,243 | 14,960,824 | 70,784,319 | 32,458,876 |
| Transfers in/(out) | 4,273,239 | 4,454,257 | (4,273,239) | (4,454,257) | - | - |
| Gain on sale of capital assets | 4,187 | - | 7,202 | 10,522 | 11,389 | 10,522 |
| Change in Net Position | 49,518,502 | 21,952,309 | 21,277,206 | 10,517,089 | 70,795,708 | 32,469,398 |
| Beginning net position | 376,973,573 | 355,021,264 | 286,602,152 | 276,085,063 | 663,575,725 | 631,106,327 |
| Ending Net Position | <u>\$ 426,492,075</u> | <u>\$ 376,973,573</u> | <u>\$ 307,879,358</u> | <u>\$ 286,602,152</u> | <u>\$ 734,371,433</u> | <u>\$ 663,575,725</u> |

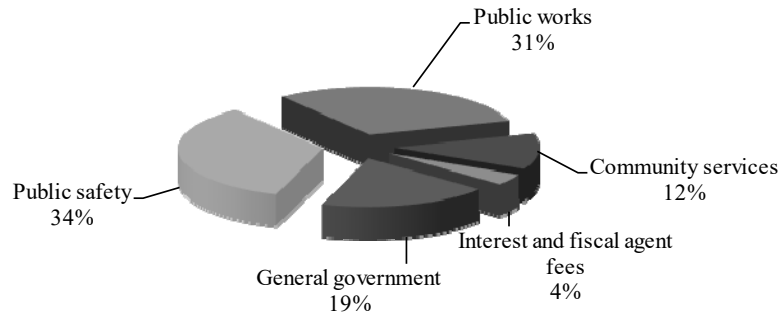
CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

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

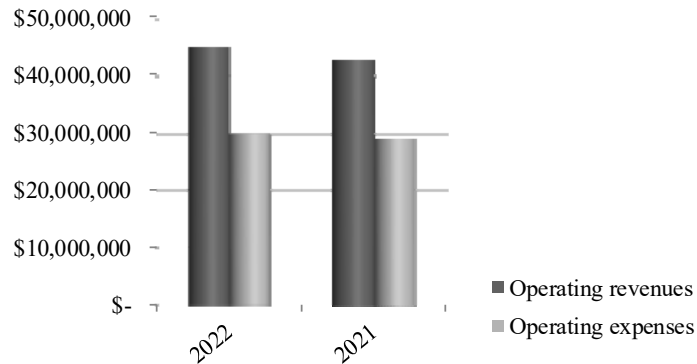
Governmental Activities - Revenues



Governmental Activities - Expenses



Business-Type Activities - Revenues and Expenses



CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

Governmental Activities:

For the year ended September 30, 2022, revenues from governmental activities totaled \$142,981,407, compared with \$112,489,616 in the prior year. This net increase of \$30,491,791 can be largely seen in the change in capital grants and contributions and sales taxes. Capital grant and contributions increased due to an increase in developer contributions and contributions from the 4B Industrial Development Corporation for park projects. Sales taxes increased due to an increase in economic activity within the City since the Coronavirus pandemic. However, investment earnings decreased due to an unrealized loss on investments due to decreases in the market value of investments held by the City. Governmental expenses increased by \$2,748,767 or three percent primarily due to increases in payroll-related expenses. Additionally, public works expenses increased due to an increase in solid waste fees from an increase in service rate and customers.

Business-Type Activities:

Overall, business-type activity revenues increased by \$11,607,390 from the prior period. This increase can be attributed to an increase of \$9,786,465 in capital grants and contributions and an increase of \$2,148,202 in charges for services. Capital grants and contributions increased due to an increase in developer contributions. Charges for services increased due to an increase in water and sewer rates as well as consumption. Business-type activities expenses increased by \$1,024,971 or four percent. This increase is largely due to an increase in water and sewer repairs and maintenance, depreciation expense, water purchased due to an increase in consumption, and other miscellaneous services.

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 \$139,481,083. This balance includes \$431,950 in nonspendable funds, \$81,017,818 in restricted funds, \$31,992,482 in assigned funds, and \$26,038,833 in unassigned funds.

There was a decrease in the combined fund balance of \$6,435,649 from the prior year. The general fund balance decreased by \$827,850 largely due to an increase in transfers out in the current year for capital projects. Total revenues were higher than the prior year by a net \$3,327,347 largely due to increases in sales tax revenue and charges for services. Sales tax revenue increased mainly due to an increase in economic activity within the City since the coronavirus pandemic. Charges for services increased mainly due to an increase in revenue collected for emergency medical services, solid waste, and engineering inspection fees. General fund expenditures increased compared to prior year by \$2,927,648 primarily due to an increase in payroll-related expenditures and an increase in solid waste fees due to an increase in service rates and customers.

The general fund is the chief operating fund of the City. At the end of the current year, total fund balance reached \$26,406,554. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represented 34 percent of total general fund expenditures and exceeded the City's minimum fund balance policy of 110 days or 30 percent.

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

The Coronavirus State and Local Fiscal Recovery fund is for a federal grant received by the City through the American Rescue Plan. The City has received advanced funding of \$10,385,742 and has spent a total of \$1,149,506 in the current year and \$69,581 in the prior year. The increase in fund balance is due to an increase in investment earnings earned on the advanced funding which will be spent on future grant related expenditures.

The debt service fund balance experienced a decrease of \$627,390 due to an increase in current year principal and interest payments.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund amended budget included a planned decrease in fund balance in the amount of \$4,755,537. Actual fund balance for the year decreased by \$827,850. Total actual revenues were more than the amended budget by a net \$2,298,421. Sales taxes, charges for services, franchise fees, other taxes, and miscellaneous income were more than anticipated in the amended budget.

General fund expenditures were less than the amended budget by \$1,592,175. Departments over budget at year end were addressed in the fourth quarter budget amendment from savings in other departments in the general fund. An additional \$2,000,000 was also included in the final budget amendment to fund construction in progress reinvestment projects. The positive variance was mainly a result of savings within the personnel category due to vacancies and a portion of payroll expenses transferred to the coronavirus state and local fiscal recovery fund for grant reimbursement. There is also savings of \$270,000 obligated by City Council action to upgrade Texas-New Mexico Power wooden poles to concrete that were budgeted in fiscal year 2022 but not invoiced by the end of the fiscal year.

CAPITAL ASSETS

At the end of year 2022, the City's governmental and business-type activities had invested \$831,980,141 in a variety of capital assets and infrastructure (net of accumulated depreciation/amortization). This represents a net increase of \$68,711,207.

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

- Developer contributions of infrastructure in the amount of \$39,406,827
- Deer Ridge buy-out and improvements for \$2,283,680
- Bayridge flood reduction for \$2,824,569
- Asphalt street rehabilitation for \$1,700,954
- Hometown Heroes Park 5K loop for \$1,383,869
- Regional water and wastewater facilities for \$1,509,380
- Southeast service area trunk lines for \$3,419,741
- Grissom Road reconstruction for \$3,329,832
- Waterline from Highway 3 to South Shore booster station for \$6,411,813

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

CITY OF LEAGUE CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

LONG-TERM DEBT

At the end of the current year, the City had total bonds, leases payable, and certificates of obligation outstanding of \$243,804,131. Of this amount, \$54,855,000 represented certificates of obligation, \$182,995,000 represented general obligation debt, \$5,830,000 represented contract revenue bonds, and \$124,131 was for leases payable.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Like the region, the City has been characterized by steady long-term growth and is considered a highly attractive location to families and businesses alike. In 2022, the City is continuing to see new construction of all types of property and anticipates 500 new homes in 2023.

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

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

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

To date, revenue and expenditure trends are tracking closely with budget assumptions. The fiscal year 2023 adopted budget projected sales tax revenue at eight percent over fiscal year 2022 actuals. As of March receipts, which represent January 2023 sales, collections are trending at the fiscal year 2023 budgeted amount. Other major revenue sources are generally on budget and expenditures appear to be within budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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CITY OF LEAGUE CITY, TEXAS

STATEMENT OF NET POSITION

September 30, 2022

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|-----------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Assets | | | | |
| Cash and equity in pooled cash | \$ 51,493,693 | \$ 3,047,704 | \$ 54,541,397 | \$ 975,282 |
| Investments | 111,962,005 | 20,757,759 | 132,719,764 | 8,885,073 |
| Receivables, net | 12,807,453 | 8,366,859 | 21,174,312 | 756,661 |
| Restricted cash and cash equivalents | - | 13,089,564 | 13,089,564 | 247,718 |
| Restricted investments | - | 20,171,622 | 20,171,622 | - |
| Inventories | 58,553 | 128,873 | 187,426 | - |
| Prepaid items | 431,950 | 217,904 | 649,854 | - |
| Leases receivables | 3,005,258 | 1,302,748 | 4,308,006 | - |
| Capital assets: | | | | |
| Nondepreciable | 55,807,143 | 61,037,043 | 116,844,186 | - |
| Net depreciable capital assets | 399,499,284 | 315,636,671 | 715,135,955 | - |
| | <u>455,306,427</u> | <u>376,673,714</u> | <u>831,980,141</u> | <u>-</u> |
| Total Assets | <u>635,065,339</u> | <u>443,756,747</u> | <u>1,078,822,086</u> | <u>10,864,734</u> |
| Deferred Outflows of Resources | | | | |
| Deferred charge on refunding | 939,563 | 1,170,091 | 2,109,654 | - |
| Deferred outflows - pensions | 5,166,941 | 851,638 | 6,018,579 | - |
| Deferred outflows - OPEB | 1,585,248 | 215,413 | 1,800,661 | - |
| Total Deferred Outflows of Resources | <u>7,691,752</u> | <u>2,237,142</u> | <u>9,928,894</u> | <u>-</u> |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | 13,808,093 | 3,580,052 | 17,388,145 | 447,399 |
| Due to primary government | - | - | - | - |
| Customer deposits | 10,856 | 2,041,061 | 2,051,917 | - |
| Accrued interest payable | 586,008 | 443,615 | 1,029,623 | - |
| Unearned revenue | 9,210,378 | 717,646 | 9,928,024 | - |
| Noncurrent liabilities: | | | | |
| Long-term liabilities due within one year | 13,917,088 | 8,841,904 | 22,758,992 | - |
| Long-term liabilities due in more than one year | 162,405,904 | 117,743,936 | 280,149,840 | - |
| | <u>176,322,992</u> | <u>126,585,840</u> | <u>302,908,832</u> | <u>-</u> |
| Total Liabilities | <u>199,938,327</u> | <u>133,368,214</u> | <u>333,306,541</u> | <u>447,399</u> |
| Deferred Inflows of Resources | | | | |
| Deferred gain on refunding | 2,764,312 | 1,827,034 | 4,591,346 | - |
| Deferred inflows - pensions | 9,856,929 | 1,537,198 | 11,394,127 | - |
| Deferred inflows - OPEB | 797,594 | 105,888 | 903,482 | - |
| Deferred inflows - leases | 2,907,854 | 1,276,197 | 4,184,051 | - |
| Total Deferred Inflows of Resources | <u>16,326,689</u> | <u>4,746,317</u> | <u>21,073,006</u> | <u>-</u> |
| Net Position | | | | |
| Net investment in capital assets | 353,693,613 | 256,846,258 | 610,539,871 | - |
| Restricted for: | | | | |
| Debt service | 3,116,891 | - | 3,116,891 | - |
| Municipal court | 30,986 | - | 30,986 | - |
| Hotel occupancy tax | 1,016,277 | - | 1,016,277 | - |
| Public access channel | 1,038,589 | - | 1,038,589 | - |
| Grants | 892,080 | - | 892,080 | - |
| Tax increment reinvestment | 15,490,747 | - | 15,490,747 | - |
| Public improvement district | 2,787,671 | - | 2,787,671 | - |
| Capital projects | 7,182,613 | - | 7,182,613 | - |
| Unrestricted | 41,242,608 | 51,033,100 | 92,275,708 | 10,417,335 |
| Total Net Position | <u>\$ 426,492,075</u> | <u>\$ 307,879,358</u> | <u>\$ 734,371,433</u> | <u>\$ 10,417,335</u> |

See Notes to Financial Statements.

CITY OF LEAGUE CITY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|-----------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government | | | | |
| Governmental Activities | | | | |
| General government | \$ 18,651,470 | \$ - | \$ - | \$ - |
| Public safety | 33,663,627 | 4,249,203 | 2,793,517 | - |
| Public works | 30,012,343 | 12,523,736 | - | 29,279,102 |
| Community services | 11,707,900 | 2,054,283 | 1,782,381 | 2,522,943 |
| Interest and fiscal agent fees | 3,704,991 | - | - | - |
| Total Governmental Activities | 97,740,331 | 18,827,222 | 4,575,898 | 31,802,045 |
| Business-Type Activities | | | | |
| Water and sewer | 29,996,923 | 44,908,507 | - | 10,813,900 |
| Total Business-Type Activities | 29,996,923 | 44,908,507 | - | 10,813,900 |
| Total Primary Government | \$ 127,737,254 | \$ 63,735,729 | \$ 4,575,898 | \$ 42,615,945 |
| Component Units | | | | |
| | \$ 4,249,152 | \$ - | \$ - | \$ - |
| Total Component Units | \$ 4,249,152 | \$ - | \$ - | \$ - |

General Revenues:

- Ad valorem taxes
- Sales taxes
- Franchise fees and local taxes
- Investment earnings, net
- Other revenues
- Gain on disposal of capital assets
- Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

| Primary Government | | | |
|------------------------------------|-------------------------------------|-----------------------|----------------------------|
| Governmental Activities | Business-Type Activities | Total | Component Units |
| \$ (18,651,470) | \$ - | \$ (18,651,470) | \$ - |
| (26,620,907) | - | (26,620,907) | - |
| 11,790,495 | - | 11,790,495 | - |
| (5,348,293) | - | (5,348,293) | - |
| (3,704,991) | - | (3,704,991) | - |
| <u>(42,535,166)</u> | <u>-</u> | <u>(42,535,166)</u> | <u>-</u> |
| - | 25,725,484 | 25,725,484 | - |
| <u>-</u> | <u>25,725,484</u> | <u>25,725,484</u> | <u>-</u> |
| (42,535,166) | 25,725,484 | (16,809,682) | - |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>(4,249,152)</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>(4,249,152)</u> |
| 48,623,693 | - | 48,623,693 | - |
| 30,334,581 | - | 30,334,581 | 4,333,512 |
| 7,137,928 | - | 7,137,928 | - |
| (1,319,776) | (182,241) | (1,502,017) | (32,421) |
| 2,999,816 | - | 2,999,816 | 33,109 |
| 4,187 | 7,202 | 11,389 | - |
| 4,273,239 | (4,273,239) | - | - |
| <u>92,053,668</u> | <u>(4,448,278)</u> | <u>87,605,390</u> | <u>4,334,200</u> |
| 49,518,502 | 21,277,206 | 70,795,708 | 85,048 |
| <u>376,973,573</u> | <u>286,602,152</u> | <u>663,575,725</u> | <u>10,332,287</u> |
| <u>\$ 426,492,075</u> | <u>\$ 307,879,358</u> | <u>\$ 734,371,433</u> | <u>\$ 10,417,335</u> |

CITY OF LEAGUE CITY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2022

| | <u>General</u> | <u>Debt Service</u> | <u>Coronavirus State and Local Fiscal Recovery</u> | <u>Nonmajor Governmental</u> |
|--|----------------------|-------------------------|--|----------------------------------|
| <u>Assets</u> | | | | |
| Cash and equity in pooled cash | \$ 155,638 | \$ 833,674 | \$ 4,239,919 | \$ 40,886,417 |
| Investments | 23,442,022 | 2,322,094 | 5,684,906 | 73,505,841 |
| Receivables, net | 10,361,131 | 300,861 | 12,577 | 2,103,428 |
| Prepaid items | 364,091 | - | - | 67,859 |
| Leases receivable | 3,005,258 | - | - | - |
| Total Assets | \$ 37,328,140 | \$ 3,456,629 | \$ 9,937,402 | \$ 116,563,545 |
| <u>Liabilities</u> | | | | |
| Accounts payable and accrued liabilities | \$ 5,801,908 | \$ 40,778 | \$ 744,800 | \$ 5,907,170 |
| Customer deposits | 10,656 | - | - | 200 |
| Due to other funds | 410,895 | - | - | 660,508 |
| Unearned revenue | - | - | 9,166,655 | 43,723 |
| Total Liabilities | 6,223,459 | 40,778 | 9,911,455 | 6,611,601 |
| <u>Deferred Inflows of Resources</u> | | | | |
| Unavailable revenue - court fines and warrants | 1,071,670 | - | - | - |
| Unavailable revenue - property taxes | 718,603 | 298,960 | - | 20,253 |
| Unavailable revenue - leases | 2,907,854 | - | - | - |
| Total Deferred Inflows of Resources | 4,698,127 | 298,960 | - | 20,253 |
| <u>Fund Balances</u> | | | | |
| Nonspendable: | | | | |
| Prepaid items | 364,091 | - | - | 67,859 |
| Restricted for: | | | | |
| Debt service | - | 3,116,891 | - | - |
| Municipal court | - | - | - | 30,986 |
| Hotel occupancy tax | - | - | - | 1,016,277 |
| Public access channel | - | - | - | 1,038,589 |
| Grants | - | - | 25,947 | 866,133 |
| Tax increment reinvestment zone | - | - | - | 15,490,747 |
| Public improvement district | - | - | - | 2,787,671 |
| Capital projects | - | - | - | 56,644,577 |
| Assigned to: | | | | |
| Special projects | - | - | - | 4,865,418 |
| Capital projects | - | - | - | 27,127,064 |
| Unassigned | 26,042,463 | - | - | (3,630) |
| Total Fund Balances | 26,406,554 | 3,116,891 | 25,947 | 109,931,691 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 37,328,140 | \$ 3,456,629 | \$ 9,937,402 | \$ 116,563,545 |

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 46,115,648
104,954,863
12,777,997
431,950
3,005,258

\$ 167,285,716

\$ 12,494,656
10,856
1,071,403
9,210,378
22,787,293

1,071,670
1,037,816
2,907,854
5,017,340

431,950

3,116,891
30,986
1,016,277
1,038,589
892,080
15,490,747
2,787,671
56,644,577

4,865,418
27,127,064
26,038,833
139,481,083

\$ 167,285,716

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CITY OF LEAGUE CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2022

Total fund balances for governmental funds \$ 139,481,083

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, not reported in the governmental funds.

| | | |
|--|-------------|-------------|
| Capital assets - nondepreciable | 55,807,143 | |
| Capital assets - depreciable/amortizable | 399,499,284 | |
| | | 455,306,427 |

| | |
|--|-----------|
| Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds. | 2,109,486 |
|--|-----------|

| | |
|--|------------|
| Internal service funds are used by management to charge the costs of of certain capital assets to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position. | 12,231,162 |
|--|------------|

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

| | | |
|--|---------------|---------------|
| Accrued interest | (586,008) | |
| Noncurrent liabilities due in one year | (13,917,088) | |
| Noncurrent liabilities due in more than one year | (162,405,904) | |
| Deferred charge on refunding | 939,563 | |
| Deferred gain on refunding | (2,764,312) | |
| Deferred outflows - pension | 5,166,941 | |
| Deferred outflows - OPEB | 1,585,248 | |
| Deferred inflows - pension | (9,856,929) | |
| Deferred inflows - OPEB | (797,594) | |
| | | (182,636,083) |

| | |
|--|-----------------------|
| Net Position of Governmental Activities | \$ 426,492,075 |
|--|-----------------------|

See Notes to Financial Statements.

CITY OF LEAGUE CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2022

| | <u>General</u> | <u>Debt Service</u> | <u>Coronavirus State and Local Fiscal Recovery</u> | <u>Nonmajor Governmental</u> |
|--|----------------------|-------------------------|--|----------------------------------|
| Revenues | | | | |
| Ad valorem taxes | \$ 34,681,510 | \$ 11,107,597 | \$ - | \$ 2,878,204 |
| Sales taxes | 26,001,069 | - | - | 4,333,512 |
| Franchise fees | 5,619,639 | - | - | 271,805 |
| Other taxes | 456,587 | - | - | 789,897 |
| Assessments | - | - | - | 1,430,772 |
| Licenses and permits | 2,571,046 | - | - | - |
| Fines and forfeitures | 1,361,671 | - | - | 71,527 |
| Charges for services | 11,979,998 | - | - | 1,316,906 |
| Other revenue | 1,516,567 | - | - | 1,568,595 |
| Contributions | 2,068 | - | - | 1,780,313 |
| Investment earnings, net | (684,728) | (24,428) | 25,615 | (384,240) |
| Intergovernmental | 467,209 | - | 1,149,507 | 1,984,216 |
| Total Revenues | <u>83,972,636</u> | <u>11,083,169</u> | <u>1,175,122</u> | <u>16,041,507</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 15,891,884 | 841,850 | 39,724 | 2,256,166 |
| Public safety | 32,394,353 | - | 303,970 | 296,929 |
| Public works | 18,829,350 | - | 756,694 | 2,327,515 |
| Community services | 9,097,800 | - | 49,119 | 1,810,920 |
| Capital outlay | 795,495 | - | - | 21,912,239 |
| Debt service: | | | | |
| Principal | - | 8,979,311 | - | 1,190,535 |
| Interest and fiscal charges | - | 4,889,398 | - | 355,195 |
| Total Expenditures | <u>77,008,882</u> | <u>14,710,559</u> | <u>1,149,507</u> | <u>30,149,499</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>6,963,754</u> | <u>(3,627,390)</u> | <u>25,615</u> | <u>(14,107,992)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 4,283,239 | 3,000,000 | - | 13,911,968 |
| Transfers (out) | (12,111,968) | - | - | (4,810,000) |
| Sale of capital assets | 37,125 | - | - | - |
| Total Other Financing Sources (Uses) | <u>(7,791,604)</u> | <u>3,000,000</u> | <u>-</u> | <u>9,101,968</u> |
| Net Change in Fund Balances | (827,850) | (627,390) | 25,615 | (5,006,024) |
| Beginning fund balances | 27,234,404 | 3,744,281 | 332 | 114,937,715 |
| Ending Fund Balances | <u>\$ 26,406,554</u> | <u>\$ 3,116,891</u> | <u>\$ 25,947</u> | <u>\$ 109,931,691</u> |

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 48,667,311
30,334,581
5,891,444
1,246,484
1,430,772
2,571,046
1,433,198
13,296,904
3,085,162
1,782,381
(1,067,781)
3,600,932

112,272,434

19,029,624
32,995,252
21,913,559
10,957,839
22,707,734

10,169,846
5,244,593

123,018,447

(10,746,013)

21,195,207
(16,921,968)
37,125

4,310,364

(6,435,649)

145,916,732

\$ 139,481,083

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CITY OF LEAGUE CITY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022

| | |
|--|----------------------|
| Net changes in fund balances - total governmental funds | \$ (6,435,649) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Depreciation | (12,625,776) |
| Capital contributions | 31,802,045 |
| Capital outlay | 22,707,734 |
| Loss on disposal of capital assets | (144,753) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | |
| | (841,077) |
| The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. | |
| Principal repayments | 10,169,846 |
| Amortization of bond premiums | 1,360,973 |
| Amortization of deferred charges on refunding | (115,651) |
| Amortization of deferred gain on refunding | 294,280 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. | |
| Compensated absences | (346,607) |
| Total other postemployment benefits (OPEB) liability | (1,069,993) |
| Net pension liability | 7,332,553 |
| Deferred outflow - pensions | 1,174,845 |
| Deferred outflow - OPEB | 3,592 |
| Deferred inflow - pensions | (4,750,283) |
| Deferred inflow - OPEB | 135,300 |
| Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and employee insurance, to individual funds. The net revenue of internal service funds is reported with governmental activities. | |
| | 867,123 |
| Change in Net Position of Governmental Activities | \$ 49,518,502 |

See Notes to Financial Statements.

CITY OF LEAGUE CITY, TEXAS

STATEMENT OF NET POSITION PROPRIETARY FUNDS (Page 1 of 2)

September 30, 2022

| | Business-Type Activities Water and Wastewater | Governmental Activities Internal Service |
|--|--|---|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and equity in pooled cash | \$ 3,047,704 | \$ 5,378,045 |
| Investments | 20,757,759 | 7,007,142 |
| Receivables, net | 8,366,859 | 29,456 |
| Due from other funds | - | 1,071,403 |
| Inventories | 128,873 | 58,553 |
| Restricted cash and cash equivalents: | | |
| Customer deposits | 785,888 | - |
| Capital projects | 9,042,722 | - |
| Debt service | 3,260,954 | - |
| Restricted investments: | | |
| Capital projects | 18,568,007 | - |
| Debt service | 1,603,615 | - |
| Prepaid items | 217,904 | - |
| Leases receivable | 1,302,748 | - |
| Total Current Assets | 67,083,033 | 13,544,599 |
| Noncurrent assets: | | |
| Capital assets: | | |
| Nondepreciable | 61,037,043 | - |
| Net depreciable capital assets | 315,636,671 | 7,871,499 |
| Total Capital Assets, Net of Accumulated Depreciation | 376,673,714 | 7,871,499 |
| Total Noncurrent Assets | 376,673,714 | 7,871,499 |
| Total Assets | 443,756,747 | 21,416,098 |
| <u>Deferred Outflows of Resources</u> | | |
| Deferred charge on refunding | 1,170,091 | - |
| Deferred outflows - pensions | 851,638 | - |
| Deferred outflows - OPEB | 215,413 | - |
| Total Deferred Outflows of Resources | 2,237,142 | - |
| <u>Liabilities</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 3,580,052 | 765,819 |
| Accrued interest | 443,615 | - |
| Customer deposits | 2,041,061 | - |
| Compensated absences | 421,335 | - |
| Claims payable | - | 547,618 |
| Unearned revenue | 717,646 | - |
| Bonds, notes, and loans payable | 8,420,569 | - |
| Total Current Liabilities | 15,624,278 | 1,313,437 |
| Noncurrent liabilities: | | |
| Compensated absences | 249,196 | - |
| Total OPEB liability | 1,626,617 | - |
| Net pension liability | 984,259 | - |
| Bonds, notes, and loans payable | 114,883,864 | - |
| Total Noncurrent Liabilities | 117,743,936 | - |
| Total Liabilities | 133,368,214 | 1,313,437 |

CITY OF LEAGUE CITY, TEXAS

STATEMENT OF NET POSITION PROPRIETARY FUNDS (Page 2 of 2)

September 30, 2022

| | Business-Type Activities | Governmental Activities |
|---|-------------------------------------|------------------------------------|
| | Water and Wastewater | Internal Service |
| <u>Deferred Inflows of Resources</u> | | |
| Deferred gain on refunding | \$ 1,827,034 | \$ - |
| Deferred inflows - pensions | 1,537,198 | - |
| Deferred inflows - OPEB | 105,888 | - |
| Deferred inflow - leases | 1,276,197 | |
| Total Deferred Inflows of Resources | 4,746,317 | - |
| <u>Net Position</u> | | |
| Net investment in capital assets | 256,846,258 | 7,871,499 |
| Unrestricted | 51,033,100 | 12,231,162 |
| Total Net Position | \$ 307,879,358 | \$ 20,102,661 |

See Notes to Financial Statements.

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CITY OF LEAGUE CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

For the Year Ended September 30, 2022

| | Business-Type Activities | Governmental Activities |
|--|-------------------------------------|------------------------------------|
| | Water and Wastewater | Internal Service |
| <u>Operating Revenues</u> | | |
| Charges for services | \$ 41,776,868 | \$ 13,154,077 |
| Other | 3,131,639 | 147,167 |
| Total Operating Revenues | 44,908,507 | 13,301,244 |
| <u>Operating Expenses</u> | | |
| Personnel | 6,133,840 | 851,663 |
| Contractual services | 7,909,539 | 49,595 |
| Utilities | 1,455,073 | - |
| Insurance | - | 8,758,267 |
| Repairs and maintenance | 1,999,487 | 909,224 |
| Other supplies and expenses | 800,043 | 91,572 |
| Depreciation | 8,375,910 | 1,633,620 |
| Total Operating Expenses | 26,673,892 | 12,293,941 |
| Operating Income | 18,234,615 | 1,007,303 |
| <u>Nonoperating Revenues (Expenses)</u> | | |
| Investment earnings, net | (182,241) | (251,995) |
| Interest expense | (3,323,031) | - |
| Gain on disposal of capital assets | 7,202 | 111,815 |
| Total Nonoperating Revenues (Expenses) | (3,498,070) | (140,180) |
| Income Before Contributions and Transfers | 14,736,545 | 867,123 |
| <u>Contributions and Transfers</u> | | |
| Capital contributions | 10,813,900 | - |
| Transfers in (out) | (4,273,239) | - |
| Total Contributions and Transfers | 6,540,661 | - |
| Change in Net Position | 21,277,206 | 867,123 |
| Beginning net position | 286,602,152 | 19,235,538 |
| Ending Net Position | \$ 307,879,358 | \$ 20,102,661 |

See Notes to Financial Statements.

CITY OF LEAGUE CITY, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2022

| | Business-Type Activities | Governmental Activities |
|--|-------------------------------------|------------------------------------|
| | Water and Wastewater | Internal Service |
| <u>Cash Flows from Operating Activities</u> | | |
| Receipts from customers and users | \$ 45,026,894 | \$ 12,277,628 |
| Payments to suppliers | (13,342,887) | (10,502,410) |
| Payments to employees | (6,382,686) | (851,663) |
| Net Cash Provided by Operating Activities | 25,301,321 | 923,555 |
| <u>Cash Flows from Noncapital Financing Activities</u> | | |
| Transfers in (out) from other funds | (4,273,239) | - |
| Net Cash Provided (Used) by Noncapital Financing Activities | (4,273,239) | - |
| <u>Cash Flows from Capital and Related Financing Activities</u> | | |
| Principal payments on debt | (8,745,689) | - |
| Proceeds from debt issuance | 6,504,255 | - |
| Acquisition and construction of capital assets | (24,915,046) | (1,241,267) |
| Interest and fiscal charges | (5,134,988) | - |
| Proceeds from sale of capital assets | 7,202 | 100,541 |
| Net Cash (Used) by Capital and Related Financing Activities | (32,284,266) | (1,140,726) |
| <u>Cash Flows from Investing Activities</u> | | |
| Purchase of investments | (31,809,136) | (2,954,648) |
| Proceeds from investments | 8,766,614 | 2,330,394 |
| Investment earnings, net | (182,241) | (251,995) |
| Net Cash (Used) by Investing Activities | (23,224,763) | (876,249) |
| Net (Decrease) in Cash and Equivalents | (34,480,947) | (1,093,420) |
| Beginning cash and cash equivalents | 50,618,215 | 6,471,465 |
| Ending Cash and Cash Equivalents | \$ 16,137,268 | \$ 5,378,045 |
| Unrestricted Cash and Cash Equivalents | \$ 3,047,704 | \$ 5,378,045 |
| Restricted Cash and Cash Equivalents | 13,089,564 | - |
| Total Cash and Cash Equivalents | \$ 16,137,268 | \$ 5,378,045 |

CITY OF LEAGUE CITY, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2022

| | Business-Type Activities | Governmental Activities |
|--|-------------------------------------|------------------------------------|
| | Water and Wastewater | Internal Service |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | |
| Operating income | \$ 18,234,615 | \$ 1,007,303 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 8,375,910 | 1,633,620 |
| Changes in Operating Assets and Liabilities: | | |
| (Increase) Decrease in Assets: | | |
| Accounts receivable | (367,631) | 47,787 |
| Leases receivable | 90,249 | |
| Due from primary government | - | (1,071,403) |
| Inventories | 46,532 | (34,412) |
| Prepaid items | (18,595) | - |
| Deferred outflows | (199,351) | - |
| Increase (Decrease) in Liabilities: | | |
| Accounts payable and accrued liabilities | (1,206,682) | 226,820 |
| Claims payable | - | (886,160) |
| Compensated absences | 49,653 | - |
| Customer deposits | 395,769 | - |
| Total OPEB liability | 179,742 | - |
| Net pension liability | (1,219,706) | - |
| Unearned revenue | - | - |
| Deferred inflows | 940,816 | - |
| Net Cash Provided by Operating Activities | \$ 25,301,321 | \$ 923,555 |
| Noncash Capital Activities: | | |
| Capital assets contributed during the year | \$ 10,813,900 | \$ - |

See Notes to Financial Statements.

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CITY OF LEAGUE CITY, TEXAS
STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
September 30, 2022

| | 4B Industrial Development Corporation | Volunteer Fire Department | Total Discretely Presented Component Units |
|---|--|--|---|
| <u>Assets</u> | | | |
| Current Assets: | | | |
| Cash and equity in pooled cash | \$ 869,812 | \$ 105,470 | \$ 975,282 |
| Investments | 8,885,073 | - | 8,885,073 |
| Receivables, net | 756,661 | - | 756,661 |
| Restricted cash and cash equivalents | 247,718 | - | 247,718 |
| Total Assets | 10,759,264 | 105,470 | 10,864,734 |
| <u>Liabilities</u> | | | |
| Current Liabilities: | | | |
| Accounts payable and accrued liabilities | 447,399 | - | 447,399 |
| Total Liabilities | 447,399 | - | 447,399 |
| <u>Net Position</u> | | | |
| Unrestricted | 10,311,865 | 105,470 | 10,417,335 |
| Total Net Position | \$ 10,311,865 | \$ 105,470 | \$ 10,417,335 |

See Notes to Financial Statements.

CITY OF LEAGUE CITY, TEXAS
STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
For the Year Ended September 30, 2022

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | |
|---------------------------------------|---------------------|-----------------------------|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> |
| Component Units | | | |
| 4B Industrial Development Corporation | \$ 4,225,224 | \$ - | \$ - |
| Volunteer Fire Department | 23,928 | - | - |
| Total Component Units | <u>\$ 4,249,152</u> | <u>\$ -</u> | <u>\$ -</u> |

General Revenues:

Sales taxes
Contributions
Investment earnings, net

Total General Revenues

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

| 4B Industrial | | |
|--------------------------------|----------------------------------|----------------------|
| Development Corporation | Volunteer Fire Department | Total |
| \$ (4,225,224) | \$ - | \$ (4,225,224) |
| - | (23,928) | (23,928) |
| <u>(4,225,224)</u> | <u>(23,928)</u> | <u>(4,249,152)</u> |
| 4,333,512 | - | 4,333,512 |
| - | 33,109 | 33,109 |
| (32,441) | 20 | (32,421) |
| <u>4,301,071</u> | <u>33,129</u> | <u>4,334,200</u> |
| 75,847 | 9,201 | 85,048 |
| <u>10,236,018</u> | <u>96,269</u> | <u>10,332,287</u> |
| <u>\$ 10,311,865</u> | <u>\$ 105,470</u> | <u>\$ 10,417,335</u> |

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CITY OF LEAGUE CITY, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

Discretely Presented Component Units

The aggregate governmental discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

City of League City Section 4B Industrial Development Corporation

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

League City Volunteer Fire Department

The League City Volunteer Fire Department was established for the purpose of organizing and maintaining fire companies, providing free fire protection to the citizens of the City. A budget is approved annually to provide fire protection to the citizens of the City. In fiscal year 2011, the City hired a full-time fire chief, who provides leadership and direction for the volunteer fire department and the volunteers.

Blended Component Units

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

City of League City Tax Increment Reinvestment Zone (TIRZ) No. Two – Victory Lakes

Five of the seven members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The Clear Creek Independent School District (the “School District”) is a participant in this TIRZ and appoints one member to the Board. The County of Galveston (the “County”) is also a participant and appoints the remaining member of the Board. This entity was created to provide the financing and management tool needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ Board also oversees the operations of the Public Improvement District created in conjunction with the TIRZ. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs. On January 24, 2017, the City Council approved a resolution to amend the interlocal agreements between the City, the TIRZ, the School District and the County. These amendments will discontinue the participation of the School District and the County in the TIRZ. The City will continue to participate in the TIRZ until the final projects which the City is funding are complete.

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

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

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

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

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

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

The TIRZ Board oversees the operations of the PID created in conjunction with the TIRZ. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

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

The TIRZ Board oversees the operations of the PID created in conjunction with the TIRZ. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

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

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

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

TIRZ No. One, a previous component unit of the City, was dissolved during fiscal year 2010. TIRZ No. Three, also a previous component unit of the City, was dissolved during fiscal year 2020. The remaining funds from these component units are to be used by the City to complete certain infrastructure improvements within the TIRZ.

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

Not included as part of the City's reporting entity are 12 municipal utility districts (MUDs). The City acts as an "operator" of the facilities. The City rebates two of the MUDs from 35 to 40 percent of taxes levied and collected within the MUDs but does not guarantee the debt of the MUDs. The MUDs' Boards of Directors are elected officials and the City exercises no control over the Boards of Directors. The MUDs construct the facilities and issue bonds to finance such facilities. The MUDs release their security interest in the facilities to the City, and the City operates and maintains the systems. Galveston County MUD #13 was dissolved during fiscal year 2017. Galveston County MUD

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

#3, South Shore Harbour MUD #2, and South Shore Harbour MUD #3 were dissolved during fiscal years 2014, 2012, and 2011, respectively. The City has taken over the debt of these entities.

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

B. Government-Wide Financial Statements

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

C. 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 and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

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

D. 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.

The City reports the following governmental funds:

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, and franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and community services. The general fund is always considered a major fund for reporting purposes.

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

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Coronavirus State and Local Fiscal Recovery fund is considered a major fund and the remaining special revenue funds are considered nonmajor funds for reporting purposes.

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

The City reports the following enterprise fund:

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

Additionally, the City reports the following fund type:

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

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

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

E. Measurement Focus and Basis of Accounting

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

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

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

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

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

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

1. Cash and Cash Equivalents

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

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

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

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

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

3. Inventories and Prepaid Items

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

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

4. 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.

5. 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 government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with 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.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

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

| <u>Asset Description</u> | <u>Estimated Useful Life</u> |
|----------------------------|------------------------------|
| Buildings and improvements | 30 years |
| Equipment | 5 years |
| Heavy equipment | 20 years |
| Water rights | 50 years |
| Water and sewer system | 50 years |
| Infrastructure | 50 years |

6. Deferred Outflows/Inflows of Resources

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

Deferred outflows/inflows of resources are amortized as follows:

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

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

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

7. Compensated Employee Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accrual rates for all regular full-time employees, excluding Civil Service and Emergency Medical Service employees shall accrue the following hours of vacation.

| Length of Service (Months) | Maximum Vacation Leave Accrual |
|-------------------------------|---|
| 1-4 years | 160 hours |
| 5-9 years | 240 hours |
| 10-14 years | 320 hours |
| 15-19 years | 400 hours |
| Over 20 years | 480 hours |

Regular full-time employees hired after August 1, 2015 will have an annual cap of 20 work days beginning on their fifteenth year of employment with the City. Regular full-time employees hired prior to August 1, 2015 will have an annual cap of 30 work days beginning on their twentieth year of employment with the City. Unused vacation accumulated, up to certain amounts, may be paid to employees upon termination of employment. Vacation leave accruals in excess of two years’ accrual will be forfeited at the end of the calendar year.

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

8. Long-Term Obligations

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

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

9. 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.

10. Fund Balance Flow Assumptions

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

11. Fund Balance Policies

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment. The City has adopted a policy to maintain a minimum fund balance assigned for operating reserves in the general fund of 110 days of the current year operating expenditures. Fund balances are assigned or restricted in the special revenue funds based on the designated purpose of each fund.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

12. Estimates

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

13. Pensions

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

14. Other Postemployment Benefits

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

15. Leases

The City is a lessee for noncancellable leases for land. 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 lease liabilities and lease assets 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.

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.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

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.

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 governmental 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.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property 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.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund and internal service funds are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

cost of connecting new customers to the system. Operating expenses for the enterprise fund and internal service 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.

II. 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. In addition, the following special revenue funds do not have an adopted budget: Community Development Block Grant (CDBG); CDBG Disaster Recovery Voluntary Buyout; Coastal Management; Coronavirus Relief; Hazard Mitigation Grant Program, Texas Division of Emergency Management Disaster Recovery; Federal Emergency Management Agency (FEMA) Winter Storm Uri; CDBG Disaster Recovery Hurricane Harvey; COVID FEMA Public Assistance, FEMA Hurricane Harvey; Coronavirus State and Local Fiscal Recovery; FEMA Hurricane Nicholas; TIRZ No. One, Two, Three, and Four; PID No. One, Two, Three, and Five; Galveston County MUD No. Two; Municipal Court Time Payment Reimbursement Fee; and Special Assessments. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget, as defined by the charter, is at the department level for all funds. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2022.

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

A. Deficit Fund Balances

At September 30, 2022, the CDBG and CDBG Disaster Recovery Hurricane Harvey funds had a negative fund balance of \$1,011 and \$2,619, respectively. The City plans to request reimbursement for expenditures during fiscal year 2023 to offset the deficits.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments.

As of September 30, 2022, the City had the following investments:

| <u>Investment Type</u> | <u>Primary Government</u> | <u>Component Unit</u> | <u>Total</u> | <u>Weighted Average Maturity (Years)</u> |
|---|---------------------------|-----------------------|-----------------------|--|
| Investments measured at amortized cost: | | | | |
| External investment pools: | | | | |
| TexPool | \$ 13,400,493 | \$ 247,718 | \$ 13,648,211 | 0.07 |
| TexSTAR | 15,097,668 | - | 15,097,668 | 0.04 |
| Texas CLASS | 14,936,591 | - | 14,936,591 | 0.07 |
| Lone Star | 3,206,178 | - | 3,206,178 | 0.02 |
| Money market funds | 168,480 | - | 168,480 | 1.14 |
| Certificates of deposit | 29,380,268 | 3,010,078 | 32,390,346 | 0.44 |
| U.S. Government Agency Bonds/Notes | 122,920,412 | 5,874,996 | 128,795,408 | 1.15 |
| Municipal bonds | 590,706 | - | 590,706 | 1.38 |
| | <u>199,700,796</u> | <u>9,132,792</u> | <u>208,833,588</u> | |
| Cash deposits | 20,821,551 | 975,281 | 21,796,832 | |
| Total Portfolio | <u>\$ 220,522,347</u> | <u>\$ 10,108,073</u> | <u>\$ 230,630,420</u> | |
| Portfolio weighted average maturity | | | | 0.80 |

Fair Value Measurements

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

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

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

| | September 30, 2022 | | Fair Value Measurements | |
|--|-----------------------|---------------------|--|---|
| | | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| | Primary Government | Component Unit | | |
| Investments by Fair Value Level | | | | |
| U.S. Government Agency Bonds/Notes: | | | | |
| Federal Home Loan Bank | \$ 15,394,107 | \$ 992,478 | \$ - | \$ 16,386,585 |
| Federal Home Loan Mortgage Corporation | 15,385,912 | - | - | 15,385,912 |
| Federal Farm Credit Bank | 12,225,784 | - | - | 12,225,784 |
| Federal National Mortgage Association | 4,523,112 | - | - | 4,523,112 |
| Treasury Notes | 75,391,497 | 4,882,518 | - | 80,274,015 |
| Municipal Bonds | 590,706 | - | - | 590,706 |
| Money market funds | 168,480 | - | 168,480 | - |
| Total | \$ 123,679,598 | \$ 5,874,996 | \$ 168,480 | \$ 129,386,114 |

U. S. Government agency bonds and notes and municipal bonds are classified in Level Two of the fair value hierarchy and are valued using the market approach. Money market funds are classified in Level One of the fair value hierarchy and are also valued using the market approach.

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 policy requires that investment pools must be rated no lower than “AAA” or “AAAm”. Bankers’ acceptances must be issued in the United States and carry a rating of “A1/P1” as provided by two of the top nationally recognized rating agencies. As of September 30, 2022, the City’s investments in investment pools were rated “AAAm” or “AAA” by Standard & Poor’s. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency. More specifically, the U.S. agency securities held by the City as of September 30, 2022, consist of a variety of bonds and discount notes issued by the Federal Home Loan Bank, the Federal Farm Credit Bank, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation. These investments were rated not less than ‘AAA’ by both Moody’s and Standard & Poor’s.

Custodial credit risk – deposits. In the case of deposits, this is the risk that the City’s deposits may not be returned in the event of a bank failure. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2022, fair market values of pledged securities and FDIC coverage exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that 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 in the event of the failure of the counterparty. The City’s investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

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. Finally, Standard & Poor's rates TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

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

TexSTAR

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

TexSTAR is measured at amortized cost. TexSTAR's strategy is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The City has no unfunded commitments related to TexSTAR. TexSTAR has a redemption notice period of one day and may redeem daily. TexSTAR'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 or state emergency that affects TexSTAR's liquidity.

Texas CLASS

The Texas Cooperative Liquid Assets Securities System Trust (CLASS) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. CLASS is created under an amended and restated trust agreement, dated as of December 14, 2011 (the "Agreement"), among certain Texas governmental entities investing in CLASS (the "Participants"), with Cutwater Investor Services Corporation as program administrator and Wells Fargo Bank Texas, NA as custodian. CLASS is not SEC registered and is not subject to regulation by the State. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the "Board"), whose members are investment officers of the Participants, elected by

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained from CLASS' website at www.texasclass.com.

Lone Star

The Lone Star Investment Pool ("Lone Star") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards, with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the Board of Trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and nonmembers. Lone Star is rated 'AAA' by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The City is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of \$1.00. Lone Star has 3 different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. Government Overnight, Corporate Overnight, and Corporate Overnight Plus maintain a net asset value of \$1.00.

B. Receivables

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

| | General | Debt Service | Coronavirus State and Local Fiscal Recovery | Nonmajor | Water and Wastewater | Internal Service |
|-------------------|--|---------------------|--|---------------------|---------------------------------|-----------------------------|
| Ad valorem taxes | \$ 1,114,780 | \$ 483,622 | \$ - | \$ 1,529 | \$ - | \$ - |
| Other taxes | 6,112,446 | - | - | 1,050,330 | - | - |
| Accounts | 8,230,669 | - | - | 437,084 | 8,902,147 | 12,079 |
| Intergovernmental | 26,279 | - | - | 266,755 | - | - |
| Other | 29,262 | 1,901 | 12,577 | 367,932 | 185,432 | 21,652 |
| Less allowance | (5,152,305) | (184,662) | - | (20,202) | (720,720) | (4,275) |
| Total | \$ 10,361,131 | \$ 300,861 | \$ 12,577 | \$ 2,103,428 | \$ 8,366,859 | \$ 29,456 |
| | 4B Industrial Development Corporation | | | | | |
| Other taxes | \$ 743,817 | | | | | |
| Other | 12,844 | | | | | |
| Total | \$ 756,661 | | | | | |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

C. Leases Receivable

The City has entered into several lease agreements (the “Agreements”) as a lessor for the use of their towers and land located throughout the City with the lessee monitoring communication signals on the towers. The City has also entered into lease agreements for the use of their recreational athletic facility. The Agreements range from 180 to 600 months after extension options in which it is reasonably certain that these options will be exercised. An initial lease receivable and deferred inflow of resources from leases are recorded in the amount of \$1,228,471 for governmental activities and \$1,392,997 for business-type activities at the beginning of the fiscal year. As of September 30, 2022 the value of the leases receivable is \$3,005,258 for governmental activities and \$1,302,747 for business-type activities. Governmental activities included an addition of \$2,175,997 during the current year for a lease with Big League Dreams for the use of the City’s recreational athletic facility. The interest rate on the leases receivable is based on the City’s incremental borrowing rate for the terms of the Agreements and range from 0.26% to 2.40%. The lease revenue that was recorded with charges for services for fiscal year 2022 was \$496,614 for governmental activities and \$152,458 for business-type activities which equals the amount that was amortized for deferred inflows of resources for leases in the current year. The amount recorded for interest revenue for leases receivable was \$58,432 for governmental activities and \$20,307 for business type activities. The remaining principal and interest payments along with the amortization of the deferred inflow of resources from the Agreements are as follows:

| Fiscal Year Ending Sep. 30 | Governmental Activities | | | Amortization of Deferred Inflows |
|----------------------------------|-------------------------|-------------------|---------------------|--|
| | Principal | Interest | Total | |
| 2023 | \$ 401,348 | 58,496 | \$ 459,844 | \$ 496,614 |
| 2024 | 461,621 | 50,019 | 511,640 | 496,614 |
| 2025 | 523,163 | 40,325 | 563,488 | 496,614 |
| 2026 | 586,003 | 29,390 | 615,393 | 496,614 |
| 2027 | 45,653 | 21,702 | 67,355 | 61,415 |
| 2028-2032 | 275,183 | 93,143 | 368,326 | 307,074 |
| 2033-2037 | 349,312 | 61,493 | 410,805 | 303,953 |
| 2038-2042 | 94,949 | 36,614 | 131,563 | 88,029 |
| 2043-2047 | 74,549 | 28,838 | 103,387 | 56,137 |
| 2048-2052 | 100,456 | 18,659 | 119,115 | 56,137 |
| 2053-2056 | 93,021 | 5,653 | 98,674 | 48,653 |
| Total | \$ 3,005,258 | \$ 444,332 | \$ 3,449,590 | \$ 2,907,854 |

| Fiscal Year Ending Sep. 30 | Business-Type Activities | | | Amortization of Deferred Inflows |
|----------------------------------|--------------------------|-------------------|---------------------|--|
| | Principal | Interest | Total | |
| 2023 | \$ 94,862 | 19,331 | \$ 114,193 | \$ 116,801 |
| 2024 | 99,729 | 17,889 | 117,618 | 116,801 |
| 2025 | 104,870 | 16,277 | 121,147 | 116,801 |
| 2026 | 110,150 | 14,631 | 124,781 | 116,801 |
| 2027 | 115,622 | 12,903 | 128,525 | 116,801 |
| 2028-2032 | 611,293 | 35,918 | 647,211 | 550,691 |
| 2033-2035 | 166,222 | 2,521 | 168,743 | 141,501 |
| Total | \$ 1,302,748 | \$ 119,470 | \$ 1,422,218 | \$ 1,276,197 |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

D. Capital Assets

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

| | Primary Government | | | Ending Balance |
|---|-----------------------|----------------------|------------------------|-----------------------|
| | Beginning Balance | Increases | (Decreases) | |
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 23,095,015 | \$ 14,108 | \$ - | \$ 23,109,123 |
| Construction in progress | 29,843,177 | 23,582,947 | (20,728,104) | 32,698,020 |
| Total capital assets not being depreciated | <u>52,938,192</u> | <u>23,597,055</u> | <u>(20,728,104)</u> | <u>55,807,143</u> |
| Other capital assets | | | | |
| Infrastructure | 485,784,713 | 49,630,424 | - | 535,415,137 |
| Buildings and improvements | 96,250,980 | 350,456 | - | 96,601,436 |
| Machinery and equipment | 48,067,794 | 2,772,823 | (992,226) | 49,848,391 |
| Right-to-use asset | 139,666 | - | - | 139,666 |
| Total other capital assets | <u>630,243,153</u> | <u>52,753,703</u> | <u>(992,226)</u> | <u>682,004,630</u> |
| Less accumulated depreciation/amortization for: | | | | |
| Infrastructure | (198,256,903) | (9,191,023) | - | (207,447,926) |
| Buildings and improvements | (37,596,854) | (2,187,549) | - | (39,784,403) |
| Machinery and equipment | (33,379,332) | (2,866,122) | 987,139 | (35,258,315) |
| Right-to-use asset | - | (14,702) | - | (14,702) |
| Total accumulated depreciation/amortization | <u>(269,233,089)</u> | <u>(14,259,396)</u> | <u>987,139</u> | <u>(282,505,346)</u> |
| Other capital assets, net | <u>361,010,064</u> | <u>38,494,307</u> | <u>(5,087)</u> | <u>399,499,284</u> |
| Governmental Activities | | | | |
| Capital Assets, Net | <u>\$ 413,948,256</u> | <u>\$ 62,091,362</u> | <u>\$ (20,733,191)</u> | <u>455,306,427</u> |
| | | | | (149,250,029) |
| | | | | (2,764,312) |
| | | | | 939,563 |
| | | | | 49,461,964 |
| | | | | <u>\$ 353,693,613</u> |

All capital assets constructed or paid for with funds of the component units are titled in the City's name. Accordingly, component unit capital assets and construction in progress are recorded in the governmental activities totals.

Depreciation was charged to governmental functions as follows:

| | |
|--|----------------------|
| General government | \$ 318,605 |
| Public safety | 2,931,974 |
| Public works | 9,484,614 |
| Community services | 1,524,203 |
| Total Governmental Activities Depreciation/Amortization Expense | <u>\$ 14,259,396</u> |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

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

| | Beginning Balance | Increases | (Decreases) | Ending Balance |
|---|------------------------------|----------------------|---|---------------------------|
| Business-Type Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,956,427 | \$ | \$ - | \$ 3,956,427 |
| Construction in progress | 36,045,821 | 25,490,832 | (4,456,037) | 57,080,616 |
| Total capital assets not being depreciated | 40,002,248 | 25,490,832 | (4,456,037) | 61,037,043 |
| Other capital assets | | | | |
| Infrastructure | 385,658,793 | 14,583,763 | - | 400,242,556 |
| Water rights | 15,935,386 | - | - | 15,935,386 |
| Buildings and improvements | 594,675 | - | - | 594,675 |
| Machinery and equipment | 7,879,392 | 110,391 | (22,963) | 7,966,820 |
| Total other capital assets | 410,068,246 | 14,694,154 | (22,963) | 424,739,437 |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (86,693,625) | (7,973,942) | - | (94,667,567) |
| Water rights | (5,999,317) | (299,406) | - | (6,298,723) |
| Buildings and improvements | (474,708) | (7,921) | - | (482,629) |
| Machinery and equipment | (7,582,166) | (94,644) | 22,963 | (7,653,847) |
| Total accumulated depreciation | (100,749,816) | (8,375,913) | 22,963 | (109,102,766) |
| Other capital assets, net | 309,318,430 | 6,318,241 | - | 315,636,671 |
| Business-Type Activities Capital Assets, Net | \$ 349,320,678 | \$ 31,809,073 | \$ (4,456,037) | 376,673,714 |
| | | | Less associated debt | (123,304,433) |
| | | | Less deferred gain on refunding | (1,827,034) |
| | | | Plus deferred charge on refunding | 1,170,091 |
| | | | Plus unspent bond proceeds | 4,133,920 |
| | | | Net Investment in Capital Assets | \$ 256,846,258 |

Depreciation was charged to business-type functions as follows:

| | |
|--|---------------------|
| Water and sewer | \$ 8,375,913 |
| Total Business-Type Activities Depreciation Expense | \$ 8,375,913 |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

E. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities as of year end. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
|--------------------------------------|------------------------------|---------------------|------------------------|---------------------------|--|
| Governmental Activities: | | | | | |
| Bonds, notes, and other payables: | | | | | |
| General obligation bonds | \$ 116,560,312 | \$ - | \$ (8,074,311) | \$ 108,486,001 | * \$ 8,139,431 |
| Certificates of obligation | 26,575,000 | - | (1,660,000) | 24,915,000 | * 1,690,000 |
| Direct placement | 825,000 | - | (420,000) | 405,000 | * 270,000 |
| Lease payable | 139,666 | - | (15,535) | 124,131 | * 14,707 |
| Unamortized premiums and discounts | 16,680,870 | - | (1,360,973) | 15,319,897 | * - |
| | <u>160,780,848</u> | <u>-</u> | <u>(11,530,819)</u> | <u>149,250,029</u> | <u>10,114,138</u> |
| Other liabilities: | | | | | |
| Compensated absences | 6,127,649 | 4,689,644 | (4,343,037) | 6,474,256 | 3,802,950 |
| Net pension liability | 15,602,004 | - | (7,332,553) | 8,269,451 | - |
| Total OPEB liability | 11,259,263 | 1,069,993 | - | 12,329,256 | - |
| Total Governmental Activities | <u>\$ 193,769,764</u> | <u>\$ 5,759,637</u> | <u>\$ (23,206,409)</u> | <u>\$ 176,322,992</u> | <u>\$ 13,917,088</u> |

Long-term debt due in more than one year \$ 162,405,904

*** Debt associated with governmental activity capital assets** \$ 149,250,029

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
|---------------------------------------|------------------------------|----------------------|------------------------|---------------------------|--|
| Business-Type Activities: | | | | | |
| General obligation bonds | \$ 55,434,688 | \$ 24,185,000 | \$ (5,515,689) | \$ 74,103,999 | ** \$ 6,535,569 |
| Certificates of obligation | 61,830,000 | - | (31,890,000) | 29,940,000 | ** 1,670,000 |
| Contract revenue bonds | - | 5,985,000 | (155,000) | 5,830,000 | ** 215,000 |
| Unamortized premiums and discounts | 10,093,136 | 5,890,994 | (2,553,696) | 13,430,434 | ** - |
| | <u>127,357,824</u> | <u>36,060,994</u> | <u>(40,114,385)</u> | <u>123,304,433</u> | <u>8,420,569</u> |
| Other liabilities: | | | | | |
| Compensated absences | 620,878 | 459,920 | (410,267) | 670,531 | 421,335 |
| Net pension liability | 2,203,965 | - | (1,219,706) | 984,259 | - |
| Total OPEB liability | 1,446,875 | 179,742 | - | 1,626,617 | - |
| Total Business-Type Activities | <u>\$ 131,629,542</u> | <u>\$ 36,700,656</u> | <u>\$ (41,744,358)</u> | <u>\$ 126,585,840</u> | <u>\$ 8,841,904</u> |

Long-term debt due in more than one year \$ 117,743,936

**** Debt associated with business-type activity capital assets** \$ 123,304,433

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

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

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

Governmental Activities:

| Series | Original Issue | Interest Rate | Balance |
|--|----------------|----------------|-----------------------|
| General Obligation Bonds | | | |
| 2011A General Obligation Refunding Bonds | \$ 6,975,000 | 3.00% to 5.00% | \$ 1,745,000 |
| 2013 General Obligation Refunding Bonds | \$ 13,819,988 | 2.00% to 4.00% | 3,840,000 |
| 2016 General Obligation Refunding Bonds | \$ 12,900,000 | 3.00% to 5.00% | 9,270,000 |
| 2016A General Obligation Refunding Bonds | \$ 2,835,000 | 2.00% to 5.00% | 1,455,000 |
| 2019 General Obligation Refunding* and Improvement Bonds | \$ 28,770,000 | 3.75% to 5.00% | 25,000,000 |
| 2020 General Obligation Improvement Bonds | \$ 27,125,000 | 2.00% to 4.00% | 25,155,000 |
| 2020 General Obligation Refunding and Improvement Bonds | \$ 22,610,312 | 3.00% to 5.00% | 20,311,001 |
| 2021 General Obligation Improvement Bonds | \$ 22,455,000 | 3.00% to 5.00% | 21,710,000 |
| Total General Obligation Bonds | | | 108,486,001 |
| Certificates of Obligation | | | |
| 2010 Tax and Revenue Certificates of Obligation * | \$ 10,000,000 | 3.25% to 5.00% | 280,000 |
| 2015 Tax and Revenue Certificates of Obligation | \$ 3,020,000 | 3.63% to 5.00% | 2,235,000 |
| 2016 Tax and Revenue Certificates of Obligation | \$ 8,970,000 | 2.13% to 5.00% | 7,020,000 |
| 2017 Tax and Revenue Certificates of Obligation | \$ 8,730,000 | 3.00% to 5.00% | 6,465,000 |
| 2018 Tax and Revenue Certificates of Obligation | \$ 11,165,000 | 3.13% to 5.00% | 8,915,000 |
| Total Certificates of Obligation | | | 24,915,000 |
| Direct Placement | | | |
| 2013A General Obligation Refunding Bonds * | \$ 2,190,000 | 2.00% to 4.00% | 220,000 |
| 2014A General Obligation Refunding Bonds * | \$ 3,200,000 | 2.00% to 4.00% | 185,000 |
| Total Direct Placement | | | 405,000 |
| Lease Payable | | | |
| Land | | 1.53% to 1.53% | 124,131 |
| Total Governmental Activities Long-Term Debt | | | \$ 133,930,132 |

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

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

Business-Type Activities:

| Series | Original Issue | Interest Rate | Balance |
|--|---|----------------|-----------------------|
| General Obligation Bonds | | | |
| 2011A General Obligation Refunding Bonds | \$ 4,705,000 | 3.00% to 5.00% | \$ 1,350,000 |
| 2015 General Obligation Refunding Bonds | \$ 17,605,000 | 3.00% to 5.00% | 8,540,000 |
| 2016 General Obligation Refunding Bonds | \$ 16,355,000 | 3.00% to 5.00% | 13,340,000 |
| 2016A General Obligation Refunding Bonds | \$ 12,155,000 | 2.00% to 5.00% | 8,740,000 |
| 2019 General Obligation Refunding* and Improvement Bonds | \$ 6,845,000 | 3.75% to 5.00% | 5,735,000 |
| 2020 General Obligation Improvement Bonds | \$ 13,719,688 | 3.00% to 5.00% | 12,213,999 |
| 2021 General Obligation Refunding Bonds | \$ 24,185,000 | 3.38% to 5.00% | 24,185,000 |
| | Total General Obligation Bonds | | <u>74,103,999</u> |
| Certificates of Obligation | | | |
| 2015 Tax and Revenue Certificates of Obligation | \$ 14,425,000 | 3.63% to 5.00% | 10,690,000 |
| 2016 Tax and Revenue Certificates of Obligation | \$ 3,645,000 | 2.13% to 5.00% | 2,855,000 |
| 2017 Tax and Revenue Certificates of Obligation | \$ 7,905,000 | 3.00% to 5.00% | 5,440,000 |
| 2021 Tax and Revenue Certificates of Obligation | \$ 11,330,000 | 3.00% to 5.00% | 10,955,000 |
| | Total Certificates of Obligation | | <u>29,940,000</u> |
| Contract Revenue Bonds | | | |
| 2021 GCWA Contract Revenue Bonds | 5,985,000 | 3.00% to 4.00% | 5,830,000 |
| | Total Contract Revenue Bonds | | <u>5,830,000</u> |
| Total Business-Type Activities Long-Term Debt | | | <u>\$ 109,873,999</u> |

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

General Obligation Bonds

During the fiscal year, the City issued \$24,185,000 of General Obligation Refunding (the "Refunding Bonds") Series 2021. The Refunding Bonds will be used to provide resources for all future debt service payments of \$28,815,000 for Combination Tax and Revenue Certificate of Obligations, Series 2011A. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price of the old debt exceeded the net carrying value by \$571,262. This amount is being amortized over the remaining life of the existing debt which is equal to the life of the new debt. This current refunding was undertaken to reduce total debt service payments over the next nine years by \$5,456,438 and resulted in an economic gain of \$5,103,621.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

The annual requirements to amortize general obligation bonds outstanding at year end are as follows:

| Fiscal Year Ending Sep. 30 | Governmental Activities | | | Business-Type Activities | | |
|----------------------------------|-------------------------|----------------------|-----------------------|--------------------------|----------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2023 | \$ 8,139,431 | \$ 3,911,699 | \$ 12,051,130 | \$ 6,535,569 | \$ 2,990,590 | \$ 9,526,159 |
| 2024 | 7,894,967 | 3,563,520 | 11,458,487 | 6,900,033 | 2,687,468 | 9,587,501 |
| 2025 | 8,171,603 | 3,199,396 | 11,370,999 | 7,253,397 | 2,358,597 | 9,611,994 |
| 2026 | 7,825,000 | 2,825,328 | 10,650,328 | 6,700,000 | 2,013,597 | 8,713,597 |
| 2027 | 7,735,000 | 2,473,219 | 10,208,219 | 7,050,000 | 1,690,732 | 8,740,732 |
| 2028-2032 | 35,090,000 | 7,569,524 | 42,659,524 | 35,485,000 | 3,521,476 | 39,006,476 |
| 2033-2037 | 20,205,000 | 3,110,903 | 23,315,903 | 4,180,000 | 113,784 | 4,293,784 |
| 2038-2041 | 13,425,000 | 586,050 | 14,011,050 | - | - | - |
| Total | \$ 108,486,001 | \$ 27,239,639 | \$ 135,725,640 | \$ 74,103,999 | \$ 15,376,244 | \$ 89,480,243 |

The annual requirements to amortize certificates of obligation outstanding at year end are as follows:

| Fiscal Year Ending Sep. 30 | Governmental Activities | | | Business-Type Activities | | |
|----------------------------------|-------------------------|---------------------|----------------------|--------------------------|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2023 | \$ 1,690,000 | \$ 920,929 | \$ 2,610,929 | \$ 1,670,000 | \$ 1,067,799 | \$ 2,737,799 |
| 2024 | 1,740,000 | 836,779 | 2,576,779 | 1,445,000 | 989,924 | 2,434,924 |
| 2025 | 1,635,000 | 750,229 | 2,385,229 | 1,490,000 | 916,548 | 2,406,548 |
| 2026 | 1,675,000 | 669,029 | 2,344,029 | 1,855,000 | 840,374 | 2,695,374 |
| 2027 | 1,715,000 | 587,429 | 2,302,429 | 1,910,000 | 761,349 | 2,671,349 |
| 2028-2032 | 9,055,000 | 1,990,474 | 11,045,474 | 9,095,000 | 2,815,856 | 11,910,856 |
| 2033-2037 | 6,850,000 | 636,127 | 7,486,127 | 9,525,000 | 1,096,202 | 10,621,202 |
| 2038-2041 | 555,000 | 10,406 | 565,406 | 2,950,000 | 180,300 | 3,130,300 |
| Total | \$ 24,915,000 | \$ 6,401,402 | \$ 31,316,402 | \$ 29,940,000 | \$ 8,668,352 | \$ 38,608,352 |

The annual requirements to amortize direct placement bonds outstanding at year end are as follows:

| Fiscal Year Ending Sep. 30 | Governmental Activities | | |
|----------------------------------|-------------------------|-----------------|-------------------|
| | Principal | Interest | Total |
| 2023 | \$ 270,000 | \$ 5,727 | \$ 275,727 |
| 2024 | 65,000 | 2,265 | 67,265 |
| 2025 | 50,000 | 994 | 50,994 |
| 2026 | 20,000 | 221 | 20,221 |
| Total | \$ 405,000 | \$ 9,207 | \$ 414,207 |

Contract Revenue Bonds

Per contract agreements with the City and the Gulf Coast Water Authority (GCWA), the GCWA issued Revenue Bonds (City of League City Project – Southeast Transmission Line), Series 2021 (the “Bonds”) during the current year in the amount of \$5,985,000. Proceeds from the Bonds will be used to fund a portion of the cost of capacity in a larger diameter water transmission line in order to help ensure sufficient transmission capacity to supply the future water needs of the City from the City of Houston’s Southeast Water Purification Plant as it may be expanded from time to time, a debt service reserve fund, and the costs of issuance of the Bonds. Per contract agreements the City is required to make monthly principal and interest payments to the GCWA until the debt obligation is satisfied.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

The annual requirements to amortize contract revenue bonds outstanding at year end are as follows:

| Fiscal Year Ending Sep. 30 | Business-Type Activities | | |
|----------------------------------|--------------------------|---------------------|---------------------|
| | Principal | Interest | Total |
| 2023 | \$ 215,000 | \$ 200,750 | \$ 415,750 |
| 2024 | 225,000 | 192,150 | 417,150 |
| 2025 | 235,000 | 183,150 | 418,150 |
| 2026 | 245,000 | 173,750 | 418,750 |
| 2027 | 250,000 | 163,950 | 413,950 |
| 2028-2032 | 1,415,000 | 661,150 | 2,076,150 |
| 2033-2037 | 1,700,000 | 387,750 | 2,087,750 |
| 2038-2041 | 1,545,000 | 117,600 | 1,662,600 |
| Total | \$ 5,830,000 | \$ 2,080,250 | \$ 7,910,250 |

Leases Payable

The City has entered into lease agreements as lessee for the use of land. An initial lease liability and right-to-use assets were recorded in the amount of \$139,666 at the beginning of the fiscal year. As of September 30, 2022, the value of the lease liability was \$124,131. The City is required to make monthly payments of \$1,383. The leases interest rates are based on the incremental borrowing rate of 1.53%. In addition, the City's right-to-use lease assets will be amortized using a straight-line basis over the remaining term of the leases. The value of the right-to-use assets as of the end of the current fiscal year was \$139,666 and had accumulated amortization of \$14,702. The future principal and interest payments as of September 30, 2022 for governmental activities are as follows:

| Fiscal Year Ending Sep. 30 | Governmental Activities | | |
|----------------------------------|-------------------------|-----------------|-------------------|
| | Principal | Interest | Total |
| 2023 | \$ 14,707 | \$ 1,893 | \$ 16,600 |
| 2024 | 14,931 | 1,669 | 16,600 |
| 2025 | 15,159 | 1,441 | 16,600 |
| 2026 | 15,390 | 1,210 | 16,600 |
| 2027 | 15,625 | 975 | 16,600 |
| 2028-2031 | 48,319 | 1,481 | 49,800 |
| Total | \$ 124,131 | \$ 8,669 | \$ 132,800 |

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

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds is from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

As of September 30, 2022, the City has \$69,606,250 of authorized but unissued bonds.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

Federal Arbitrage

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

F. Interfund Transfers

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

| <u>Transfer Out</u> | <u>Transfer In</u> | <u>Amounts</u> |
|-----------------------------|-----------------------------|----------------------|
| General fund | Nonmajor governmental funds | \$ 12,111,968 |
| Water and wastewater fund | General fund | 4,273,239 |
| Nonmajor governmental funds | Debt service fund | 3,000,000 |
| Nonmajor governmental funds | Nonmajor governmental funds | 1,800,000 |
| Nonmajor governmental funds | General fund | 10,000 |
| | Total | \$ 21,195,207 |

The general fund made transfers to nonmajor governmental funds to provide additional resources for various capital improvements, technology, and unreimbursed grant-related expenditures. Transfers to the debt service fund from nonmajor governmental funds are from sales tax allocation from the capital project sales tax fund. Transfers between nonmajor governmental funds were for grant reimbursement of capital purchases. Transfers to the general fund from the nonmajor governmental and water and wastewater funds are for annual subsidy payments.

The composition of interfund balances as of year end were as follow:

| <u>Due to</u> | <u>Due from</u> | <u>Amounts</u> |
|------------------------|-----------------------------|---------------------|
| Internal service funds | Nonmajor governmental funds | \$ 660,508 |
| Internal service funds | General fund | 410,895 |
| | Total | \$ 1,071,403 |

Amounts recorded as due to/from are temporary loans and will be repaid during the following year.

G. Restricted Assets

As of September 30, 2022, the City held restricted cash and investments in the water and wastewater fund for the following purposes:

| Restricted for: | |
|------------------------|----------------------|
| Customer deposits | \$ 785,888 |
| Capital projects | 27,610,729 |
| Debt service | 4,864,569 |
| Total | \$ 33,261,186 |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 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. In addition, the City purchased windstorm insurance from highly rated private carriers to cover City property for that specific loss.

B. Contingent Liabilities

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

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

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

C. Construction and Other Significant Commitments

The City has active construction projects as of September 30, 2022. A majority of these projects are for drainage improvements, street improvements, and improvements to the water and wastewater systems.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

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

Governmental Activities:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Contract |
|---|--------------------------------|----------------------------------|-------------------------------|
| Dove Meadows and Borden's Gully Detention | \$ 4,160,137 | \$ 1,290,736 | \$ 2,869,401 |
| The Meadows Subdivision Drainage Improvements | 541,119 | 399,289 | 141,830 |
| Bay Ridge Flood Reduction Phase 4 | 669,348 | 465,777 | 203,571 |
| Magnolia Creek and Cedar Gully Channel Improvements | 1,400,300 | 973,277 | 427,023 |
| Bay Colony Detention Improvements | 3,415,417 | 931,778 | 2,483,639 |
| Clear Creek Tributaries | 362,900 | 254,994 | 107,906 |
| Countryside Subdivision Drainage Improvements | 78,205 | 72,731 | 5,474 |
| Rustic Oaks Subdivision Drainage Improvements | 78,205 | 72,731 | 5,474 |
| Bayridge Subdivision Phase 1 | 353,683 | 280,898 | 72,785 |
| Bay Ridge Flood Reduction Phase 1 | 8,882,128 | 1,094,878 | 7,787,250 |
| Benson Bayou and Mitigation Pond | 444,735 | 173,863 | 270,872 |
| Hurricane Harvey Drainage Project (Magnolia Creek) | 156,800 | 130,544 | 26,256 |
| Oaks of Clear Creek Southeast Portion | 499,145 | 494,007 | 5,138 |
| Brittany Bay Subdivision Drainage Improvements | 99,415 | 78,683 | 20,732 |
| FM 518 and Wesley Drive Drainage Improvements | 461,783 | 371,726 | 90,057 |
| Oaks of Clear Creek Northwest Detention Pond | 426,520 | 140,892 | 285,628 |
| Hughes Lane and W. Deats Road Culvert Modification | 334,151 | 117,626 | 216,525 |
| Newport & Ellis Landing | 96,480 | 54,750 | 41,730 |
| Landing Subdivision Drainage Improvements | 77,305 | 50,150 | 27,155 |
| Oaks of Clear Creek Drainage Phase 2 Southeast | 932,576 | 409,833 | 522,743 |
| Historic District Drainage Improvements | 62,165 | 27,987 | 34,178 |
| Bayou Brae Subdivision Drainage Improvements | 47,745 | 16,711 | 31,034 |
| Main Street/Downtown | 7,237,788 | 7,178,810 | 58,978 |
| Jail Renovations | 147,512 | 81,080 | 66,432 |
| TxDOT FM518 Bypass Hike & Bike | 1,782,151 | 1,275,192 | 506,959 |
| Hike and Bike Trails Way-Signage, Phase 2 | 76,940 | 2,332 | 74,608 |
| Hometown Heroes Park 5K Loop | 1,728,828 | 1,664,354 | 64,474 |
| Bayridge Park Redevelopment | 589,723 | 170,190 | 419,533 |
| Low-Water Crossing at Lynn Gripon Park | 93,775 | 49,435 | 44,340 |
| East Side Dog Park | 265,790 | 252,538 | 13,252 |
| Bay Colony Park - Phase 1 | 3,416,278 | 1,269,643 | 2,146,635 |
| Kansas Ave Kayak Launch Sites | 185,052 | 38,894 | 146,158 |
| Nature Center Kayak Launch Site | 175,719 | 31,796 | 143,923 |
| Gilmore Elementary - Claremont TPWD | 94,830 | 52,200 | 42,630 |
| Dickinson Avenue Reconstruction | 6,243,153 | 6,095,689 | 147,464 |
| FM270 Boat Ramp | 201,978 | 177,333 | 24,645 |
| Grissom Reconstruction | 8,563,512 | 4,684,937 | 3,878,575 |
| Material Asphalt - Street Crew | 300,000 | 200,443 | 99,557 |
| Phase 2 - Reconstruction of Turner and Butler | 842,179 | 590,041 | 252,138 |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

| <u>Project Description (Continued)</u> | <u>Authorized Contract</u> | <u>Contract Expenditures</u> | <u>Remaining Contract</u> |
|--|--------------------------------|----------------------------------|-------------------------------|
| Landscape TxDOT Medians | | | |
| Butler/Turner Improvements | \$ 4,107,133 | \$ 3,655,603 | \$ 451,530 |
| Walker Street Corridor Upgrades | 1,374,821 | 1,200,977 | 173,844 |
| League City Parkway at Walker Intersection Improvements | 289,817 | 237,673 | 52,144 |
| North Landing Extension | 2,887,073 | 2,558,440 | 328,633 |
| SH3 at League City Parkway Intersection | 1,790,890 | 131,022 | 1,659,868 |
| SH3 and FM518 Intersection Improvements | 386,701 | 273,080 | 113,621 |
| League City Parkway Right Turn Lane Calder to Butler | 270,121 | 142,065 | 128,056 |
| Right Turn Lane on Calder | 63,818 | 41,678 | 22,140 |
| New Winfield Road (I-45 to Hobbs) | 160,398 | 68,991 | 91,407 |
| Traffic Signal Timing | 1,015,440 | 949,945 | 65,495 |
| League City Parkway Corridor Signalization | 2,065,637 | 566,567 | 1,499,070 |
| Totals | <u>\$ 69,937,319</u> | <u>\$ 41,544,809</u> | <u>\$ 28,392,510</u> |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

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

Business-Type Activities:

| <u>Project Description</u> | <u>Authorized Contract</u> | <u>Contract Expenditures</u> | <u>Remaining Contract</u> |
|--|--------------------------------|----------------------------------|-------------------------------|
| Southeast Service Area Trunks | \$ 5,708,566 | \$ 5,156,468 | \$ 552,098 |
| 36 inch Waterline from SH3 to South Shore Harbor Booster Station | 21,998,835 | 8,870,694 | 13,128,141 |
| 24 inch Waterline Stabilization Phase 2 | 394,044 | 193,903 | 200,141 |
| North Service Area 12 inch Waterline along Grissom Road | 673,783 | 336,129 | 337,654 |
| West Side Well and Booster Pump Station | 506,758 | 414,664 | 92,094 |
| Alabama Sreet, SS Street, Meadowbend Ground Storage Tanks | 1,768,258 | 1,038,410 | 729,848 |
| Southeast Water Purification Plant Treatment Improvements | 5,736,854 | 5,479,747 | 257,107 |
| Main Street Waterline Replacement | 1,963,506 | 855,130 | 1,108,376 |
| FM518 Waterline Upgrade - I45 to Landing Ditch | 2,673,618 | 820,753 | 1,852,865 |
| FM 518 Waterline Replacement - Landing to Palomino | 211,465 | 158,589 | 52,876 |
| Waterline Replacement - Pecan Forest | 361,080 | 155,528 | 205,552 |
| New Well and Booster Pump Station at League City Parkway | 484,761 | 361,469 | 123,292 |
| Force Main Upgrade-Bay Colony to Ervin | 3,346,380 | 3,251,903 | 94,477 |
| Meadowbend 16" Force Main | 289,557 | 226,159 | 63,398 |
| SH 3 LS Upgrade & Force Main Replacement | 120,648 | 81,155 | 39,493 |
| Sewer System Evaluation | 350,349 | 3,625 | 346,724 |
| South Shore Lift Station 1 & 2 Rehabilitation | 949,992 | 727,257 | 222,735 |
| Glen Cove Lift Station Conversion | 1,939,705 | 153,000 | 1,786,705 |
| Sanitary Sewer Rehab FY20 Priority | 1,456,925 | 1,428,848 | 28,077 |
| Grand Bargain - Regional Water and Wastewater Facility | 12,359,887 | 11,424,028 | 935,859 |
| Smith Lane and Butler Lift Stations | 57,000 | 11,350 | 45,650 |
| Willow Branch and FM518 | 149,939 | 133,306 | 16,633 |
| Dallas Salmon Water and Wastewater Treatment Plant Supervisory Control and Data Acquisition Upgrade | 1,776,503 | 149,905 | 1,626,598 |
| Dallas Salmon Water and Wastewater Treatment Plant Improvements | 2,569,731 | 182,341 | 2,387,390 |
| Dallas Salmon Water and Wastewater Treatment Plant Admin, Lab and Ops Building | 580,300 | 404,984 | 175,316 |
| Water System Improvements | 1,386,579 | 1,263,360 | 123,219 |
| Totals | <u>\$ 78,220,850</u> | <u>\$ 51,688,532</u> | <u>\$ 26,532,318</u> |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

D. Pension Plans

Texas Municipal Retirement System

Plan Description

The City participates as one of 901 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 TMRS Act, Subtitle G, Title 8, Texas Government Code (the “TMRS Act”) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State. TMRS issues a publicly available Annual Comprehensive Financial Report that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member’s deposits and interest.

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

| | <u>2021</u> | <u>2022</u> |
|--|---------------------------|---------------------------|
| Employee deposit rate | 7.00% | 7.00% |
| Matching ratio (City to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service requirement eligibility (expressed as age/yrs of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity increase (to retirees) | 70% of CPI | 70% of CPI |

Employees Covered by Benefit Terms

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|---------------------|
| Inactive employees or beneficiaries currently receiving benefits | 280 |
| Inactive employees entitled to, but not yet receiving, benefits | 339 |
| Active employees | <u>573</u> |
| Total | <u><u>1,192</u></u> |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary using the Entry Age Normal (EAN) actuarial cost method. The 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 seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.68 percent and 14.38 percent in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2022 were \$5,933,064, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2021 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.50% per year |
| Overall payroll growth | 2.45% per year |
| 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 the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for active members, healthy retirees, and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied for males and females, respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return (Arithmetic)</u> |
|----------------------------------|--------------------------|--|
| Global equity | 35.00% | 7.55% |
| Core fixed income | 6.00% | 2.00% |
| Non-core fixed income | 20.00% | 5.68% |
| Other public and private markets | 12.00% | 7.22% |
| Real estate | 12.00% | 6.85% |
| Hedge funds | 5.00% | 5.35% |
| Private equity | 10.00% | 10.00% |
| | <u>100.00%</u> | |

Discount Rate

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

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

Changes in the NPL

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (A) | (B) | (A) - (B) |
| Changes for the year: | | | |
| Service cost | \$ 6,423,948 | \$ - | \$ 6,423,948 |
| Interest | 11,699,933 | - | 11,699,933 |
| Change of benefit terms | - | - | - |
| Difference between expected and actual experience | 1,921,236 | - | 1,921,236 |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 5,666,689 | (5,666,689) |
| Contributions - employee | - | 2,702,102 | (2,702,102) |
| Net investment income | - | 20,321,882 | (20,321,882) |
| Benefit payments, including refunds of employee contributions | (6,844,644) | (6,844,644) | - |
| Administrative expense | - | (93,939) | 93,939 |
| Other changes | - | 642 | (642) |
| Net Changes | 13,200,473 | 21,752,732 | (8,552,259) |
| Balance at December 31, 2020 | 173,542,692 | 155,736,723 | 17,805,969 |
| Balance at December 31, 2021 | \$ 186,743,165 | \$ 177,489,455 | \$ 9,253,710 |

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 percent, 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) | \$ 38,626,929 | \$ 9,253,710 | \$ (14,509,775) |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the fiscal year ended September 30, 2022, the City recognized pension expense of \$1,418,764.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual economic experience | \$ 1,475,474 | \$ 987,750 |
| Changes in actuarial assumptions | 145,815 | - |
| Difference between projected and actual investment earnings | - | 10,406,377 |
| Contributions subsequent to the measurement date | 4,397,290 | - |
| Total | \$ 6,018,579 | \$ 11,394,127 |

\$4,397,290 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, 2023.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ended September 30 | Pension Expense |
|---|----------------------------|
| 2023 | \$ (2,016,908) |
| 2024 | (4,106,885) |
| 2025 | (1,825,300) |
| 2026 | (1,823,745) |
| Total | \$ (9,772,838) |

E. Other Postemployment Benefits

1. TMRS Supplemental Death Benefits Fund

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 SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

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, 2021 is summarized below:

| | | |
|--|-----|--|
| Inactive employees or beneficiaries currently receiving benefits | 211 | |
| Inactive employees entitled to, but not yet receiving, benefits | 80 | |
| Active employees | 573 | |
| Total | 864 | |

Total OPEB Liability

The City's total OPEB liability of \$1,902,858 was measured as of December 31, 2021 and was determined by an actuarial valuation as of that date.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2021 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 | 3.50% to 11.50% including inflation |
| Discount rate | 1.84%* |
| Retirees' share of benefit-related costs | Zero |
| Administrative expenses | All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 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 with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. |

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018. Due to the higher mortality rates associated with the global pandemic, the TMRS Board adopted changes to the assumptions and methodology used for calculating 2023 rates as determined in the December 31, 2021 actuarial valuation.

Changes in the Total OPEB Liability

| | <u>Total OPEB Liability</u> |
|--|------------------------------------|
| Changes for the year: | |
| Service cost | \$ 127,169 |
| Interest | 35,969 |
| Differences between expected and actual experience | (43,749) |
| Changes of assumptions | 62,078 |
| Benefit payments* | (26,975) |
| | <u>Net Changes</u> 154,492 |
| Beginning Balance | 1,748,366 |
| | <u>Ending Balance</u> \$ 1,902,858 |

* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB 75.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

The discount rate decreased from 2.00 percent as of December 31, 2020 to 1.84 percent as of December 31, 2021. There were no other changes of assumption or other inputs that affected measurement of the total OPEB liability during the measurement period.

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

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

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

| | 1% Decrease in Discount Rate (0.84%) | Discount Rate (1.84%) | 1% Increase in Discount Rate (2.84%) |
|-----------------------------|---|----------------------------------|---|
| City's Total OPEB Liability | \$ 2,355,808 | \$ 1,902,858 | \$ 1,555,301 |

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$229,928. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 94,151 |
| Changes in actuarial assumptions | 344,190 | 29,109 |
| Contributions subsequent to the measurement date | 21,416 | - |
| Total | \$ 365,606 | \$ 123,260 |

\$21,416 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, 2023.

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

| Fiscal Year Ended September 30 | OPEB Expense |
|---|-------------------------|
| 2023 | \$ 66,627 |
| 2024 | 50,788 |
| 2025 | 66,909 |
| 2026 | 33,914 |
| 2027 | 2,692 |
| Total | \$ 220,930 |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

2. Postemployment Healthcare Plan

Plan Description

The City administers a single-employer defined benefit OPEB plan. The Program offers medical and dental insurance benefits to eligible retirees and their spouses. Retiree medical coverage levels for retirees are the same as coverage provided to active City employees. Upon the death of the retiree, the spouse is eligible for coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA). The Program has no plan assets accumulated in a trust that meet the criteria in paragraph 4 of GASB 75.

Benefits Provided

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

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

The following table provides a summary of the number of participants in the plan as of December 30, 2021:

| | |
|--|-------------------|
| Inactive employees or beneficiaries currently receiving benefits | 19 |
| Inactive employees entitled to, but not yet receiving, benefits | - |
| Active employees | 554 |
| Total | <u><u>573</u></u> |

Total OPEB Liability

The City's total OPEB liability of \$12,053,015 was measured as of December 31, 2021 and was determined by an actuarial valuation as of that date.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2021 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 | 3.50% to 11.50% including inflation |
| Discount rate | 1.84%* |
| Actuarial cost method | Individual entry-age |
| Demographic assumptions | Based on the experience study covering the four-year period ending December 31, 2018 as conducted for the TMRS. |
| Mortality | For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables to account for future mortality improvements. |
| Healthcare trend rates | Initial rate of 7.00% declining to an ultimate rate of 4.15% after 13 years. |
| Participation rates | 0% for pre-50 retirees with any years of service; 15% for 50-64 years of age retirees with less than 20 years of service; 25% for 50-54 years of age retirees with more than 20 years of service; 65% for 55-59 years of age retirees with more than 20 years of service; 90% for eligible retirees that are at least 60 years old at retirement with more than 20 years of service. |

* The discount rate changed from 2.00% as of December 31, 2020 to 1.84% as of December 31, 2021.

Changes in the Total OPEB Liability

| | | Total OPEB Liability |
|---|-----------------------|---------------------------------|
| Changes for the year: | | |
| Service cost | | \$ 871,648 |
| Interest | | 225,519 |
| Changes of benefit terms | | - |
| Difference between expected and actual experience | | 29,522 |
| Changes of assumptions | | 203,836 |
| Benefit payments | | (235,282) |
| | Net Changes | <u>1,095,243</u> |
| Beginning balance | | 10,957,772 |
| | Ending Balance | <u>\$ 12,053,015</u> |

Change in assumption reflected a change in the discount rate from 2.00% as of December 31, 2020 to 1.84% as of December 31, 2021.

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

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

Sensitivity of Total OPEB Liability to the Discount Rate

Regarding the sensitivity of the total OPEB liability to changes in the discount rate, the following presents the Program's total OPEB liability, calculated using a discount rate of 2.00%, as well as what the Program's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

| | 1% Decrease in Discount Rate (0.84%) | Discount Rate (1.84%) | 1% Increase in Discount Rate (2.84%) |
|-----------------------------|---|----------------------------------|---|
| City's Total OPEB Liability | \$ 13,404,525 | \$ 12,053,015 | \$ 10,834,819 |

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

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

| | 1% Decrease | Current Healthcare Cost Trend Rate Assumption | 1% Increase |
|-----------------------------|--------------------|--|--------------------|
| City's Total OPEB Liability | \$ 10,552,348 | \$ 12,053,015 | \$ 13,888,339 |

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$1,159,942. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Changes in actuarial assumptions | \$ 1,133,753 | \$ 220,466 |
| Differences between expected and actual experience | 75,882 | 559,756 |
| Contributions subsequent to the measurement date | 225,420 | - |
| Total | \$ 1,435,055 | \$ 780,222 |

\$225,420 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, 2023.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

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

| Fiscal Year Ended September 30 | OPEB Expense |
|---|-------------------------|
| 2023 | \$ 62,775 |
| 2024 | 62,775 |
| 2025 | 62,775 |
| 2026 | 27,438 |
| 2027 | 27,600 |
| Thereafter | 186,050 |
| Total | \$ 429,413 |

3. Aggregate Total OPEB Expenses

The City recognized aggregate total OPEB expenses of \$1,389,870 during the fiscal year ended September 30, 2022 related to the City’s TMRS SDBF and the Healthcare OPEB benefit plans.

F. Healthcare Coverage

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

The City pays all claims. The Administrator submits monthly check registers for all processed claims. The City issues payment to the Administrator who in turn issues individual claim checks. The City carries stop-loss insurance against catastrophic losses. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expense regardless of whether allocated to specific claims. The premiums for these policies are billed monthly by the Administrator on a per enrolled employee basis. The claims liability reported in the fund at September 30, 2022 was estimated by the Administrators. It is based on the requirements of GASB No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for unpaid claims cost, including estimates of costs relating to incurred but not reported claims, be reported. Costs relating to the plan are recorded in an internal service fund.

Changes in health claims for the years ended September 30, 2022 and 2021 are as follows:

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|---------------------|
| Health claim liability, beginning of year | \$ 1,065,444 | \$ 670,126 |
| Claims and changes in estimates | 7,651,451 | 5,741,267 |
| Claim payments | (9,264,513) | (7,476,837) |
| Health Claim Liability, End of Year | \$ 547,618 | \$ 1,065,444 |

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

G. Contracts

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

1. Municipal Utility Districts

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

2. Galveston County Water Control and Improvement District No. One

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

3. Gulf Coast Water Authority

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

In addition, the GCWA has entered into the Southeast Transmission Line Cost Sharing Agreement (the "SETL Cost Sharing Agreement") with the City of Houston and other participants (the "Participants") for the Southeast Transmission Line Project (the "SETL Project"). The City will pay the GCWA for costs incurred for the SETL Project in accordance with the SETL Cost Sharing Agreement. The GCWA will disburse funds to Houston for costs of design, construction, acquisition, equipment, and operation of the SETL for the cost share allocated to the GCWA. The SETL Cost

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

Sharing Agreement requires payment of the cost share in accordance with a series of cash calls. In order to receive the reserved capacity being acquired by the Authority for the benefit of the City, the Authority must deposit its proportionate cost share by the cash call due date. The current cost estimate of the cost share for the reserved capacity being required for the benefit of the City is approximately sixty million, which is subject to adjustment from time to time, to reflect changes in the project schedule or budget, including changes to address unforeseen conditions requiring additional funds, in accordance with the SETL Cost Sharing Agreement.

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

The City paid the Authority \$5,475,793 for various costs related to these projects.

H. Tax Abatements and Economic Incentives

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

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

The City has three categories of economic development agreements:

- Tax Abatements – Tax abatements under Chapter 312 of the Texas Code allow the City to designate tax reinvestment zones and negotiate tax abatements with applicants for both new facilities and structures and the expansion or modernization of existing facilities or structures. These abatement agreements authorize the appraisal districts to reduce the assessed value of the taxpayer’s property by a percentage specified in the agreement, and the taxpayer will pay

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

taxes on the lower assessed value during the term of the agreement. The City does not currently have any tax abatements; so property taxes abated under this program were \$0 in fiscal year 2022.

- **General Economic Development** – The City may consider entering into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. Agreements may include rebates for a portion of the increased property taxes and/or sales tax received by the City, fee reductions such as utility charges or building inspection fees, and/or payments to offset the cost of targeted infrastructure, full-time primary jobs, full-time primary job training, site improvements, other related improvements, commercial land, commercial buildings, commercial equipment, commercial facilities, and/or other expenditures. For fiscal year 2021, the City rebated \$98,673 in property taxes and \$164,974 in sales taxes under these agreements.
- **Tax Increment Financing** – The City has adopted two Tax Increment Financing zones (TIFs) under Chapter 311 of the Texas Tax Code. The City will consider entering into economic development and infrastructure reimbursement agreements which earmark TIF revenues for payment to developers and represent obligations over the life of the TIF or until all terms of the agreements have been met. These obligations are more fully described in Note 1. Additionally, the City may consider entering into general economic development agreements under Chapter 380 of the Texas Local Government Code which are funded with TIF resources. The City made \$2,878,204 in payments for TIF obligations in property tax rebates from general TIF resources in fiscal year 2022.

I. Subsequent Events

Per contract agreements with the City and the GCWA, the GCWA issued Revenue Bonds (City of League City Project – Southeast Transmission Line), Series 2022 (the “Bonds”) on October 1, 2022 in the amount of \$5,210,000. Proceeds from the Bonds will be used to fund a portion of the cost of capacity in a larger diameter water transmission line in order to help ensure sufficient transmission capacity to supply the future water needs of the City from the City of Houston’s Southeast Water Purification Plant as it may be expanded from time to time. Per contract agreements the City is required to make monthly principal and interest payments to the GCWA until the debt obligation is satisfied. The bonds will mature during the year 2042.

J. Restatement of Net Position and Fund Balance

The City has restated beginning net position for governmental activities and an internal service fund for assets that were capitalized before completion. The net position for governmental activities and the fund balance for the general fund were restated to recognize solid waste receivables.

Additionally, the City has restated beginning assets, liabilities, and deferred inflows of resources for governmental and business-type activities for the implementation of GASB 87, *Leases*. This restatement had no impact on beginning fund balance or net position.

CITY OF LEAGUE CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

| | <u>Governmental Activities</u> | <u>General</u> | <u>Internal Service</u> |
|---|------------------------------------|----------------------|-----------------------------|
| Beginning net position/fund balance | \$ 376,329,041 | \$ 26,472,582 | \$ 15,570,814 |
| Restatement - account receivables | 761,822 | 761,822 | - |
| Restatement - capital assets | (117,290) | - | (117,290) |
| Restatement - leases receivable | 1,228,471 | 1,228,471 | - |
| Restatement - deferred inflows - leases | (1,228,471) | (1,228,471) | - |
| Restatement- leases payable | (139,666) | - | - |
| Restatement - right-to-use asset | 139,666 | - | - |
| Beginning net position/fund balance - restated | <u>\$ 376,973,573</u> | <u>\$ 27,234,404</u> | <u>\$ 15,453,524</u> |

| | <u>Business-Type Activities</u> | <u>Water and Wastewater</u> |
|---|-------------------------------------|---------------------------------|
| Beginning net position | \$ 286,602,152 | \$ 286,602,152 |
| Restatement - leases receivable | 1,392,997 | 1,392,997 |
| Restatement - deferred inflows - leases | (1,392,997) | (1,392,997) |
| Beginning net position- restated | <u>\$ 286,602,152</u> | <u>\$ 286,602,152</u> |

APPENDIX C

FORM OF BOND COUNSEL OPINION

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BRACEWELL

[CLOSING DATE]

\$ _____

CITY OF LEAGUE CITY, TEXAS

(Galveston and Harris Counties, Texas)

[COMBINATION] TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024

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

CITY OF LEAGUE CITY, TEXAS, [COMBINATION] TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024, dated January 15, 2024, in the aggregate principal amount of \$ _____ (the "Certificates").

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

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

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

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

assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance, including, but not limited to, covenants relating to the tax-exempt status of the Certificates.

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

1. The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Certificates constitute valid and legally binding obligations of the City.
2. A continuing ad valorem tax upon all taxable property within the City of League City, Texas, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for such purposes, within the limits prescribed by law. In addition, the Certificates are further secured by a limited pledge of a subordinate lien on the Net Revenues of the City's waterworks and sewer system in an amount not to exceed \$1,000, as provided in the Ordinance.
3. Interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Certificates is not an item of tax preference for purposes of the alternative minimum tax on individuals, but we observe that such interest is taken into account in computing the alternative minimum tax on certain corporations.

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

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

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

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