

**PRELIMINARY OFFICIAL STATEMENT DATED JUNE 5, 2024**



**NEW ISSUE  
BOOK-ENTRY-ONLY**

**RATING: S&P Global Rating: “A+/Stable”  
(see “OTHER INFORMATION – Municipal Rating” herein)**

*IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, 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, AND 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.*



**\$17,000,000\***  
**CITY OF BAY CITY, TEXAS**  
**TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024E**  
**(Matagorda County, Texas)**

**Dated Date: June 1, 2024**

**Interest accrues from the Date of Delivery (as herein after defined)**

**Due: September 1 — See page ii**

The City of Bay City, Texas (the “City”) is issuing its Tax and Revenue Certificates of Obligation, Series 2024E (the “Certificates”) pursuant to the applicable provisions of the Texas Constitution and the general laws of the State of Texas, including particularly, Subchapter C, Chapter 271, Texas Local Government Code, as amended, and an ordinance of the City authorizing the issuance of the Certificates (the “Ordinance”).

Interest on the Certificates will accrue from the Date of Delivery of the Certificates to the Initial Purchaser (as herein after defined) and is payable commencing on March 1, 2025, and on each September 1 and March 1 thereafter until maturity or prior redemption. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Certificates are direct obligations of the City and are payable from and secured by a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City. The Certificates are further secured by a limited pledge of a subordinate lien on the Surplus Revenues (as defined in the Ordinance) of the City’s water and sewer system in an amount not to exceed \$1,000. See “THE CERTIFICATES – Sources of Payment” herein.

The Certificates will be issued in fully-registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and the nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. Individual purchases of the Certificates will initially be made 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 in excess thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. For as long as Cede & Co. is the sole registered owner of the Certificates, the principal of and interest on the Certificates will be payable by Zions Bancorporation, National Association, Houston, Texas (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.

Proceeds from the sale of the Certificates will be used to pay for (i) the design, construction, acquisition and equipment of water and sewer system improvements, including the rehabilitation of the City’s wastewater treatment plant, (ii) design, construction, acquisition and equipment of public safety facilities, including a new police station, and (iii) the costs of professional services incurred in connection therewith. See “THE CERTIFICATES – Sources and Uses” herein.

**SEE PAGE ii FOR MATURITY SCHEDULE**

The Certificates are subject to optional redemption prior to their scheduled maturities as described herein. See “THE CERTIFICATES – Optional Redemption” herein.

If the principal amounts designated in the serial maturity schedule on page ii hereof are combined to create one or more term Certificates (collectively the “Term Certificates”), each such Term Certificate shall be subject to mandatory sinking fund redemption, as described herein. See “THE CERTIFICATES – Mandatory Sinking Fund Redemption” herein.

The City is requesting qualification for the issuance of a municipal bond insurance policy in conjunction with this issuance of Certificates. If qualified and a municipal bond insurance policy is obtained, the associated premium is the responsibility of the Initial Purchaser.

The Certificates are offered for delivery, when, as and if issued by the City, and received by the initial purchaser (the “Initial Purchaser”), subject to the approving opinions of the Attorney General of the State of Texas and Bracewell LLP, Houston, Texas, bond counsel for the City (“Bond Counsel”). See “LEGAL MATTERS” herein and “Form of Opinion of Bond Counsel” attached hereto as Appendix D. It is expected that the Certificates will be available for delivery through the facilities of DTC on or about June 27, 2024 (the “Date of Delivery”).

**BIDS DUE: TUESDAY, JUNE 11, 2024 AT 10:00 A.M., CENTRAL TIME**

\* Preliminary, subject to change.

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

## MATURITY SCHEDULE

**\$17,000,000\***  
**CITY OF BAY CITY, TEXAS**  
**TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024E**  
**CUSIP Prefix <sup>(c)</sup>: 072131**

<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u> <sup>(b)</sup>	<u>CUSIP No.</u> <u>Suffix</u> <sup>(c)</sup>
9/1/2025	\$ 175,000			
9/1/2026	330,000			
9/1/2027	350,000			
9/1/2028	370,000			
9/1/2029	385,000			
9/1/2030	405,000			
9/1/2031	430,000			
9/1/2032	445,000			
9/1/2033	465,000			
9/1/2034	<sup>(a)</sup> 490,000			
9/1/2035	<sup>(a)</sup> 520,000			
9/1/2036	<sup>(a)</sup> 540,000			
9/1/2037	<sup>(a)</sup> 570,000			
9/1/2038	<sup>(a)</sup> 600,000			
9/1/2039	<sup>(a)</sup> 630,000			
9/1/2040	<sup>(a)</sup> 660,000			
9/1/2041	<sup>(a)</sup> 690,000			
9/1/2042	<sup>(a)</sup> 730,000			
9/1/2043	<sup>(a)</sup> 765,000			
9/1/2044	<sup>(a)</sup> 805,000			
9/1/2045	<sup>(a)</sup> 840,000			
9/1/2046	<sup>(a)</sup> 885,000			
9/1/2047	<sup>(a)</sup> 925,000			
9/1/2048	<sup>(a)</sup> 975,000			
9/1/2049	<sup>(a)</sup> 1,020,000			
9/1/2050	<sup>(a)</sup> 360,000			
9/1/2051	<sup>(a)</sup> 380,000			
9/1/2052	<sup>(a)</sup> 395,000			
9/1/2053	<sup>(a)</sup> 415,000			
3/1/2054	<sup>(a)</sup> 450,000			

(Interest accrues from the Date of Delivery)

- (a) The City reserves the right, at its option, to redeem Certificates having stated maturities on and after September 1, 2034, in whole or from time to time in part, in principal amount of \$5,000 or any integral multiple in excess thereof on September 1, 2033, or any date thereafter at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE CERTIFICATES – Optional Redemption” herein. Additionally, principal amounts for two or more consecutive maturities designated in the above schedule may be combined to create one or more Term Certificates (as defined herein) with each such Term Certificate being subject to mandatory sinking fund redemption. See “THE CERTIFICATES – Mandatory Sinking Fund Redemption” herein.
- (b) The initial reoffering prices or yields of the Certificates are furnished by the Initial Purchaser (as defined herein) and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser at any time.
- (c) CUSIP numbers are included solely for the convenience of the owners of the Certificates. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems, Inc. on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of the Initial Purchaser, the City, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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\* Preliminary, subject to change.

**City Officials**

The City is a political subdivision and municipal corporation of the state of Texas (the “State”), duly organized and existing under the laws of the State, including the City’s home rule charter. The City was incorporated in 1902 and is the county seat of Matagorda County. The City operates under the Mayor-Council form of government, and is governed by the mayor and five council members. The Council members are elected at large for staggered two-year terms. The mayor is elected at large for a three-year term.

**Elected Officials**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Robert K. Nelson	Mayor	May 2025	Retired
Blayne Finlay	Mayor Pro-Tem	May 2025	Retail Owner
Benjamin Flores	Councilmember	May 2026	Cybersecurity Consultant
Jim Folse	Councilmember	May 2026	Software Consultant
Brad Westmoreland	Councilmember	May 2025	Lobbyist/Real Estate
Becca Sitz	Councilmember	May 2025	Self-Employed/Real Estate

**Appointed Position**

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Scotty Jones	Finance Director/Interim City Manager	10 Years
Anne Marie Odefey	City Attorney	4 Years
Jeanna Thompson	City Secretary	3 Years

**Consultants**

Bond Counsel .....	Bracewell LLP Houston, Texas
Certified Public Accountants .....	Harrison, Waldrop & Uherek, L.L.P. Victoria, Texas
Financial Advisor .....	USCA Municipal Advisors, LLC Houston, Texas

**For Additional Information Contact:**

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 Finance Director/Interim City Manager  
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 Austin, Texas 778701  
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## USE OF INFORMATION IN OFFICIAL STATEMENT

*For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended, (“Rule 15c2-12”) and in effect on the date hereof (the “Rule”), this document may be treated as an Official Statement of the City with respect to the Certificates that has been “deemed final” by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.*

The information contained in this Official Statement is subject to change without notice and neither the delivery of this Official Statement nor any sale made by means of it shall, under any circumstances, create an implication that there have not been changes in the matters discussed herein since the date of this Official Statement.

No broker, dealer, sales representative or any other person has been authorized by the City, the Financial Advisor or the Initial Purchaser to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described in it and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or any other person. The information and expressions of opinion 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 matters described herein since the date hereof.

This Official Statement is delivered in connection with the sale of the Certificates and may not be reproduced or used, in whole or in part, for any other purposes.

All the summaries of the statutes, ordinances, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the City.

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

Neither the City, the Financial Advisor nor the Initial Purchaser make any representations or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its book-entry-only system, as such information has been furnished by The Depository Trust Company.

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

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.

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

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## OFFICIAL STATEMENT SUMMARY

This Official Statement Summary is subject in all respects to the more complete information contained therein. The offering of the Certificates to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Official Statement Summary from the Official Statement or otherwise to use same without the entire Official Statement. Certain defined terms used in this Official Statement Summary are defined elsewhere in this Official Statement.

<b>The Issuer</b>	City of Bay City, Texas.
<b>The Certificates</b>	\$17,000,000* City of Bay City, Texas Tax and Revenue Certificates of Obligation, Series 2024E (the “Certificates”). The Certificates are being issued in the principal amounts, maturities, and at the rates per annum, set forth on page ii.
<b>Interest</b>	The Certificates are dated June 1, 2024. Interest will accrue from the Date of Delivery (as herein defined) of the Certificates to the Initial Purchaser at the rates indicated on page ii hereof, with interest payable on March 1, 2025, and on each September 1 and March 1 thereafter until maturity or earlier redemption. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Certificates will be issued only in fully-registered form in integral multiples of \$5,000 of principal amount. See “THE CERTIFICATES – Description” herein.
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar for the Certificates is Zions Bancorporation, National Association, Houston, Texas.
<b>Authority for Issuance</b>	The Certificates are issued pursuant to the Texas Constitution and general laws of the State of Texas, including, particularly, Subchapter C, Chapter 271 of the Texas Local Government Code, as amended, and an ordinance of City Council authorizing the issuance of the Certificates (the “Ordinance”).
<b>Optional Redemption</b>	The City reserves the right, at its option, to redeem the Certificates, having stated maturities on and after September 1, 2034, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple in excess thereof, on September 1, 2033, or any day thereafter at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE CERTIFICATES – Optional Redemption” herein.
<b>Mandatory Sinking Fund Redemption</b>	If the 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. See “THE CERTIFICATES –Mandatory Sinking Fund Redemption” herein.
<b>Sources of Payment</b>	Principal of and interest on the Certificates are payable from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City. The Certificates are further secured by a limited pledge of a subordinate lien on the Surplus Revenues (as defined in the Ordinance) of the City’s water and sewer system in an amount not to exceed \$1,000. The Certificates are direct obligations of the City and not obligations of the State of Texas, Matagorda County or any other political subdivision. See “THE CERTIFICATES– Sources of Payment.”
<b>Use of Proceeds</b>	Proceeds from the sale of the Certificates will be used to pay for (i) the design, construction, acquisition and equipment of water and sewer system improvements, including the rehabilitation of the City’s wastewater treatment plant, (ii) design, construction, acquisition and equipment of public safety facilities, including a new police station, and (iii) the costs of professional services incurred in connection therewith. See “THE CERTIFICATES – Sources and Uses”.

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\* Preliminary, subject to change.

**Book-Entry Only System**

The Certificates are initially issuable only to Cede & Co., the nominee of DTC pursuant to a book-entry-only system. No physical delivery of the Certificates will be made to the beneficial owners of the Certificates. Principal of and interest on the Certificates will be paid to Cede & Co., which will distribute such payment to the participating members of DTC for remittance to the beneficial owners of the Certificates. See “THE CERTIFICATES – Book-Entry-Only System” herein.

**Municipal Rating**

S&P Global Rating Services, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) has assigned its underlying municipal bond rating of “A+/Stable” to the Certificates. See “OTHER INFORMATION – Municipal Rating” herein.

**Tax Exemption**

In the opinion of Bond Counsel, under existing law, 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, and 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.

**Not Qualified  
Tax-Exempt Obligations**

The City will not designate the Certificates as “qualified tax-exempt obligations” for financial institutions.

**Delivery**

It is expected that the Certificates will be available for delivery through the facilities of DTC on or about June 27, 2024 (the “Date of Delivery”).

**Legality**

Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to certain legal matters by Bracewell LLP, Houston, Texas, Bond Counsel.

**SELECTED FINANCIAL INFORMATION**

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2023 Assessed Valuation <sup>(a)</sup>	\$ 1,171,484,617
2022 Estimated Population <sup>(b)</sup>	17,505

**Direct Ad Valorem Tax Debt as of June 1, 2024**

	<b>PAR Amount</b>
Outstanding Tax Debt	\$ 84,356,000
Plus: The Certificates	17,000,000 *
Total	\$ 101,356,000 *
Less: Self-Supporting Debt <sup>(c)</sup>	\$ 85,665,951 *
Total Net Debt	\$ 15,690,050 *

**Estimated Annual Debt Service Requirements <sup>(d)\*</sup>**

Total Average Annual Debt Service	\$ 4,595,861
Total Maximum Annual Debt Service	\$ 6,987,896
Net Average Annual Debt Service	\$ 782,515
Net Maximum Annual Debt Service	\$ 1,627,416

	<b>Unaudited 9/30/2023</b>
<b><u>Fund Balances</u></b>	
General Fund	\$ 5,570,432
Debt Service Fund	\$ 266,112
Water and Sewer Fund - Net Position	\$ 5,185,618

	<b>2023</b>
<b><u>Tax Rate</u></b>	
General Fund	\$ 0.43453
Debt Service Fund	0.13542
Total	\$ 0.56995

(a) Source: Matagorda County Appraisal District and Municipal Advisory Council of Texas.

(b) Source: Texas Municipal Advisory Council.

(c) Includes a portion of the Certificates; preliminary subject to change. The City follows a policy of paying a portion of its outstanding debt service from the net revenues the City's water and sewer system, certain revenues from contracts with the Bay City Community Development Corporation and the Bay City Gas Company, and other city revenue sources. The City currently intends to continue this policy; however, there is no assurance the City will continue doing so. If the City were to discontinue its policy of treating such debt as self-supporting, it would be payable from ad valorem taxes.

(c) Net Debt nets out the portion of the City's ad valorem tax debt that it treats as self-supporting from other sources. See Appendix A - "Self-Supporting Debt" herein.

(d) Includes the Bonds and excludes the Refunded Obligations.

\*Preliminary, subject to change.



**\$17,000,000\***  
**CITY OF BAY CITY, TEXAS**  
**TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024E**  
(Matagorda County, Texas)

**INTRODUCTION**

This Official Statement is provided to furnish information in connection with the offering by the City of Bay City, Texas (the “City”) of its Tax and Revenue Certificates of Obligation, Series 2024E in the aggregate principal amount of \$17,000,000\* (the “Certificates”).

Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance to be adopted by the City Council of the City (the “City Council”), the governing body of the City, authorizing the issuance of the Certificates (the “Ordinance”), except as otherwise indicated herein.

The Certificates are issued pursuant to the applicable provisions of the Texas Constitution and the laws of the State of Texas (the “State”), including, particularly, Subchapter C, Chapter 271, Texas Local Government Code, as amended, and an ordinance of the City authorizing the issuance of the Certificates (the “Ordinance”).

The Certificates are issued for the purposes described below and are payable from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City, and from a limited pledge of a subordinate lien on the Surplus Revenues (as defined in the Ordinance), in an amount not to exceed \$1,000. See “THE CERTIFICATES – Sources of Payment” herein.

The City’s audited general purpose financial statements for the fiscal year ended September 30, 2022, which are attached hereto as Appendix C, present information on the general financial condition of the City at the dates and for the periods described therein.

**THE CERTIFICATES**

**Sources and Uses**

Proceeds from the sale of the Certificates will be used to pay for (i) the design, construction, acquisition and equipment of water and sewer system improvements, including the rehabilitation of the City’s wastewater treatment plant, (ii) design, construction, acquisition and equipment of public safety facilities, including a new police station, and (iii) the costs of professional services incurred in connection therewith.

The following table sets forth the estimated sources and uses of funds associated with the proceeds from the sale of the Certificates.

Sources of Funds:		
Par Amount		\$
Premium		
Total		\$
Uses of Funds:		
Project Fund		\$
Underwriter’s Discount		
Issuance Costs <sup>1</sup>		
Total		\$ _____

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<sup>1</sup> Includes professional costs, rating agency fees, fees of the Paying Agent/Registrar, rounding amount and other costs of issuance.

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\* Preliminary, subject to change.

## General

The following is a description of some of the terms and conditions of the Certificates, which description is qualified in its entirety by reference to the Ordinance. Copies of the Ordinance may be obtained upon request to the City. Certain terms not defined elsewhere in the Official Statement are defined in the Ordinance.

## Description

The Certificates will bear interest at the rates and will mature on the dates and in the amounts as set forth on page ii hereof. The Certificates will be dated June 1, 2024. Interest will accrue from the initial date of delivery of the Certificates to the Initial Purchaser, which is expected to be June 27, 2024 (“Date of Delivery”), and will be payable on March 1, 2025, and on each September 1 and March 1 thereafter, until maturity.

The Certificates will be issued only in fully-registered form, in integral multiples of \$5,000 of principal amount, for any one maturity, and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein. **No physical delivery of the Certificates will be made to the Beneficial Owners (as herein defined) thereof.** Principal of and interest on the Certificates will be payable by Zions Bancorporation, National Association, Houston, Texas (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 actual purchaser of each Certificate (the “Beneficial Owner”) of the Certificates. See “THE CERTIFICATES – Book-Entry-Only System” herein.

## Authority for Issuance

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

## Sources of Payment

The Certificates are payable as to principal and interest from, and secured by, the receipts of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, and from a limited pledge of a subordinate lien on the Surplus Revenues (as defined in the Ordinance) of the City’s water and sewer system in an amount not to exceed \$1,000. See “AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations” herein. While the Certificates carry only a limited pledge of Surplus Revenues on the Water and Sewer System, the City intends to treat a portion of the debt service on the Certificates as self-supporting from revenues received from the Water and Sewer System. If such payments were insufficient to pay such portions of debt service, the City is obligated to levy an ad valorem tax in an amount sufficient to pay debt service on the Certificates. See “Appendix A – Schedule 2 – Self-Supporting Debt” for a description of the City’s current policy of paying certain ad valorem tax debt from sources other than ad valorem taxes. Such policy is subject to change.

## Optional Redemption

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after September 1, 2034, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2033 or any date thereafter at par, plus accrued interest from the most recent interest payment date to the date fixed for redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates (or mandatory sinking fund redemption amounts with respect to Term Certificates (as defined herein)) to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or a 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 principal amounts designated in the serial maturity schedule 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 September 1 of the first year which has been combined to form such Term Certificate and continuing on September 1 in each year thereafter until the stated maturity date of that Term Certificate, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial maturity schedule on page ii hereof.

Prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Certificates equal to the aggregate principal amount of such Term Certificates to be redeemed. The principal amount of the Term Certificates required to be redeemed on any mandatory sinking fund redemption date shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions of the Ordinance and not previously credited to a mandatory sinking fund redemption.

## **Notice of Redemption**

The Paying Agent/Registrar shall give notice of any redemption of Certificates by sending notice by United States mail, first class, postage prepaid, not less than thirty (30) days before the date fixed for redemption, to the registered owner of each Certificate to be redeemed, in whole or in part, at the address of the registered owner shown on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY CONDITION TO REDEMPTION SPECIFIED THEREIN HAVING BEEN SATISFIED, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The City reserves the right to give notice of its election or direction to redeem Certificates as set forth under "Optional Redemption" herein 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 prior to the scheduled redemption date if the City delivers a Certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Certificates subject to conditional redemption where redemption has been rescinded shall remain Outstanding.

## **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, New York, New York ("DTC"), 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, the Financial Advisor and the Initial Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*The City cannot and does not give any assurance that (1) DTC will distribute payment 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 in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each maturity of the Certificates, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, 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 a 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 registered 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"). 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](http://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 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 confirmation 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 physical Certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by 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).

Redemption proceeds, 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, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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, 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 the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Certificates are required to be printed and delivered. Discontinuance by the City of use of the system of book-entry transfers through DTC may require compliance with DTC operational arrangements.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of the system of book-entry transfers by the City may require the consent of Participants under DTC's Operational Arrangements. In that event, Certificates will be printed and delivered.

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

#### *Use of Certain Terms in Other Sections of this Official Statement*

In reading this Official Statement it should be understood that while the Certificates are in the book-entry-only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

#### *Effect of Termination of Book-Entry-Only System*

In the event that the book-entry-only system is discontinued by DTC or the use of the book-entry-only system is discontinued by the City, printed Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE CERTIFICATES – Transfers and Exchanges" below.

### **Ownership**

The City, the Paying Agent/Registrar and any agent of either may treat the person in whose name any Certificate is registered as the owner of such Certificate for the purposes of receiving payment of the principal thereof and the interest on the Certificate and for all other purposes whatsoever, whether or not such Certificate is due or overdue. None of the City, the Paying Agent/Registrar, or any agent of either will be affected by any notice to the contrary.

### **Transfers and Exchanges**

In the event the book-entry-only system should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar, and such transfer or exchange shall be without expense or service charge to the registered owners, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class postage prepaid, to the new registered owner or 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.

All Certificates issued in any transfer or exchange of Certificates shall be delivered to the Registered Owners at the principal corporate trust office of the Paying Agent/Registrar or sent by United States Mail, first class, postage prepaid to the Registered Owners, and, upon the registration and delivery thereof, the same shall be the valid obligations of the City, evidencing the same obligation to pay, and entitled to the same benefits under the Ordinance, as the Certificates surrendered in such transfer or exchange.

### **Replacement Certificates**

If any Certificate is mutilated, destroyed, stolen or lost, a new Certificate in the same principal amount as the Certificate so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Certificate, such new Certificate will be delivered only upon presentation and surrender of such mutilated Certificate to the Paying Agent/Registrar. The City or the Paying Agent/Registrar may require the owner to pay all expenses and charges in connection therewith. In the case of any Certificate issued in lieu of and in substitution for a Certificate which has been destroyed, stolen or lost, such new Certificate will be delivered only once the owner (a) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction or theft of such Certificate, (b) furnishes security or indemnity as may be required by the Paying Agent/Registrar and the City, (c) pays all expenses and charges in connection therewith and (d) satisfies any other reasonable requirements imposed by the City and the Paying Agent/Registrar.

### **Remedies In The Event of Default**

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

On April 1, 2016, the 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 in *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.

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City agrees in the Ordinance to maintain and provide a Paying Agent/Registrar at all times, 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 and 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 which notice will also give the address of the new Paying Agent/Registrar.

### **Record Date for Interest Payment**

The record date (the "Record Date") for the interest payable on any interest payment date of the Certificates means the close of business on the 15<sup>th</sup> calendar 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, 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 Registered 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.

### **Defeasance**

The Ordinance provides for the defeasance of the Certificates in any manner now or hereafter allowed by law.

## AD VALOREM PROPERTY TAXATION

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

### **Valuation of Taxable Property**

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

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.

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 "

### **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.

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.

## **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 during 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.

## **Other Exempt Property**

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

## **Temporary Exemption for Qualified Property Damaged by a Disaster**

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

## **Tax Increment Financing Zones**

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing 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 public improvements or projects 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.

### **Tax Abatement Agreements**

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

For a discussion of how the various exemptions described above are applied by the City, see “City Application of Property Tax Code” herein.

### **Public Hearing and Maintenance and Operations Tax Rate Limitations**

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

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

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

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

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

“unused increment rate” means the greater of zero and the rate expressed in dollars per \$100 of taxable value calculated by dividing (i) the cumulative difference of the foregone revenue amount, calculated using the difference between a city’s voter-approved tax rate and its actual tax rate for each of the preceding three tax years, by (ii) the “current total value” as defined in Section 26.012 of the Property Tax Code, and which may be applied to the City’s tax rate when calculating the voter-approval tax rate.

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

The City’s tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the “maintenance and operations tax rate”), and (2) a rate for funding debt service in the current year (the “debt service tax rate”). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by March 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.**

Chapter 26 of the Property Tax Code treats the ad valorem taxes levied to pay debt service on certain types of non-voted debt approved after December 1, 2022, as part of the maintenance and operations tax rate calculations, which could result in subjecting the tax levied for debt service on such non-voted debt to the maintenance and operations tax limitations described in this subcaption. The Certificates are not subject to the limitations imposed by Chapter 26 of the Property Tax Code.

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.

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.

### **Levy and Collection of Taxes**

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1.

## **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 of Texas 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.

## **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.

## **City Application of the Property Tax Code**

The City does not grant a local option exemption of the appraised value of all residence homesteads.

The City does grants an exemption of \$10,000 of the appraised value on the residence homestead of persons 65 years of age or older.

The City does not grant a local option freeze on taxes for persons 65 years of age or older or disabled persons.

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

The City does tax Freeport Property.

The City has taken action to tax Goods-in-Transit.

The City participates in four TIRZs. See "ISSUER INFORMATION – Tax Increment Reimbursement Zone" below.

## **Municipal Sales Tax Collections**

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Voters within the City approved an additional sales and use tax of ½ of 1% for property tax reduction, effective October of 1994. Additionally, the City's voters approved a sales and use tax of ½ of 1% for the benefit of the Bay City Development Corporation (the "Corporation"), which is a Type B economic development corporation. See "ISSUER INFORMATION – Bay City Community Development Corporation" herein.

## ISSUER INFORMATION

### **Authorized But Unissued General Obligation Debt**

The City has no authorized but unissued debt outstanding. Under State law, the City may issue certain obligations that are secured by ad valorem taxes without an election, such as the Certificates. Examples of such obligations include certificates of obligation and tax anticipation notes.

### **Anticipated Issuance of Debt**

The City intends to issue the final installment of the Texas Water Development Board debt for approximately \$3,735,000 for water and sewer improvements in early 2025. The City is also considering the issuance of approximately \$5 million in 2025 to complete improvements to the public service building.

### **Bay City Community Development Corporation**

The Bay City Community Development Corporation (the “Corporation”) was created in 1994 by the City under the Development Corporation Act of 1979 for the purpose of promoting and developing commercial, industrial and manufacturing enterprises and to promote and encourage employment and public welfare within the City. The corporation operates as a Type B Corporation under Chapter 501 through 504 of the Texas Local Government Code. The Corporation is governed by a board of directors consisting of seven members, four of which are appointed by the City Council. Effective October of 1994, the voters of the City approved a ½ of one percent sales tax for authorized economic development activities of the Corporation.

### **Tax Increment Reinvestment Zones**

The City has created four (4) Tax Increment Reinvestment Zones (TIRZ #1, TIRZ #2, TIRZ #3 and TIRZ #4) pursuant to Chapter 311 of the Texas Tax Code. TIRZ #1 is located in the downtown area, including a large portion of the north downtown area. TIRZ #2 is located at the far eastern portion of the city limits and is currently composed of unimproved land. TIRZ #3 was approved for an estimated 68 lot sub-division to be completed in 2024. TIR #4 was created in the eastern portion of the City on 49.71 acres.

### **Bay City Gas Company**

The Bay City Gas Company (the “Gas Company”) provides for the distribution of natural gas services throughout the City. The Gas Company is controlled by a permanent three-person board, which was originally appointed by Victor LeTulle, who donated the gas distribution system to the City in 1938. The board is comprised of two lifetime members, with the City’s mayor serving as the third member. The board is self-perpetuating, with the lifetime members appointing their successors. Historically, the Gas Company has made contributions from its profits to the City for capital improvements.

### **Economic Development Agreement**

The City has entered into a sales tax reimbursement agreement and multiple economic incentive agreements, authorized under Chapter 380 of the Local Government Code, with various business entities. The purpose of the incentives is to create jobs, and invigorate the local economy. The City has also entered into a Chapter 312 agreement for the purpose of providing incentives that are similar to those provided under Chapter 380 agreements. Both the Chapter 380 and 312 agreements are typically for a period of ten years, unless terminated sooner.

### **Other Obligations**

The City entered into a financed purchase agreement to purchase four vehicles for use in the City’s police department. See “Note 12 – Long-Term Debt – Financed Purchases - Selected Data from the Comprehensive Annual Financial Report, City of Bay City Fiscal Year Ended September 30, 2022” attached hereto as Appendix C.

The City has entered into a lease agreement with Konica Minolta Business Solutions USA, Inc. See “Note 12 – Long-Term Debt – Right-to-Use Lease - Selected Data from the Comprehensive Annual Financial Report, City of Bay City Fiscal Year Ended September 30, 2022” attached hereto as Appendix C.

## **Employee Retirement Plan and Other Post-Employment Benefits**

For a discussion of the City's Employee Retirement Plan and its obligations thereunder and its other post-employment benefit obligations, see "Note 8 – Defined Benefit Pension Plan – and Note 10 – Retiree Health Benefit Plan (OPEB) Selected Data from the Comprehensive Annual Financial Report, City of Bay City Fiscal Year Ended September 30, 2022" attached hereto as Appendix C.

## **Financial Policies**

*Basis of Accounting.* The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Governmental resources are allocated and accounted for in the individual funds based upon the purposes for which they are utilized and the means by which spending activities are controlled. All proprietary funds are accounted for using the accrual basis of accounting. See "Selected Data from Comprehensive Annual Financial Report, City of Bay City, Texas Fiscal Year Ended September 30, 2022" attached hereto as Appendix C.

*General Fund.* The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The City has established a policy of maintaining a fund balance of at least three months of expenditures. The City Council has adopted a formal policy to maintain a fund balance not less than three months expenditures.

*Debt Service Fund.* The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds..

*Enterprise Funds.* The Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises or (2) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control,

*Fund Balance Policy.* The City has followed a policy of maintaining a reserve level between 15% and 20% of the operation expenditures for all funds.

## **Deposits and Investments**

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

*Authorized Investments.* Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) Certificates 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 governing body 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, Certificate 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 Certificate 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 governing body 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 include 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 and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

*Additional Provisions.* Under Texas 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 (if not the Treasurer) 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 its investment in no-load mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding Certificate proceeds and reserves and other funds held for debt service, and to invest no portion of Certificate proceeds, reserves and funds held for debt service, in mutual funds; (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (9) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investments transactions with the City.

*Current Investments.* As of March 31, 2024, the City had \$19,251,841 in cash and investments.

As of such date, the market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the City are invested in derivative securities, *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.



## LEGAL MATTERS

### Legal Opinions

The Certificates are offered when, as and if issued, subject to the approval by the Attorney General of the State and the rendering of an opinion by Bracewell LLP, Houston, Texas, Bond Counsel for the City (“Bond Counsel”), in substantially the form attached hereto as a Appendix D.

The City will furnish the Initial Purchaser with a complete transcript of proceedings held incident to the authorization and issuance of the Certificates, including the approving opinion of the Attorney General of the State of Texas as recorded in the Certificate Register of the Comptroller of Public Accounts of the State, to the effect that the Certificates are valid and legally binding obligations of the City under the Constitution and laws of the State. The City will also furnish the approving legal opinion of Bond Counsel in substantially the form attached hereto as Appendix D.

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 to Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the book-entry-only system.

The various 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.

### Litigation

The City is exposed to various risks of losses related to torts, theft of, damage to and destruction of fixed assets; error and omissions; injuries to employees; and natural disasters. The City has obtained commercial insurance coverage for some of these risks and provided various employee education and prevention programs. Various claims and lawsuits may be pending against the City at any given time, however in the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially adversely affect the City’s financial position.

## 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 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 Certificate proceeds and the source of repayment of Certificates, limitations on the investment of Certificate proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of Certificate proceeds to be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The City has covenanted in the Ordinance that it will comply with these requirements.

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

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

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

### **Additional Federal Income Tax Considerations**

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

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

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

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

*Tax Accounting Treatment of Original Issue Premium.* If the issue price of any 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 Certificate 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 “OID Certificates”), the difference between (i) the amount payable at the maturity of each OID Certificate, and (ii) the initial offering price to the public of such OID Certificate constitutes original issue discount with respect to such OID Certificate in the hands of any owner who has purchased such OID 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 OID Certificate equal to that portion of the amount of such original issue discount allocable to the period that such OID 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 “– 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 OID Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such OID Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such OID Certificate was held by such initial owner) is includable in gross income.

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

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

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of OID 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 OID 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 OID Certificates and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such OID 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 proposed, pending or future legislation.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinance, the City has made the following agreement for the benefit of the registered and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board (“MSRB”) in an electronic format as prescribed by the MSRB. Information will be publicly available on the MSRB’s Electronic Municipal Market Access System at [www.emma.msrb.org](http://www.emma.msrb.org) (“EMMA”).

### **Annual Reports**

The City shall provide annually to the MSRB, (1) within twelve (12) months after the end of each Fiscal Year of the City ending in and after 2024, financial information and operating data with respect to the City of the general type included in this Official Statement under the Schedules in Appendix A attached hereto numbered 1 through 4, 6 through 9 and 11 through 14 including financial statements of the City if audited financial statements of the City are then available, and (2) if not provided as part such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in the rules to the financial statements for the most recently concluded Fiscal Year or such other accounting principles as the City may be required to employ, from time to time, by State law or regulation, and (ii) 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 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The City may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the “SEC”).

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

### **Event Notices**

The City will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The City will provide notice of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the 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; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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 the 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. Neither the Certificates nor the continuing disclosure agreement make any provision for liquidity enhancement, the funding of debt service reserves or the appointment of a trustee. In addition, the City will provide timely notice of any failure by the City to provide annual financial information, data or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the MSRB in an electronic format, as prescribed by the MSRB.

For these purposes, (A) any event described in the subsection (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, (B) as used in subsections (15) and (16), "Financial Obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule, and (C) the City intends the words used in paragraphs (15) and (16) and the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated March 20, 2018 (the "2018 Release") and any further written guidance provided by the SEC or its staff with respect to the amendments to the Rule effected by the 2018 Release.

The City will provide timely notice of any failure of the City to provide annual financial information, data, or financial statements in accordance with its agreement above describe under "-Annual Reports."

#### **Availability of Information from EMMA**

All such information described above must be filed with the MSRB. Investors will be able to access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). The City has agreed to provide the foregoing information only to the MSRB through EMMA.

#### **Limitations and Amendments**

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

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

## **Compliance with Prior Undertakings**

For the past five years, the City has not failed to comply in any material respect with any continuing disclosure agreements made in accordance with the Rule with respect to the City's obligations subject to the Rule.

## **WEATHER EVENTS**

The City is located on 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.

## **OTHER INFORMATION**

### **Municipal Rating**

S&P Global Rating Services, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned its underlying municipal bond rating of "A+/Stable" to this issue of Certificates. An explanation of the rating may be obtained from S&P. The rating reflects only the view of S&P and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

### **Financial Advisor**

USCA Municipal Advisors, LLC ("USCA" or the "Financial Advisor"), a subsidiary of USCW Holdco, LLC, 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. USCA, 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.

USCA has reviewed the information in this Official Statement in accordance with its responsibilities to the City and, as applicable, to investors under federal securities laws as applied to the facts and circumstances of this transaction, but USCA does not guarantee the accuracy or completeness of such information.

## **Initial Purchaser**

After requesting competitive bids for the Certificates, the City has accepted a bid tendered by \_\_\_\_\_ (the “Initial Purchaser”) to purchase the Certificates at the rates shown on page ii of this Official Statement at a price of par plus a cash Premium of \$ \_\_\_\_\_. No assurance can be given that any trading market will be developed for the Certificates after their initial sale by the City. The City has no control over the prices at which the Certificates will initially be re-offered to the public.

## **GENERAL CONSIDERATIONS**

### **Prices and Marketability**

The delivery of the Certificates is conditioned upon the receipt by the City of a Certificate executed and delivered by the Initial Purchaser on or before the Date of Delivery, stating the prices at which a substantial amount of the Certificates of each maturity has been sold to the public. For this purpose, the term “public” shall not include any person who is a bondhouse, broker, dealer, or similar person acting in the capacity of Initial Purchaser or wholesaler. The City has no control over trading of the Certificates after a bona fide offering of the Certificates is made by the Initial Purchaser at the yields specified on the inside cover page of this Official Statement. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

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

### **Legal Investments and Eligibility to Secure Public Funds in Texas**

Pursuant to the Texas Public Securities Act, Chapter 1201, Texas Government Code, as amended, the Certificates, whether rated or unrated, are legal and authorized investments for insurance companies, fiduciaries or trustees, and for a sinking fund of municipalities and other political subdivisions or public agencies. Most political subdivisions in the State are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Certificates have a rating of not less than “A” or its equivalent to be legal investments of such entity’s funds. The “Public Funds Collateral Act,” Chapter 2257, Texas Government Code, provides that deposits of public funds, as defined in such chapter, must be secured by eligible security. “Eligible Security” is defined to include local government obligations (such as the Certificates) with a rating from a nationally recognized investment firm of “A” or its equivalent. See “OTHER INFORMATION – Municipal Rating” herein.

**The City makes no representation that the Certificates will be acceptable to public entities to secure their deposits, or acceptable to any such entities or institutions for investment purposes. 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.**

### **Securities Laws**

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

### **Sources and Compilation of Information**

The information contained in this Official Statement has been obtained primarily from the City and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the City. This is no guarantee that any of the assumptions or estimates contained herein will be realized. The

summaries of the statutes, the Ordinance and other related documents are included herein subject to all the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

### **Forward-Looking Statements**

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. See "USE OF INFORMATION IN OFFICIAL STATEMENT." 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 in such forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and 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 would prove to be accurate.

### **Approval of the Official Statement**

This Official Statement has been "deemed final" by an authorized representative of the City as of its date except for the omission of no more than the information permitted by the Rule. In the Ordinance, the City Council (i) authorized the City Manager or Chief Financial Officer of the City to approve the final form and content of this Official Statement and any addenda, supplement or amendment thereto and (ii) authorized use of the Official Statement in the re-offering of the Certificates by the Initial Purchaser.

### **Certification of the Official Statement**

At the time of payment for and delivery of the Certificates, the City will furnish a Certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in this Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of the Certificates 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 this Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

### **No-Litigation Certificate**

The City will furnish the Initial Purchaser a certificate, dated as of the date of delivery of the Certificates, executed by an appropriate official of the City, to the effect that no litigation of any nature is then pending or threatened in any court, restraining or enjoining the issuance or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceeding for the issuance, execution or delivery of the Certificates; or affecting the validity of the Certificates.



**Audited Financial Statements**

Harrison, Waldrop, & Uherek, LLP, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Harrison, Waldrop, & Uherek, LLP relating to the City's financial statements for the fiscal year ended September 30, 2022 is included in this Official Statement in APPENDIX C; however, Harrison, Waldrop, & Uherek, LLP 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.

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**APPENDIX A**

**FINANCIAL INFORMATION AND DEBT INFORMATION**

The City has previously issued the following tax supported debt (the “Outstanding Obligations”). The table below lists the principal amounts of the Outstanding Obligations, including the Certificates.

**Schedule 1 - Outstanding Obligations**

<b><u>Total Outstanding Debt as of June 1, 2024</u></b>	<b><u>Amount Outstanding</u></b>
General Obligation Refunding Bonds, Series 2013	\$ 405,000
Tax & Revenue Certificates of Obligation, Series 2014	1,980,000
Tax & Revenue Certificates of Obligation, Series 2016	3,985,000
Tax Notes, Series 2018	450,000
Tax & Revenue Certificates of Obligation, Series 2020	7,495,000
General Obligation Refunding Bonds, Series 2021	3,925,000
Tax & Surplus Revenue Certificates of Obligation, Series 2021A	4,461,000
Tax & Surplus Revenue Certificates of Obligation, Series 2021B	1,995,000
Tax & Surplus Revenue Certificates of Obligation, Series 2022A	12,334,000
Tax & Surplus Revenue Certificates of Obligation, Series 2022B	5,480,000
Tax & Surplus Revenue Certificates of Obligation, Series 2023A	13,427,000
Tax & Surplus Revenue Certificates of Obligation, Series 2023B	6,175,000
Tax & Surplus Revenue Certificates of Obligation, Series 2024A	7,124,000
Tax & Surplus Revenue Certificates of Obligation, Series 2024B	3,620,000
Tax & Surplus Revenue Certificates of Obligation, Series 2024C	2,590,000
Tax & Surplus Revenue Certificates of Obligation, Series 2024D	8,910,000
The Certificates	<u>17,000,000</u> *
Total	\$ 101,356,000

\*Preliminary, subject to change.

**Schedule 2 - Self-Supporting Debt**

The City’s current practice is to pay debt service on portion of the City’s Outstanding Obligations issued for certain utility system purposes from revenues of the City’s water and sewer system rather than from ad valorem taxes and to pay debt service on certain obligations from revenues received by the City from the Bay City Development Corporation and the City’s Gas Company. Although the foregoing practice is taken into consideration in the setting of each of the year’s tax rate in the budget process and in the calculations contained herein, the City may modify or eliminate such practice as it may deem appropriate in future years. If the City were to change such practice, it would be required to levy ad valorem tax for the payment of debt service on such debt. The City presently intends to continue such practice.

<b>Outstanding Self-Supporting Debt as of June 1, 2024</b>	<b>Amount Outstanding <sup>(a)</sup></b>
Tax & Revenue Certificates of Obligation, Series 2014	\$ 495,000
Tax & Revenue Certificates of Obligation, Series 2016	1,328,201
Tax & Revenue Certificates of Obligation, Series 2020	4,940,000
General Obligation Refunding Bonds, Series 2021	2,786,750
Tax & Surplus Revenue Certificates of Obligation, Series 2021A	4,461,000
Tax & Surplus Revenue Certificates of Obligation, Series 2021B	1,995,000
Tax & Surplus Revenue Certificates of Obligation, Series 2022A	12,334,000
Tax & Surplus Revenue Certificates of Obligation, Series 2022B	5,480,000
Tax & Surplus Revenue Certificates of Obligation, Series 2023A	13,427,000
Tax & Surplus Revenue Certificates of Obligation, Series 2023B	6,175,000
Tax & Surplus Revenue Certificates of Obligation, Series 2024A	7,124,000
Tax & Surplus Revenue Certificates of Obligation, Series 2024B	3,620,000
Tax & Surplus Revenue Certificates of Obligation, Series 2024C	2,590,000
Tax & Surplus Revenue Certificates of Obligation, Series 2024D	8,910,000
The Certificates	<u>10,000,000</u> *
Total	85,665,951

(a) The Amounts Outstanding represent the portions of the listed obligations that are treated by the City as self-supporting.

\*Preliminary, subject to change.

### Schedule 3 – Pro Forma Debt Service Requirements

The following table sets forth the debt service requirements on the City’s outstanding debt obligations including the Certificates.

FYE 9/30	Outstanding Debt Service	The Certificates *				Total	Total Debt Service	Less:	
		Principal	Interest Rate <sup>(b)</sup>	Interest <sup>(b)</sup>	Net Debt Service			Self-Supporting Debt Service <sup>(a)</sup>	
2024	\$ 5,304,772	\$ -		\$ -	\$ -	\$ 5,304,772	\$ 3,714,878	\$ 1,589,894	
2025	5,811,785	175,000	5.00%	1,001,111	1,176,111	6,987,896	5,360,480	1,627,416	
2026	5,580,180	330,000	5.00%	841,250	1,171,250	6,751,430	5,351,552	1,399,878	
2027	5,577,288	350,000	5.00%	824,750	1,174,750	6,752,038	5,355,980	1,396,057	
2028	4,758,601	370,000	5.00%	807,250	1,177,250	5,935,851	4,772,841	1,163,010	
2029	4,783,863	385,000	5.00%	788,750	1,173,750	5,957,613	4,787,138	1,170,475	
2030	4,769,714	405,000	5.00%	769,500	1,174,500	5,944,214	4,777,987	1,166,227	
2031	4,452,002	430,000	5.00%	749,250	1,179,250	5,631,252	4,650,295	980,956	
2032	4,473,458	445,000	5.00%	727,750	1,172,750	5,646,208	4,661,735	984,473	
2033	4,463,515	465,000	5.00%	705,500	1,170,500	5,634,015	4,655,209	978,806	
2034	4,452,473	490,000	5.00%	682,250	1,172,250	5,624,723	4,647,651	977,073	
2035	4,233,889	520,000	5.00%	657,750	1,177,750	5,411,639	4,597,243	814,396	
2036	3,754,700	540,000	5.00%	631,750	1,171,750	4,926,450	4,114,604	811,846	
2037	3,380,556	570,000	5.00%	604,750	1,174,750	4,555,306	3,995,106	560,200	
2038	3,378,065	600,000	5.00%	576,250	1,176,250	4,554,315	3,990,615	563,700	
2039	3,383,969	630,000	5.00%	546,250	1,176,250	4,560,219	3,998,644	561,575	
2040	3,383,503	660,000	5.00%	514,750	1,174,750	4,558,253	3,994,303	563,950	
2041	3,376,912	690,000	5.00%	481,750	1,171,750	4,548,662	3,987,962	560,700	
2042	3,384,148	730,000	5.00%	447,250	1,177,250	4,561,398	3,994,673	566,725	
2043	3,379,922	765,000	5.00%	410,750	1,175,750	4,555,672	3,993,809	561,863	
2044	3,373,665	805,000	5.00%	372,500	1,177,500	4,551,165	3,984,665	566,500	
2045	3,377,283	840,000	5.00%	332,250	1,172,250	4,549,533	3,989,283	560,250	
2046	3,272,866	885,000	5.00%	290,250	1,175,250	4,448,116	3,989,616	458,500	
2047	3,276,281	925,000	5.00%	246,000	1,171,000	4,447,281	3,988,531	458,750	
2048	3,276,641	975,000	5.00%	199,750	1,174,750	4,451,391	3,993,141	458,250	
2049	3,276,970	1,020,000	5.00%	151,000	1,171,000	4,447,970	3,990,970	457,000	
2050	2,096,380	360,000	5.00%	100,000	460,000	2,556,380	2,096,380	460,000	
2051	1,799,943	380,000	5.00%	82,000	462,000	2,261,943	1,799,943	462,000	
2052	978,474	395,000	5.00%	63,000	458,000	1,436,474	978,474	458,000	
2053	-	415,000	5.00%	43,250	458,250	458,250	-	458,250	
2054	-	450,000	5.00%	11,250	461,250	461,250	-	461,250	
<b>Total</b>	<b>\$ 110,811,817</b>	<b>\$ 17,000,000</b>		<b>\$ 14,659,861</b>	<b>\$ 31,659,861</b>	<b>\$ 142,471,678</b>	<b>\$ 118,213,709</b>	<b>\$ 24,257,969</b>	

(a) The City follows a policy of paying a portion of its outstanding debt service from the net revenues of other City sources. The City currently intends to continue this practice, but there is no assurance that the City will continue doing so. See Appendix A - "Schedule 2 -Self-Supporting Debt" herein.

(b) Interest calculated for illustrative purposes only.

\*Preliminary, subject to change.

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#### Schedule 4 - Tax Adequacy for Estimated Debt Service

The calculations shown below assume, solely for the purpose of illustration, no change in assessed valuation over the 2023 Taxable Assessed Valuation provided by the Appraisal District and use a tax rate adequate to the service of the City's total debt service requirements following issuance of the Certificates.

##### Estimated Total Debt Service <sup>(a)\*</sup>

Average annual debt service requirements on the City's total outstanding indebtedness, including the Certificates.	\$	4,595,861
\$ 0.4004 Taxrate on the 2023 taxable assessed valuation at 98% collection produces	\$	4,596,808
Maximum annual debt service requirements on the City's total outstanding indebtedness, including the Certificates.	\$	6,987,896
\$ 0.6087 Taxrate on the 2023 taxable assessed valuation at 98% collection produces	\$	6,988,204

(a) Includes the Bonds and excludes the Certificates.

\*Preliminary, subject to change.

##### Estimated Net Debt Service <sup>(a)\*</sup>

Average annual debt service requirements on the City's net outstanding indebtedness, including the Certificates.	\$	782,515
\$ 0.0714 Taxrate on the 2023 taxable assessed valuation at 98% collection produces	\$	782,973
Maximum annual debt service requirements on the City's net outstanding indebtedness, including the Certificates.	\$	1,627,416
\$ 0.1418 Taxrate on the 2023 taxable assessed valuation at 98% collection produces	\$	1,627,940

(a) Includes the Certificates.

(b) Net of self-supporting debt. See Appendix A - "Schedule 2 -Self-Supporting Debt" herein.

\*Preliminary, subject to change.

## Schedule 5 – Estimated Overlapping Debt

Expenditures of the various taxing bodies within the territory of the City may be paid out of ad valorem taxes levied by these taxing bodies on property within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. The following information on overlapping jurisdictions 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 below may have issued additional Certificates since the date stated in the table, and such entities may have programs requiring the issuance of substantial amounts of additional Certificates the amount of which cannot be determined. The following table reflects the estimates share, in thousands, of overlapping debt of these various taxing bodies.

### Estimated Overlapping Debt

The table below sets forth the estimated overlapping debt and the City’s debt including the Certificates.

<u>Jurisdiction</u>	<u>Outstanding Debt</u>	<u>As of</u>	<u>Percent Overlapping</u>	<u>Amount Overlapping</u>
Bay City Independent School District	\$ 124,689,177	5/31/2024	52.30%	\$ 65,212,440
Matagorda County	1,795,000	5/31/2024	13.94%	250,223
Van Vleet ISD	66,830,000	5/31/2024	0.29%	193,807
Total Overlapping	\$ 193,314,177			\$ 65,656,470
City of Bay City <sup>(a)*</sup>	\$ 101,356,000	6/1/2024	100.00%	\$ 101,356,000
Total Direct and Overlapping Debt	\$ 294,670,177			\$ 167,012,470

(a) Includes the Certificates.

\*Preliminary, subject to change.

Source: Municipal Advisory Council of Texas.

## Schedule 6 – Historical Analysis of Ad Valorem Taxation

The following table sets forth the City’s historical taxable assessed valuation.

<u>Tax Year</u>	<u>FYE 9/30</u>	<u>Taxable Assessed Value</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Percent Collections</u>	
					<u>Current</u>	<u>Total</u>
2019	2020	868,960,974	\$ 0.65500	\$ 5,676,653	97.98%	99.39%
2020	2021	897,701,778	0.65500	5,871,086	98.17%	99.24%
2021	2022	968,851,553	0.63500	6,117,480	98.13%	98.99%
2022	2023	1,031,765,076	0.63500	6,552,740	97.84%	97.84%
2023	2024	1,171,484,617	0.56995	6,676,877	NA	NA

Source: City of Bay City, Texas, the Municipal Advisory Council of Texas and the Matagorda County Appraisal District.

**Schedule 7 - Historical Analysis of the Assessed Valuation by Category**

The following table sets forth the City’s assessed valuation by category.

<u>Tax Year</u>	<u>FYE 9/30</u>	<u>Residential Property</u>	<u>Commercial &amp; Industrial</u>	<u>Personal Property</u>	<u>Less: Tax Exempt Real Property</u>	<u>Total Taxable Assessed Value</u>
2019	2020	\$ 372,695,204	\$ 549,611,757	\$ 78,508,945	\$ (131,854,932)	\$ 868,960,974
2020	2021	378,389,457	566,492,601	87,061,140	(134,241,420)	897,701,778
2021	2022	408,665,471	610,480,537	89,231,109	(139,525,564)	968,851,553
2022	2023	649,806,807	440,759,311	91,224,750	(149,881,722)	1,031,909,146
2023	2024	487,280,195	772,268,301	93,266,832	(181,330,711)	1,171,484,617

Source: City of Bay City.

**Schedule 8 - Largest Assessed Valuations**

The table below reflects the City’s top ten taxpayers for the tax year 2023.

<u>Ten Largest Taxpayers</u>	<u>Type of Business</u>	<u>2023 Taxable Assessed Valuation</u>	<u>Percent of 2023 Taxable Assessed Valuation</u>
Nichols Square Partners Ltd	Apartments	\$ 18,626,360	1.59%
Oak Manor Bay City LLP	Commercial Land	14,301,805	1.22%
AEP Texas Central Company	Electric Utility	13,237,890	1.13%
Wal Mart Real Estate Business Trust	Trust	11,615,750	0.99%
The Retreat 360 LLC	Commercial	10,225,950	0.87%
Bay City Community Development Corp	Developer	7,095,380	0.61%
Wal Mart Store #01-1405	Retail	6,834,340	0.58%
Riverway Apartments 360 LLC	Apartments	6,590,460	0.56%
Rock Hard Real Estate LLC	Real Estate	6,251,930	0.53%
HE Butt Grocery Company	Grocery	5,555,413	0.47%
		<u>\$ 100,335,278</u>	<u>8.56%</u>
2023 Taxable Assessed Valuation		\$ 1,171,484,617	

Note: Source: Matagorda County Appraisal District and the Municipal Advisory Council of Texas.

**Schedule 9 – Tax Rate Distribution**

The following table sets for the historical tax rates for the City.

<u>Tax Rate Distribution</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
General Fund	\$ 0.43453	\$ 0.48075	\$ 0.47137	\$ 0.48212	\$ 0.50176
Debt Service Fund	0.13542	0.15425	0.16363	0.17288	0.15324
Total	\$ 0.56995	\$ 0.63500	\$ 0.63500	\$ 0.65500	\$ 0.65500



**Schedule 10 - Estimated Overlapping Taxes**

Property within the City is subject to taxation by several taxing authorities in addition to the City. Under Texas law, tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on July 1 of that year. The tax lien on property in favor of the City is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on debt of the City and such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

<u>Overlapping Entity</u>	<u>2023 Tax Rate</u>
Bay City Independent School District	\$ 1.04446
Matagorda County	0.35928
Matagorda County Hospital District	0.26382
Matagorda Co. Drainage District #1	0.03447
Matagorda Co. Conservation & reclaim. Distr.	0.00704
Port of Bay City	0.04754
City of Bay City	0.56995

Source: Matagorda County Appraisal District.

**Schedule 11 - Municipal Sales Tax History**

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Voters within the City approved an additional sales and use tax of ½ of 1% for property tax reduction, effective October of 1994. Additionally, the City’s voters approved a sales and use tax of ½ of 1% for the benefit of the Bay City Development Corporation (Type B)(the “Corporation”). See “ISSUER INFORMATION – Bay City Community Development Corporation” herein. The following table does not include sales and use tax receipts for the benefit of the Corporation.

<u>FYE</u>	<u>Total Sales Tax Collections <sup>(a)</sup></u>
2020	\$ 4,966,859
2021	4,934,706
2022	5,082,459
2023	5,479,790
2024 <sup>(b)</sup>	3,671,450

(a) Includes sales tax collections from the 1% adopted under Chapter 321 and the 1/2% of 1% adopted for property tax relief.

Excludes sales tax revenues collected for the benefit of the Bay City Community Development Corporation.

(b) Revenues collected through May 2024.

Source: City of Bay City.

## Schedule 12 - Historical Operations of the Debt Service Fund

The following schedule sets forth in condensed form the historical operations of the City's Debt Service Fund. Such information has been prepared based upon information obtained from the City's audited financial statements and other information provided by the City. Reference is made to such statements for further and complete information.

<b>Revenues</b>	<b>Fiscal Year Ending September 30,</b>				
	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Property taxes	\$ 1,585,393	\$ 1,559,252	\$ 1,334,446	\$ 1,246,562	\$ 1,172,408
Investment income	4,473	1,422	11,965	-	-
Miscellaneous	473,481	478,231	42,564	25,195	11,643
<b>Total revenues</b>	<b>2,063,347</b>	<b>2,038,905</b>	<b>1,388,975</b>	<b>1,271,757</b>	<b>1,184,051</b>
<b>Expenditures</b>					
Debt service					
Principal	1,555,475	1,553,042	986,258	1,465,175	1,419,841
Interest and fiscal charges	496,793	506,859	387,190	364,072	361,967
Paying agents' fees and issue costs	-	55,922	4,225	4,341	4,772
<b>Total expenditures</b>	<b>2,052,268</b>	<b>2,115,823</b>	<b>1,377,673</b>	<b>1,833,588</b>	<b>1,786,580</b>
(Deficiency) of revenues (under) expenditures	11,079	(76,918)	11,302	(561,831)	(602,529)
<b>Other Financing Sources (Uses)</b>					
Debt issued	-	1,799,450	-	-	-
Premium on debt	-	321,622	-	-	-
Payment to escrow	-	(2,068,282)	-	-	-
Transfers in <sup>(a)</sup>	-	-	-	595,125	594,550
Transfers out	-	-	-	-	-
<b>Total other financing sources(uses)</b>	<b>-</b>	<b>52,790</b>	<b>-</b>	<b>595,125</b>	<b>594,550</b>
Net change in fund balance	11,079	(24,128)	11,302	33,294	(7,979)
Fund Balance-Beginning	211,819	235,947	224,645	191,351	199,330
Fund Balance-Ending	\$ 222,898	\$ 211,819	\$ 235,947	\$ 224,645	\$ 191,351

<sup>(a)</sup> Funds transferred from the General, Utility, and Sanitation Funds.

### Schedule 13 - Historical Operations of the General Fund

The following schedule sets forth in condensed form the historical operations of the City's General Fund. General Fund revenues are not pledged to pay the Certificates, though any surplus may be used for debt service at the discretion of the City Council. Such information has been prepared based upon information obtained from the City's audited financial statements and other information provided by the City.

<u>Revenues</u>	<u>Fiscal Year Ending September 30,</u>				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Taxes					
Property	\$ 4,606,665	\$ 4,406,292	4,394,429	\$ 4,429,486	4,187,436
Sales	5,082,459	4,934,706	4,966,859	4,447,508	4,277,863
Franchises	1,280,420	1,263,438	1,258,458	1,266,666	1,253,205
Other	42,340	45,459	32,290	42,614	40,341
Licenses and permits	246,296	193,014	205,985	281,795	396,638
Fines and forfeitures	176,879	193,433	215,930	203,526	201,602
Fees and charges for services	2,956,281	2,876,212	2,727,736	2,600,632	2,467,896
Intergovernmental	452,587	432,506	580,596	620,211	330,037
Investment earnings	(117,130)	22,097	65,460	58,415	31,474
Miscellaneous	209,836	629,757	687,618	698,006	559,341
<b>Total Revenues</b>	<b>14,936,633</b>	<b>14,996,914</b>	<b>15,135,361</b>	<b>14,648,859</b>	<b>13,745,833</b>
<u>Expenditures</u>					
General government	2,776,875	2,414,596	2,213,334	2,282,378	2,218,852
Public safety	5,821,878	5,499,838	4,981,814	4,837,335	4,784,440
Public works	4,422,647	3,838,132	3,430,356	3,727,131	3,429,104
Cultural and recreation	2,147,266	2,229,611	2,345,165		
Debt Service					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
<b>Total Expenditures</b>	<b>15,168,666</b>	<b>13,982,177</b>	<b>12,970,669</b>	<b>12,609,001</b>	<b>12,262,171</b>
(Deficiency) of revenues (under) expenditures	(232,033)	1,014,737	2,164,692	2,039,858	1,483,662
<u>Other Financing Sources (Uses)</u>					
Debt issuance	-	-	157,532		-
Transfers in	1,168,042	671,500	696,414	769,013	852,560
Transfers out <sup>(a)</sup>	(1,609,827)	(1,403,289)	(1,595,898)	(1,817,008)	(1,481,008)
<b>Total other financing sources (uses)</b>	<b>(441,785)</b>	<b>(731,789)</b>	<b>(741,952)</b>	<b>(1,047,995)</b>	<b>(628,448)</b>
Net change in fund balances	(673,818)	282,948	1,422,740	991,863	855,214
<u>Fund Balance - Beginning</u>	<u>4,915,918</u>	<u>4,632,970</u>	<u>3,210,230</u>	<u>2,218,367</u>	<u>1,363,153</u>
Fund Balance - Ending	\$ 4,242,100	\$ 4,915,918	\$ 4,632,970	\$ 3,210,230	\$ 2,218,367

(a) Transfers to the Water & Sewer Fund, Airport Fund and Street Maintenance & Construction Fund.

## Schedule 14 - Historical Operations of the Water and Sewer Fund

The following schedule sets forth in condensed form the historical operations of the City's Water & Sewer Fund. Such information has been prepared based upon information obtained from the City's audited financial statements and other information provided by the City.

<b>Revenues</b>	<b>Fiscal Year Ending September 30,</b>				
	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Charges for services	\$ 9,023,284	\$ 8,461,389	\$ 7,634,685	\$ 7,796,394	\$ 7,696,073
Other	65,490	14,983	65,513	52,933	83,248
Total operating revenues	9,088,774	8,476,372	7,700,198	7,849,327	7,779,321
<b>Expenditures</b>					
Cost of sales and services	6,324,645	4,937,314	5,571,555	4,890,826	4,317,116
Depreciation and amortization	1,931,858	1,951,561	1,856,244	1,853,965	1,847,334
Total operating expenses	8,256,503	6,888,875	7,427,799	6,744,791	6,164,450
Operating income (loss)	832,271	1,587,497	272,399	1,104,536	1,614,871
Non-Operating Revenues (Expenses)					
Investment earnings	12,243	1,821	27,766	86,063	51,490
Gain on disposition of capital assets	1,875	-	26,900	3,175	-
Interest and fiscal charges	(1,167,118)	(554,549)	(228,111)	(248,634)	(267,003)
Total non-operating revenues (expenses)	(1,153,000)	(552,728)	(173,445)	(159,396)	(215,513)
Income (loss) before transfers	(320,729)	1,034,769	98,954	945,140	1,399,358
Contributions and Transfers					
Capital contribution	9,450	1,620,935	26,050	219,828	17,260
Transfers in	-	-	-	-	-
Transfers out	(1,323,500)	(1,261,000)	(1,530,304)	(1,393,287)	(1,157,152)
Total contributions and transfers	(1,314,050)	359,935	(1,504,254)	(1,173,459)	(1,139,892)
Change in net assets	(1,634,779)	1,394,704	(1,405,300)	(228,319)	259,466
Fund Balance - Beginning	16,267,430	14,872,726	16,278,026	16,506,345	\$ 16,246,879
Fund Balance - Ending	\$ 14,632,651	\$ 16,267,430	\$ 14,872,726	\$ 16,278,026	\$ 16,506,345

## APPENDIX B

### ECONOMIC AND DEMOGRAPHIC INFORMATION

#### Location

The City of Bay City, Texas (the “City”), incorporated in 1902, is located in Matagorda County. The City currently occupies a land area of 8.92 square miles and serves an estimated population of 17,614. The City is a home-rule municipality and a political subdivision of the State of Texas, the county seat and principal commercial center of Matagorda County and is located at the intersection of State Highways 60 and 35.

	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2010</b>
	<b>Census</b>	<b>Census</b>	<b>Census</b>	<b>Census</b>	<b>Census</b>
Matagorda County	27,913	37,828	36,928	37,957	36,702
City of Bay City	13,445	17,838	18,170	18,667	17,614

#### Economy

Bay City is the county seat and largest city in Matagorda County, with more than half of the county population living within five miles of the City center. Bay City Community Development Corporation is actively pursuing new housing development and retail recruitment to provide the amenities that our citizens will need.

Matagorda County is building on its power generation, chemical, tourism and agricultural bases. It is growing its own energy cluster with the proposed expansion of the South Texas Nuclear Project (“STP”), and a new coal fired power plant. STP currently has two nuclear reactors and remains a possible site for expansion.

#### Major Employers

The major employers in the City and their employment estimates are as follows:

##### Principal Employers FYE 2022

<u>Employer</u>	<u>Business</u>	<u>Employees</u>
South Texas Project	Electric Generating System	1,089
Tenaris	Oil Field Equipment	710
Bay City ISD	Education	550
Williams		468
Matagorda Co General Hospital	Hospital	295
HEB	Grocery	260
Wal-Mart	Retail	252
Matagorda County	Government	250
OXEА	Chemicals	175
Lyondell	Chemicals	158

Source: City of Bay City, Texas Comprehensive Annual Financial Report FYE 2022.

Source: Municipal Advisory Council of Texas.

#### Utilities

Water and sewer utilities are provided by the City. Electric power is supplied to the City by Gexa Energy and Jackson Electric Cooperative, Inc. Bay City Gas Company provides natural gas, and telephone service is provided by SBC.

## **Transportation**

The major north-south artery is U. S. Highway 59, and Texas Highways 60 and 35 are the main state highways. Air transportation is provided by the Bay City Airport, Bush Intercontinental Airport and Hobby Airport. Railroad service is provided by Burlington/Santa Fe and Union/Pacific railroads.

## **Education Facilities**

Bay City Independent School District (the “District”) serves the City of Bay City. The District covers approximately 164 square miles in Matagorda County. The District currently consists of three elementary schools (Homes Elementary, Roberts Elementary and Cherry Elementary), two middle schools (Bay City Middle School and McAllister Middle School), one junior high school (Bay City Junior High) and one high school (Bay City High School). The curriculum is routinely updated to keep pace with current trends in education and the more complex needs of students. Currently the District has 600 full time employees and a current estimated total enrollment of approximately 3,900 students. In addition, there are three private schools in the area.

Area universities and colleges include Brazosport College, Galveston College, Houston Community College, San Jacinto College, Bay City Technical College, University of Houston at Victoria, Matagorda County Junior College, Blinn College at Brenham, Houston Baptist University, Prairie View A&M University, Texas A&M University at Galveston, University of Houston, and Victoria College.

**APPENDIX C**

**SELECTED DATA FROM  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
CITY OF BAY CITY, TEXAS  
FISCAL YEAR ENDED SEPTEMBER 30, 2022**

The information contained in this Appendix consists of excerpts from the City's Annual Financial Report for the Year Ended September 30, 2022 (the "Report") 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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# ANNUAL COMPREHENSIVE FINANCIAL REPORT

TRANSPORTATION

INFRASTRUCTURE

AQUATICS



HOUSING

VALOR PARK  
MARGUERITE MEADOWS  
BOLD FOX DEVELOPMENT  
AMALFI RANCH (MADDOX)

FOR THE YEAR ENDED SEPTEMBER 30, 2022

CITY OF BAY CITY, TEXAS  
CITYOFBAYCITY.ORG

**CITY OF BAY CITY, TEXAS**  
*ANNUAL COMPREHENSIVE FINANCIAL REPORT*  
*For the fiscal year ended September 30, 2022*

Scotty Jones  
*Finance Director*

Shawna Burkhart  
*City Manager*

Issued By:  
Finance Department

**CITY OF BAY CITY, TEXAS**  
*ANNUAL COMPREHENSIVE FINANCIAL REPORT*  
*For the year ended September 30, 2022*

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## **INTRODUCTORY SECTION**



# CITY OF **BAY CITY**

1901 5<sup>TH</sup> Street, Bay City, Texas 77414, Phone: 979-245-2137 Fax: 979-323-1626, [www.cityofbaycity.org](http://www.cityofbaycity.org)

Mayor  
Ext. 1676  
979-245-7597

City Secretary  
Ext. 1628  
979-245-5311

Animal Control  
979-323-1706

Airport  
979-245-5037

Civic Center  
979-245-8333

Code Enforcement  
Ext. 1924  
979-245-8500

Finance  
Ext. 1631  
979-245-7597

Fire Station  
979-245-8314

Inspections/Permits  
Ext. 1669  
979-323-1659

Municipal Court  
Ext. 1647  
979-245-0003

Parks & Recreation  
Ext. 1607  
979-323-1660

Personnel  
Ext. 1628  
979-245-5311

Public Works  
979-323-1659

Police  
979-245-8500

Utilities Operation  
979-323-1110

Utility Billing  
Ext. 1638  
979-245-7597

March 23, 2023

Citizens of Bay City  
Honorable Mayor and Members of the City Council,

The Finance Department is pleased to submit the Annual Comprehensive Financial Report for the City of Bay City, Texas, for the fiscal ended September 30, 2022. This report was prepared through the cooperative effort of the Finance Department and the City's independent auditor. State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles ("GAAP") and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, the comprehensive annual financial report of the City of Bay City, Texas (the "City") for the fiscal year ended September 30, 2022, is hereby submitted.

The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. The report consists of management's representations concerning the finances of the City. To provide a reasonable basis for making these representations, the City has established a comprehensive internal control framework that is designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we believe the enclosed data to be accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City's financial statements have been audited by **Harrison, Waldrop, & Uherek, L.L.P.**, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2022, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the year ended September 30, 2022, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The annual comprehensive financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The financial section includes a Management's Discussion and Analysis (MD&A), basic financial statements and schedules, as well as the auditor's report on the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, as well as budgetary comparison information and combining and individual fund financial statements and schedules.

The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The MD&A is a narrative introduction, overview and analysis to accompany the basic financial statements. The letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of our independent auditors.

In addition to the MD&A described above, this annual report includes government-wide financial statements, prepared using accrual accounting for all of our financial activities.

These government-wide financial statements help users:

- Assess the finances of the government in its entirety, including the year's operating results
- Determine whether the government's overall financial position improved or deteriorated
- Evaluate whether the government's current-year revenues were sufficient to pay for current-year services
- See the cost of providing services to its citizenry
- See how the government finances its programs-through user fees and other program revenue versus general tax revenues
- Understand the extent to which the government has invested in capital assets, including streets, bridges, and other infrastructure assets.
- Make better comparisons between governments.

## **PROFILE OF THE GOVERNMENT**

The City, incorporated in 1902, is located in Matagorda County, currently occupies a land area of 8.92 square miles and serves a population of 18,061. The City is empowered to levy a property tax on both real and personal property located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, if deemed appropriate by the City Council.

In 2019, the City adopted a Mayor/Council-City Manager form of government as opposed to the Mayor-Council form of government. The Council, vested with policy-making and legislative authority, is comprised of a Mayor and five Council members. The Mayor is elected to a three-year term, with three term limits, and Council members are elected at large for a three-year term, with three term limits. The City Council is responsible, among other things, for passing ordinances, adopting the budget and the hiring of the City's management and attorney. The City Manager is hired by the City Council to serve as the chief administrative officer of the City who is responsible to the City Council for efficient and economical administration of the city government.

The City provides a full range of municipal services: public safety (police and fire protection), public improvements, water and wastewater utilities, repairs and maintenance of infrastructure, recreation, sanitation and general administrative services. In addition, the City owns and operates a general aviation airport. As an independent political subdivision of the State of Texas governed by an elected Mayor and Council, the City is considered a primary government. In accordance with standards established by the Governmental Accounting Standards Board, the City reports all funds for which the City, as the primary government, is accountable.

## **LOCAL ECONOMY**

The City is home to a diversified group of industries. Major industries and business activities in the area include nuclear power generation, healthcare, metals, oil and gas services and a variety of general retail operations. This diversification is evident in the fact that no single taxpayer represents more than 1.60% of assessed valuation in the City.

The City is also a major retail trade area for industrial services, legal services, financial services, building materials, general merchandise, food stores, automotive, and restaurants.

Net taxable value for all residential and commercial property in the City exceeded \$969 million for fiscal year 2022, which is an 8% increase from fiscal year 2021.



## **ACCOUNTING SYSTEMS AND BUDGETING CONTROL**

### **Accounting Systems**

The City's accounting records for general governmental operations are maintained on a modified accrual basis with the revenues recorded when available and measurable and expenditures recorded when the services and goods are received and the liabilities are incurred. Accounting records for the City's proprietary activities are maintained on the accrual basis.

Consideration of adequate internal accounting controls has been made in designing the City's accounting system. Internal accounting controls, instituted by the Finance Department as part of the accounting system, are designed to provide reasonable assurances that assets are properly safeguarded against loss from unauthorized use or disposition, that financial records used in preparation of the financial statements are reliable, and that accountability for the City's assets is maintained. The concept of reasonable assurance in relation to internal controls recognizes that the cost of the process should not exceed the benefits derived from the performance of related procedures and that the City's management must make estimates and judgments in evaluating the cost and benefit relationships relating to internal control processes and procedures that become part of the City's accounting system.

### **Budgetary Compliance**

Because budgetary compliance is significant in managing governmental activities, budgetary compliance controls are critical. The objective of these controls is to ensure compliance with legal spending limits in annual or project appropriated budgets approved by City Council. The objective of budgetary controls is to ensure compliance with legal provisions contained in the annual appropriated budget approved by the City Council. The City has adopted appropriated budgets for the General and Debt Service Funds. Quarterly financial and capital project reports are presented to Council to aid in accomplishing budgetary control. The original budget is adopted by the City Council prior to the beginning of the fiscal year. Expenditures may not legally exceed budgeted appropriations at the department level. Expenditure requests, which would require an increase in total budgeted appropriations, must be approved by City Council through a formal budget amendment. At any time in the fiscal year, City Council may make emergency appropriations to meet a pressing need for public expenditures in order to protect the public health, safety, or welfare. City Council has the power to transfer any unencumbered funds allocated by the budget from one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget.

### **Budgetary Controls**

During the year, expenditure controls are maintained by each department with review of the budget provided by the Finance Director and overall exercised by City Council. Constant review of revenue and expenditure estimates is performed to assure the integrity of the adopted budget and to assure funds are available to meet current obligations. As a result of this review, it is possible to exercise administrative budgetary controls throughout the year. As demonstrated by the financial statements presented in this report, the City continues to meet responsibility for sound financial management.

## **FINANCIAL CONDITION**

### **Budgetary and Financial Policies**

The City will work to maintain sufficient cash reserves and unreserved fund balances/unrestricted net assets in its general and utility funds to avoid borrowing for general operating purposes and to handle emergency situations, while providing quality service levels to the public. In 2015, the City adopted a fund balance policy which requires the City to maintain a minimum unassigned fund balance in its General Fund ranging from 15% to 20%. In response to the Fund Balance dropping significantly two years in a row-- City Council adopted a stronger budgetary and financial policy document in 2017 that not only increased the fund balance requirement but what steps should be taken in the event it falls below the minimum unassigned balance (General Fund of 90 days). In addition, this document encompasses a Revenue Policy, Debt Policy, Expenditure Control Policy, and General Budgetary Policies. This policy is reviewed and re-adopted each year. Today, the City's reserves exceed the targeted reserves including transfers and will likely continue to exceed the target in FY 2023. Excess reserves may be used for one-time or non-recurring expenditures such as capital.

**FINANCIAL CONDITION - (Continued)**

**Long-Term Financial Planning**

In fiscal year 2022, the City adopted a five-year Capital Improvements Plan that aligns with the City's long-term Strategic plan. The Capital Plan gives the City a five-year outlook on possible capital projects to maintain the City's infrastructure and operations. Each Department develops business plans to meet the City Council's overall Vision. These plans are reviewed and updated annually during the budget development process.

**MAJOR INITIATIVES**

The City was approved for funding for approximately \$60 million for critical water and sewer infrastructure improvements through the Texas Water Development Board revolving loan program. In 2022, the City issued 12.7 million under the Clean Water State Revolving Fund and issued 5.6 million from the Drinking Water State Revolving Fund. Bonds will be issued over the next three years to fund a new Wastewater Treatment Plant and to build new water plants. These projects were planned and designed to support anticipated future growth of the City. Housing has been a priority! Through the creation of a Public Improvement District (PID) and two Tax Increment Reinvestment Zone (TIRZ) expansions plus 1 newly created TIRZ – the City now has five master planned subdivisions in various stages of construction.

**AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended September 30, 2021. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to express our sincere appreciation to the City's employees for their dedication and commitment to the City. The preparation of this report could not be accomplished without the dedicated services of the entire staff of the Finance Department. Appreciation is expressed to the City employees throughout the organization, especially those responsible for the maintenance of records upon which this report is based. Acknowledgement is given to representatives of Harrison, Waldrop & Uherek, L.L.P. for their assistance in producing the final product.

We would like to thank the Members of the City Council for their support in planning and conducting the financial operations of the City in a responsible and progressive manner. Their support is critical in budget preparation, implementation and review. Also, we would like to thank the City Council for their input throughout the year.

Respectfully submitted,

\_\_\_\_\_  
Robert K. Nelson  
Mayor

\_\_\_\_\_  
Scotty Jones  
Director of Finance



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

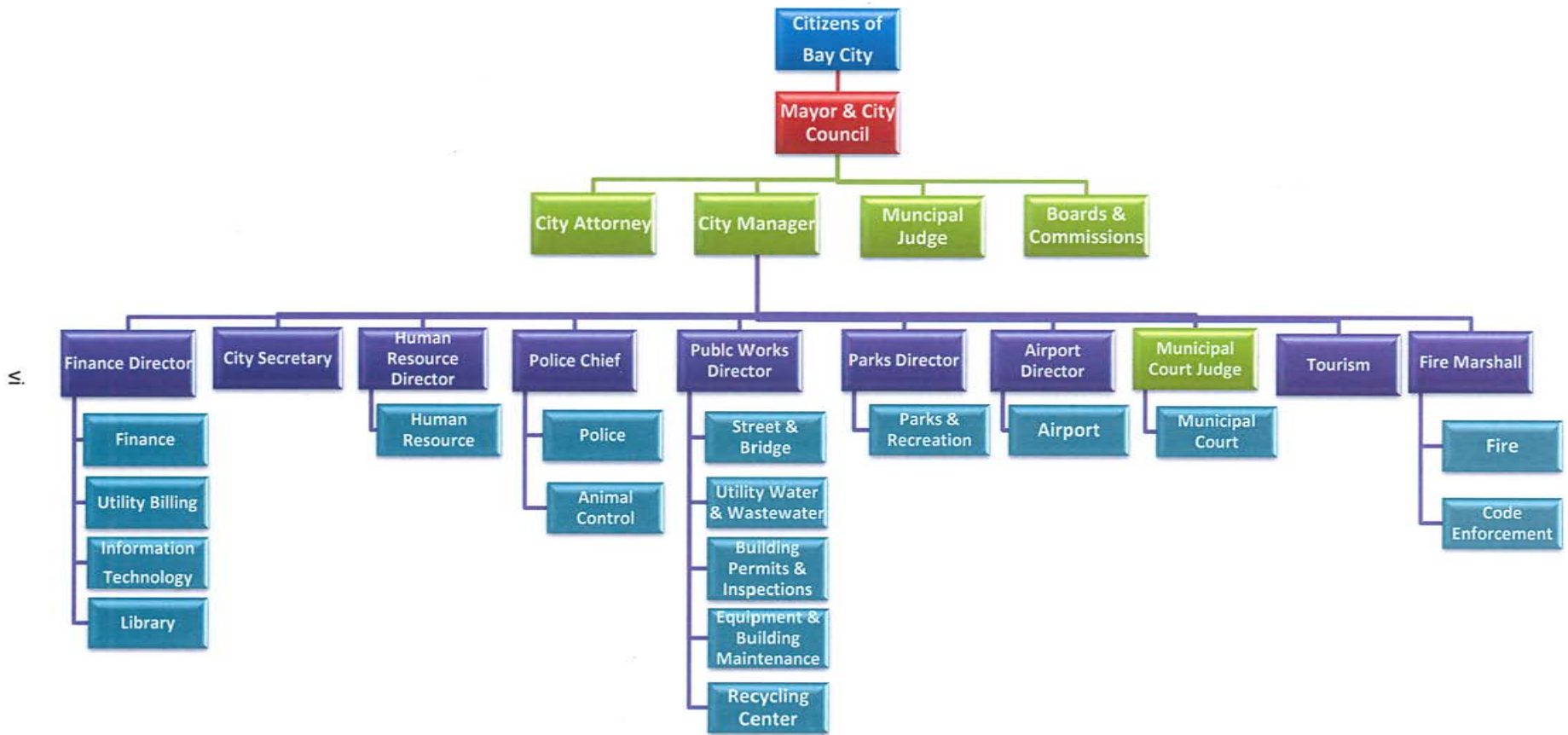
**City of Bay City  
Texas**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

September 30, 2021

*Christopher P. Morill*

Executive Director/CEO



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**CITY OF BAY CITY, TEXAS**  
*DIRECTORY OF PRINCIPAL OFFICIALS*  
*September 30, 2022*

---

<b>City Officials</b>	<b>Elective Position</b>	<b>Term Expires</b>
Robert K. Nelson	Mayor	2025
Floyce Brown	Council Member - Position #1	2023
James Folse	Council Member - Position #2	2023
Brad Westmoreland	Council Member - Position #3	2025
Becca Sitz	Council Member - Position #4	2025
Blayne Finlay	Council Member - Position #5	2025

<b>Key Staff</b>	<b>Position</b>
Shawna Burkhart	City Manager
Anne Marie Odefey	City Attorney
Barry Calhoun	Public Works Director
Scotty Jones	Finance Director
Robert Lister	Police Chief
Jeanna Thompson	City Secretary
Suzan Thompson	Municipal Court Judge
James Mason	Airport Manager
Shawn Blackburn	Parks and Recreation Director
Rhonda Clegg	Human Resources Director

## **FINANCIAL SECTION**



CERTIFIED PUBLIC ACCOUNTANTS  
101 S. MAIN, SUITE 400  
VICTORIA, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA  
DENNIS C. CIHAL, CPA  
ERIC L. KUCERA, CPA  
CLAYTON P. VAN PELT, CPA  
ROBERT W. SCHAAR, CPA  
MELISSA M. TERRY, CPA

VOICE: (361) 573-3255  
FAX: (361) 573-9531

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Audit of the Financial Statements

#### 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 Bay 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 aggregate 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. The financial statements of the Bay City Community Development Corporation were not audited in accordance with *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

#### Required Supplementary Information

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



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

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 and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.



HARRISON, WALDROP & UHEREK, L.L.P.  
Certified Public Accountants

March 23, 2023

As management of the City of Bay City, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2022.

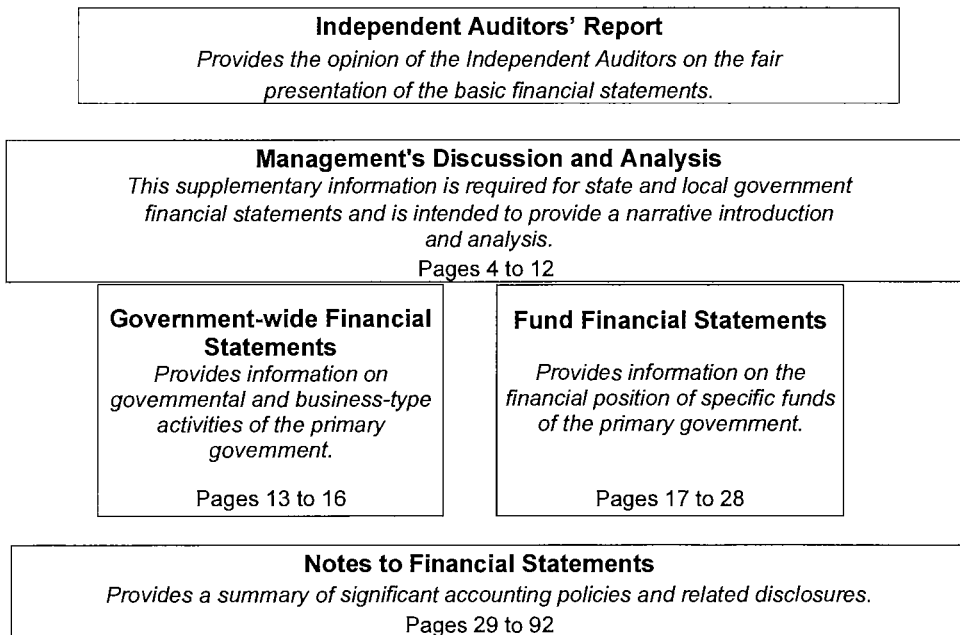
**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflow of resources of the City exceeded its liabilities and deferred inflow of resources at the close of the most recent fiscal year by \$44,651,501 (*net position*). Of this amount, \$4,509,485 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position of the governmental activities increased \$695,996 and business-type activities decreased \$1,763,094.
- The net position of the Water and Sewer Fund decreased by \$1,634,779 and the Airport Fund decreased by \$128,315.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,893,048, a decrease of \$990,253 from the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,158,460, or 27% of total General Fund expenditures.
- The City's outstanding bonded debt for governmental and business-type activities had a net increase of \$16,167,000 or 56% from the prior year. The City also had \$660,000 of tax notes, \$39,923 in financed purchases, and \$179,778 in right-to-use lease liabilities outstanding as of September 30, 2022.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Organization and Flow of Financial Section Information**



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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### Government-wide Financial Statements

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

### Statement of Net Position

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two 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.

### Statement of Activities

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused vacation leave).

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

### Fund Financial Statements

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

### Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government'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 maintained fourteen individual governmental funds during the 2021-2022 fiscal year. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and the Hazard Mitigation Fund, which are considered major funds. Data from the other twelve governmental funds are combined into a single, aggregated presentation.

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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Governmental Funds - (Continued)**

The City adopts an annual appropriated budget for its General Fund and Debt Service Fund. A Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual has been provided to demonstrate compliance with the appropriated 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/wastewater utility service and for its airport operations. The City uses internal service funds to account for equipment maintenance and information technology services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in a more detailed format. The proprietary fund financial statements provide information for the water/wastewater utility service and the airport operation; which are considered to be major funds of the City.

### **Notes to Financial Statements**

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

### **Other Information**

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund, a schedule of changes in liability and related ratios for the TMRS Defined Benefit Pension Plan, a schedule of employer contributions for the TMRS Defined Benefit Pension Plan, a schedule of changes in Total OPEB liability and related ratios for the TMRS Supplemental Death Benefit Plan, a schedule of employer contributions for the TMRS Supplemental Death Benefit Plan, and a schedule of changes in Total OPEB liability and related ratios for the Retiree Healthcare Plan. Required supplementary information can be found on pages 93-105 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 106-124 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$44,651,501 at the close of the fiscal year 2022.

By far, the largest portion of the City's net position (86%) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment), less related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

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**City of Bay City, Texas****Net Position**

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	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 15,504,445	\$ 15,153,872	\$ 21,315,215	\$ 10,157,688	\$ 36,819,660	\$ 25,311,560
Capital assets (net)	28,411,972	28,710,841	33,451,997	27,467,094	61,863,969	56,177,935
Other noncurrent assets	5,725,749	6,186,836	2,205	-	5,727,954	6,186,836
<b>Total assets</b>	<b>49,642,166</b>	<b>50,051,549</b>	<b>54,769,417</b>	<b>37,624,782</b>	<b>104,411,583</b>	<b>87,676,331</b>
<b>Total deferred outflow of resources</b>	<b>950,107</b>	<b>752,907</b>	<b>318,747</b>	<b>296,276</b>	<b>1,268,854</b>	<b>1,049,183</b>
Long-term liabilities	17,587,812	20,873,665	31,618,999	14,170,944	49,206,811	35,044,609
Other liabilities	5,916,567	4,707,731	3,127,765	1,838,381	9,044,332	6,546,112
<b>Total liabilities</b>	<b>23,504,379</b>	<b>25,581,396</b>	<b>34,746,764</b>	<b>16,009,325</b>	<b>58,251,143</b>	<b>41,590,721</b>
<b>Total deferred inflow of resources</b>	<b>2,351,223</b>	<b>1,182,385</b>	<b>426,570</b>	<b>233,809</b>	<b>2,777,793</b>	<b>1,416,194</b>
Net investment in capital assets	18,519,578	18,917,264	19,973,502	17,403,926	38,493,080	36,321,190
Restricted	1,648,936	1,856,278	-	-	1,648,936	1,856,278
Unrestricted	4,568,157	3,267,133	(58,672)	4,273,998	4,509,485	7,541,131
<b>Total net position</b>	<b>\$ 24,736,671</b>	<b>\$ 24,040,675</b>	<b>\$ 19,914,830</b>	<b>\$ 21,677,924</b>	<b>\$ 44,651,501</b>	<b>\$ 45,718,599</b>

The balance of unrestricted net position, \$4,509,485 may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position for the primary government as a whole.

The over-all decrease in net position is \$1,067,098, which consists of an increase of \$695,996 in governmental activities and a decrease of \$1,763,094 in business-type activities.

The increase in the governmental activities is mainly due to a \$1,749,841 increase in net transfers. Capital contributions of assets (generators) purchased with grant funds accounted for in the governmental activities were transferred to the business-type activities at September 30, 2021. This transaction was reported as capital contributions on the Water and Sewer and Airport Fund's fund financial statements as capital contributions as of September 30, 2021. A similar transfer of capital assets did not occur during fiscal year 2022.

The decrease in the business-type activities is mainly due to the increase of expenses in the amount of \$2,036,749. Water and sewer repair costs accounted for \$1,089,383 or 53% of this increase. The debt service requirements related to the Texas Water Development Board debt increased by \$201,208 over prior year which was approximately 10% of the increase. The remainder of the variance is attributable to the impact of inflation on the business-type operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

<b>City of Bay City, Texas</b>						
<b>Changes in Net Position</b>						
	Governmental		Business-type		Total	
	Activities		Activities			
	2022	2021	2022	2021	2022	2021
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 3,538,049	\$ 3,423,064	\$ 9,549,508	\$ 8,882,292	\$ 13,087,557	\$ 12,305,356
Operating grants and contributions	633,386	1,648,408	50,000	89,247	683,386	1,737,655
Capital grants and contributions	238,006	416,419	9,450	326,500	247,456	742,919
General revenues:						
Property taxes	6,103,748	5,844,703	-	-	6,103,748	5,844,703
Sales taxes	5,082,459	4,934,706	-	-	5,082,459	4,934,706
Franchise taxes	1,280,420	1,263,438	-	-	1,280,420	1,263,438
Other taxes	628,868	685,845	-	-	628,868	685,845
Unrestricted investment earnings (net)	(95,498)	50,980	12,441	2,552	(83,057)	53,532
Miscellaneous	449,556	354,982	1,875	875	451,431	355,857
<b>Total revenues</b>	<b>17,858,994</b>	<b>18,622,545</b>	<b>9,623,274</b>	<b>9,301,466</b>	<b>27,482,268</b>	<b>27,924,011</b>
<b>EXPENSES</b>						
General government	2,796,565	3,191,169	-	-	2,796,565	3,191,169
Public safety	5,252,099	5,508,076	-	-	5,252,099	5,508,076
Public works	6,684,191	6,390,932	-	-	6,684,191	6,390,932
Cultural and recreation	3,023,964	2,790,759	-	-	3,023,964	2,790,759
Interest on long-term debt	421,679	522,913	-	-	421,679	522,913
Water and sewer	-	-	9,423,621	7,443,424	9,423,621	7,443,424
Airport	-	-	947,247	890,695	947,247	890,695
<b>Total expenses</b>	<b>18,178,498</b>	<b>18,403,849</b>	<b>10,370,868</b>	<b>8,334,119</b>	<b>28,549,366</b>	<b>26,737,968</b>
Change in net position before transfers	(319,504)	218,696	(747,594)	967,347	(1,067,098)	1,186,043
Transfers	1,015,500	(734,341)	(1,015,500)	734,341	-	-
Change in net position	695,996	(515,645)	(1,763,094)	1,701,688	(1,067,098)	1,186,043
Net position - October 1	24,040,675	24,556,320	21,677,924	19,976,236	45,718,599	44,532,556
Net position - September 30	<b>\$ 24,736,671</b>	<b>\$ 24,040,675</b>	<b>\$ 19,914,830</b>	<b>\$ 21,677,924</b>	<b>\$ 44,651,501</b>	<b>\$ 45,718,599</b>

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

As noted earlier, the City uses fund accounting to ensure and demonstrate 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 a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,893,048, a decrease of \$990,253 from the prior year.

Approximately 51% of this total amount or \$4,013,051 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance of \$3,879,997 or 49% is either non-spendable, restricted or assigned to indicate that it is not available for spending at the City's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$4,158,460. Unassigned fund balance represents 27% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$673,818 during the current fiscal year. The decrease in fund balance for the City's General Fund is attributable to an increase of \$1,186,489 in expenditures over prior year. This included Hamman Road drainage improvements of approximately \$300K and unanticipated debris services needed in response to Hurricane Nicholas of approximately \$300K. In addition, personnel costs including the rising costs of health insurance of \$400K over prior year, the addition of two City positions, and an increase in the compensation pool of 3%. Finally, the City paid for an electrical surcharge of \$106K due to Winter Storm Uri during fiscal year 2022. The fund balance of the Hazard Mitigation Fund, a major special revenue fund, decreased by \$283,097 due to the reimbursement of prior payroll expenditures to various funds that were deemed reimbursable by FEMA for COVID-19 mitigation measures.

### **Proprietary Funds**

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

Unrestricted net position of the Water and Sewer Fund at the end of the current fiscal year amounted to (\$193,464), which is a decrease of \$3,694,293 from the prior year. Unrestricted net position of the Airport Fund amounted to \$134,792 at the end of the current fiscal year, which is a decrease of \$638,377 from the prior year.

Total net position for the proprietary funds decreased \$1,763,094 which was due to an increase in emergency repair costs as well as an overall increase in costs due to inflation. Operating revenues for the Water and Sewer Fund and the Airport Fund increased by \$612,402 and \$54,814, respectively. The increase in water and sewer revenues is due to rate increases to support debt payments in connection with critical infrastructure improvements.

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## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Total revenues earned were less than budgetary expectations by \$43,867. \$154,002 was included in this negative variance for the change in fair value of investments. There were positive variances in actual revenues compared to the budget primarily due to sales tax, license and permit fees, and various grants for police and recycling center. Sales tax revenue exceeded the amended budget by \$30K. Grants for police and recycling center exceeded budget by \$60K. Licenses and permits exceeded budget by approximately \$21K due to housing activity. Actual expenditures were \$278,334 less than budget. This was greatly due to reduced costs associated with personnel vacancies and capital projects crossing fiscal years. The Street Department continually holds vacancies resulting in personnel savings. In addition, the City did not utilize budgeted contingency as set by the City's charter. Total operating revenues were \$14,936,633 while total operating expenditures were \$15,168,666. This resulted in an excess of expenditures over revenues of \$232,033 which was \$234,467 under budgetary expectations. This is before any transfers to other funds. Net other financing sources (uses) of (\$441,785) resulted in a net decrease in the General Fund of \$673,818. The City amended the budget during the fiscal year to use excess fund reserves to fund Hamman Road Drainage and debris services related to Hurricane Nicholas. This practice is in line with the City's fund balance policy.

All departments had positive variances, except for Administration, City General, Police, Code, and Library. The City General Department exceeded budget by \$15K due to consulting costs related to newly created tax increment investment zones and consulting services for public safety. Administration exceeded budget by \$7,942 due to personnel salary changes. Code exceeded budget by \$2,681 due to property abatements. Police exceeded budget by \$34,581 due to personnel costs (retirement) and overtime due shortage in staff.

Differences between the General Fund's original budget and final amended budget were a net increase of \$682,000 to expenditures. This was primarily due to capital expenditures or projects approved during the fiscal year funded by excess reserves and not by current General Fund revenues or unanticipated expenditures related to debris clean up after Hurricane Nicholas. These capital projects include Hamman Road Drainage (\$290,000 funded with excess reserves) and remodeling for the teen center (\$40,000 funded by excess reserves). The costs of debris services were funded by the City's reserves (\$347,000). "Transfers out" line-item budget was amended to increase by \$87,000. This transfer out was primarily amended to increase the match for the Airport's taxi-way project (\$67,000). The remainder was to increase the Information Technology budget to fund a city-wide phone system and to improve cybersecurity. The Utility and General Funds shared this expense. "Transfers In" budget was decreased by \$250,000 to remove the pavilion project as priorities changed.



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**CAPITAL ASSETS AND DEBT ADMINISTRATION****Capital Assets**

The City's investment in capital assets for its governmental and business-type activities amounts to \$61,685,325 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings and improvements, vehicles, machinery and equipment, water and sewer system, and land structured facilities. The net increase in the City's investment in capital assets was \$5,507,390, primarily due to the meter replacement and sewer improvement projects in process at year end.

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<b>City of Bay City, Texas</b>						
<b>Capital Assets (Net of Depreciation)</b>						
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 1,603,907	\$ 1,603,907	\$ 403,117	\$ 403,117	\$ 2,007,024	\$ 2,007,024
Construction in progress	1,660,588	750,429	11,172,666	3,680,326	12,833,254	4,430,755
Buildings and improvements	833,255	1,035,434	1,550,878	1,612,094	2,384,133	2,647,528
Machinery and equipment	3,752,114	3,880,801	5,417,741	6,292,384	9,169,855	10,173,185
Infrastructure	20,383,464	21,440,270	14,907,595	15,479,173	35,291,059	36,919,443
Total	<u>\$ 28,233,328</u>	<u>\$ 28,710,841</u>	<u>\$ 33,451,997</u>	<u>\$ 27,467,094</u>	<u>\$ 61,685,325</u>	<u>\$ 56,177,935</u>

Additional information on the City's capital assets can be found in Note 7 of this report.

**Long-Term Debt**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$44,859,009. Of this amount, \$5,480,000 represents general obligation bonds and certificates of obligation totaled \$39,379,009. The City's bonded debt had a net increase of \$16,167,000 or 56% during the fiscal year ended September 30, 2022. This was due to the issuance of the 2022A and 2022B Certificates of Obligations in the amount of \$18,352,000. In addition, the City also had \$660,000 of tax notes, \$39,923 in financed purchases, and \$179,778 in right-to-use lease liabilities outstanding as of September 30, 2022.

Additional information on the City's long-term debt can be found in Note 12.

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## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The following factors were considered in preparing the City's budget for the 2023 fiscal year.

With property values and consumer spending appearing stronger, the City has budgeted sales tax more aggressively than in prior years. The total sales tax payments received by the City from the State Comptroller in fiscal year 2022 equaled \$5,082,459. This amount is an increase as compared to the previous year (\$147,753 or 3%). For fiscal year 2023, the City anticipates sales tax to increase 5% over fiscal year 2022 due to the correlation of inflation.

In addition, the South Texas Project (STP) is hiring approximately 50-100 workers per year to prepare for transition of a workforce that will soon be retirement eligible. Even though this nuclear plant resides in the County, it is anticipated that many employees will seek residence inside the City limits. HIF USA announced a \$6 billion project, their first industrial-scale e-fuel plant in North America located in Matagorda County. HIF will be creating at least 125 new, full-time jobs, at an estimated annual salary of \$100,000. Five master planned subdivisions are in various stages of development. Within the next 5 years, the City will have approximately 800 houses targeting industrial worker families.

The certified assessed taxable property valuations for the 2023 fiscal year (2022 tax roll) total \$1.2 billion with a tax rate of \$0.48075 per \$100 valuation for maintenance and operations and \$0.15425 per \$100 valuation for the interest and sinking fund. The total tax rate of \$0.63500 remained flat from the fiscal 2022 tax rate. The certified assessed taxable property valuations increased from the 2021 tax roll by \$65,550,983 or 6.80%. The tax base should continue to grow like this with five master planned subdivisions in various stages of construction. Within the next 5 years the City will have 800+ houses targeting industrial workers and families. The first 200 home subdivisions will be completed by December of 2024.

In addition, the City was awarded funding through the Texas Water Development Revolving Loan Program of approximately \$62 million to address the City's aging water and sewer infrastructure. The projects will span over the next four years with loan funding aligned by project timelines. This will aid in evaluating timing of utility rate increases. The City is anticipated to increase utility rates in October 2023 in order to support future debt payments associated with these bond issues.

The City has created four Tax Increment Reinvestment Zones (TIRZ#1, TIRZ#2, TIRZ#3, TIRZ#4) pursuant to Chapter 311 of the Texas Tax Code. The first reinvestment zone is generally located in the downtown area, including a large portion of the north downtown area. In 2022, the City expanded this zone (Zone #1) by approximately 54 acres to support a 233 lot sub-division. The second reinvestment zone is generally located at the far eastern City limit and is currently unimproved land apart from a new cinema/family entertainment center approximately 48,860 square feet. In 2022, this zone was expanded to add 147 acres to support an estimated 300 lot sub-division, multi-family living, and anticipated restaurants. TIRZ #3 was approved for an estimated 68 lot sub-division estimated to be completed by 2024 and is currently making progress. Lastly, in 2022, TIRZ #4 was created in the eastern portion of the City encompassing 49.71 acres to support an estimated 189 lot sub-division to be completed by 2024. Values have increased thus far in these zones by approximately \$22.5 million combined.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Office, 1901 Fifth Street, Bay City, Texas 77414.

## **Basic Financial Statements**

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
September 30, 2022

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 10,654,551	\$ 733,171	\$ 11,387,722	\$ 3,128,970
Investments	2,174,998	983,640	3,158,638	713,267
Receivables (net)	1,236,235	1,198,785	2,435,020	671,835
Due from other governments	839,664	-	839,664	137,213
Due from primary government	-	-	-	16,000
Due from component unit	23,239	-	23,239	-
Interlocal receivable - current portion	473,582	-	473,582	-
Note receivable - current portion	-	-	-	100,000
Prepaid items	102,176	47,227	149,403	-
Inventory	-	63,452	63,452	132,763
Restricted assets				
Cash and cash equivalents	-	18,288,940	18,288,940	230,262
Investments	-	-	-	217,508
<b>Total current assets</b>	<b>15,504,445</b>	<b>21,315,215</b>	<b>36,819,660</b>	<b>5,347,818</b>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	3,264,495	11,575,783	14,840,278	490,015
Buildings, improvements, and equipment (net)	24,968,833	21,876,214	46,845,047	6,640,420
Right-to-Use lease assets				
Equipment (net)	178,644	-	178,644	76,528
<b>Net capital and right-to-use assets</b>	<b>28,411,972</b>	<b>33,451,997</b>	<b>61,863,969</b>	<b>7,206,963</b>
Net pension asset	12,495	2,205	14,700	-
Interlocal receivable - noncurrent portion	5,713,254	-	5,713,254	-
Note receivable - noncurrent portion	-	-	-	900,000
<b>Total noncurrent assets</b>	<b>34,137,721</b>	<b>33,454,202</b>	<b>67,591,923</b>	<b>8,106,963</b>
<b>Total assets</b>	<b>49,642,166</b>	<b>54,769,417</b>	<b>104,411,583</b>	<b>13,454,781</b>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Deferred amount on refunding	-	131,829	131,829	-
Deferred amounts related to pension	784,206	154,535	938,741	-
Deferred amounts related to OPEB	165,901	32,383	198,284	-
<b>Total deferred outflow of resources</b>	<b>950,107</b>	<b>318,747</b>	<b>1,268,854</b>	<b>-</b>

The accompanying notes are an integral part of this statement.

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 1,351,234	\$ 776,208	\$ 2,127,442	\$ 270,851
Accounts payable (payable from restricted assets)	-	1,574,032	1,574,032	-
Accrued expenses	204,002	46,302	250,304	73,460
Accrued interest payable	36,461	48,755	85,216	13,706
Due to other governments	33,894	-	33,894	-
Due to primary government	-	-	-	23,239
Due to component unit	16,000	-	16,000	-
Deposits	66,168	649,963	716,131	447,770
Unearned revenue	4,209,348	32,505	4,241,853	400
Accrued compensated absences	33,633	6,193	39,826	-
Current portion of long-term obligations	1,689,578	1,401,292	3,090,870	1,176,906
<b>Total current liabilities</b>	<b>7,640,318</b>	<b>4,535,250</b>	<b>12,175,568</b>	<b>2,006,332</b>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	15,864,061	30,211,514	46,075,575	8,335,824
<b>Total noncurrent liabilities</b>	<b>15,864,061</b>	<b>30,211,514</b>	<b>46,075,575</b>	<b>8,335,824</b>
<b>Total liabilities</b>	<b>23,504,379</b>	<b>34,746,764</b>	<b>58,251,143</b>	<b>10,342,156</b>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Deferred inflows related to				
right-to-use lease receivable	76,529	-	76,529	187,691
Deferred amounts related to pension	2,192,635	409,740	2,602,375	-
Deferred amounts related to OPEB	82,059	16,830	98,889	-
<b>Total deferred inflow of resources</b>	<b>2,351,223</b>	<b>426,570</b>	<b>2,777,793</b>	<b>187,691</b>
<b>NET POSITION</b>				
Net investment in capital assets	18,519,578	19,973,502	38,493,080	7,128,353
Restricted for:				
Debt service	267,612	-	267,612	-
Development	320,355	-	320,355	-
Public safety	316,624	-	316,624	-
Municipal court	32,941	-	32,941	-
Cultural and recreation	711,404	-	711,404	-
Unrestricted	4,568,157	(58,672)	4,509,485	(4,203,419)
<b>Total net position</b>	<b>\$ 24,736,671</b>	<b>\$ 19,914,830</b>	<b>\$ 44,651,501</b>	<b>\$ 2,924,934</b>

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2022

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 2,796,565	\$ 601,275	\$ -	\$ -
Public safety	5,252,099	29,554	563,203	11,526
Public works	6,684,191	2,650,950	41,300	26,480
Cultural and recreation	3,023,964	256,270	28,883	200,000
Interest on long-term debt	421,679	-	-	-
Total governmental activities	<u>18,178,498</u>	<u>3,538,049</u>	<u>633,386</u>	<u>238,006</u>
Business-type activities				
Water and sewer	9,423,621	9,088,774	-	9,450
Airport	947,247	460,734	50,000	-
Total business-type activities	<u>10,370,868</u>	<u>9,549,508</u>	<u>50,000</u>	<u>9,450</u>
Total primary government	<u>\$ 28,549,366</u>	<u>\$ 13,087,557</u>	<u>\$ 683,386</u>	<u>\$ 247,456</u>
<b>Component Units</b>	<u>\$ 5,675,334</u>	<u>\$ 4,507,517</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Other taxes

Unrestricted investment earnings net of change in fair value of investments

Miscellaneous

Transfers

Special item

Total general revenues, transfers, and special item

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and  
Changes in Net Position  
Primary Government

Governmental Activities	Business- type Activities	Total	Component Units
\$ (2,195,290)	\$ -	\$ (2,195,290)	\$ -
(4,647,816)	-	(4,647,816)	-
(3,965,461)	-	(3,965,461)	-
(2,538,811)	-	(2,538,811)	-
(421,679)	-	(421,679)	-
<u>(13,769,057)</u>	<u>-</u>	<u>(13,769,057)</u>	<u>-</u>
-	(325,397)	(325,397)	-
-	(436,513)	(436,513)	-
-	(761,910)	(761,910)	-
<u>(13,769,057)</u>	<u>(761,910)</u>	<u>(14,530,967)</u>	<u>-</u>
-	-	-	(1,167,817)
4,529,127	-	4,529,127	-
1,574,621	-	1,574,621	-
5,082,459	-	5,082,459	1,694,153
1,280,420	-	1,280,420	-
628,868	-	628,868	-
(95,498)	12,441	(83,057)	3,409
449,556	1,875	451,431	197,645
1,015,500	(1,015,500)	-	-
-	-	-	(4,451,536)
<u>14,465,053</u>	<u>(1,001,184)</u>	<u>13,463,869</u>	<u>(2,556,329)</u>
695,996	(1,763,094)	(1,067,098)	(3,724,146)
<u>24,040,675</u>	<u>21,677,924</u>	<u>45,718,599</u>	<u>6,649,080</u>
<u>\$ 24,736,671</u>	<u>\$ 19,914,830</u>	<u>\$ 44,651,501</u>	<u>\$ 2,924,934</u>

**CITY OF BAY CITY, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2022

	<u>General</u>	<u>Hazard Mitigation Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 2,052,531	\$ 4,469,266	\$ 3,906,353	\$ 10,428,150
Investments	2,174,998	-	-	2,174,998
Receivables (net)	1,000,276	-	235,959	1,236,235
Due from other governments	490,719	283,932	65,013	839,664
Due from other funds	133,988	-	-	133,988
Due from component unit	23,239	-	-	23,239
Prepaid items	83,640	-	18,536	102,176
<b>Total assets</b>	<b>\$ 5,959,391</b>	<b>\$ 4,753,198</b>	<b>\$ 4,225,861</b>	<b>\$ 14,938,450</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 774,753	\$ 22,887	\$ 518,719	\$ 1,316,359
Accrued expenditures	184,614	-	1,175	185,789
Due to other funds	-	-	133,988	133,988
Due to component unit	16,000	-	-	16,000
Due to other governments	33,894	-	-	33,894
Deposits	50,260	-	15,908	66,168
Unearned revenue	-	4,192,567	16,781	4,209,348
<b>Total liabilities</b>	<b>1,059,521</b>	<b>4,215,454</b>	<b>686,571</b>	<b>5,961,546</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	579,160	283,932	142,154	1,005,246
Deferred inflows related to right-to-use lease receivable	78,610	-	-	78,610
<b>Total deferred inflows of resources</b>	<b>657,770</b>	<b>283,932</b>	<b>142,154</b>	<b>1,083,856</b>
<b>FUND BALANCES</b>				
Nonspendable	83,640	-	18,536	102,176
Restricted	-	253,812	3,524,009	3,777,821
Unassigned	4,158,460	-	(145,409)	4,013,051
<b>Total fund balances</b>	<b>4,242,100</b>	<b>253,812</b>	<b>3,397,136</b>	<b>7,893,048</b>
<b>Total liabilities, deferred inflows and fund balances</b>	<b>\$ 5,959,391</b>	<b>\$ 4,753,198</b>	<b>\$ 4,225,861</b>	<b>\$ 14,938,450</b>

The accompanying notes are an integral part of this statement.



**CITY OF BAY CITY, TEXAS**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION  
OF GOVERNMENTAL ACTIVITIES  
September 30, 2022

<b>Total governmental fund balances</b>		\$ 7,893,048
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Internal service funds are used by the City to charge the costs of certain activities, such as maintenance and information technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		242,337
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are "unavailable" in the funds.		414,549
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance.		590,697
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 63,249,358	
Accumulated depreciation and of governmental capital assets	<u>(35,110,512)</u>	28,138,846
Interlocal receivable on repayment of debt is not a current financial resource and, therefore, is not reported on the fund financial statements.		6,186,836
Deferred outflows of resources are not reported in the governmental funds:		
Deferred amount on pension	784,206	
Deferred amount on OPEB	<u>165,901</u>	950,107
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	(14,577,763)	
Premiums on bonds payable	(885,058)	
Tax notes payable	(660,000)	
Financed purchases payable	(39,923)	
Accrued interest payable	(35,959)	
Compensated absences	(312,510)	
Net pension liability (asset)	12,495	
OPEB liability	<u>(908,418)</u>	(17,407,136)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred amount on pension	(2,192,635)	
Deferred amount on OPEB	<u>(82,059)</u>	(2,274,694)
Deferred inflows related to right-to-use lease receivable are amortized based on reduction of right-to-use lease receivable in the fund financial statements, but are amortized over the lease term in the statement of net position.		<u>2,081</u>
<b>Net position of governmental activities</b>		<b><u>\$ 24,736,671</u></b>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**

*STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES*

*GOVERNMENTAL FUNDS*

*For the year ended September 30, 2022*

	General	Hazard Mitigation Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 11,011,884	\$ -	\$ 2,171,921	\$ 13,183,805
Licenses and permits	246,296	-	-	246,296
Fines and forfeitures	176,879	-	21,585	198,464
Fees and charges for services	2,956,281	-	89,548	3,045,829
Intergovernmental	452,587	498,352	-	950,939
Investment earnings net of change in fair value of investments	(117,130)	1,065	20,501	(95,564)
Miscellaneous	209,836	-	647,338	857,174
<b>Total revenues</b>	<u>14,936,633</u>	<u>499,417</u>	<u>2,950,893</u>	<u>18,386,943</u>
<b>EXPENDITURES</b>				
Current				
General government	2,776,875	4,567	1,707	2,783,149
Public safety	5,821,878	-	16,723	5,838,601
Public works	4,422,647	-	222,328	4,644,975
Cultural and recreation	2,147,266	-	619,288	2,766,554
Debt service				
Principal	-	-	1,555,475	1,555,475
Interest and fiscal charges	-	-	496,793	496,793
Capital outlay	-	177,947	727,202	905,149
<b>Total expenditures</b>	<u>15,168,666</u>	<u>182,514</u>	<u>3,639,516</u>	<u>18,990,696</u>
Excess (deficiency) of revenues over expenditures	(232,033)	316,903	(688,623)	(603,753)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,168,042	-	713,327	1,881,369
Transfers out	(1,609,827)	(600,000)	(58,042)	(2,267,869)
<b>Total other financing sources (uses)</b>	<u>(441,785)</u>	<u>(600,000)</u>	<u>655,285</u>	<u>(386,500)</u>
Net change in fund balances	(673,818)	(283,097)	(33,338)	(990,253)
Fund balances at beginning of year	4,915,918	536,909	3,430,474	8,883,301
<b>Fund balances at end of year</b>	<u>\$ 4,242,100</u>	<u>\$ 253,812</u>	<u>\$ 3,397,136</u>	<u>\$ 7,893,048</u>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the year ended September 30, 2022*

<b>Total net change in fund balances - governmental funds</b>		<b>\$ (990,253)</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Internal service funds are used by the City to charge the costs of certain activities, such as maintenance and information technology services, to individual funds. The net activity of the internal service funds are reported with governmental activities.		120,550
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Increase in capital assets	\$ 1,727,672	
Depreciation expense	<u>(2,222,948)</u>	(495,276)
The net effect of various transactions involving capital assets (i.e., transfers, contributions, adjustments and dispositions) is to increase (decrease) net position.		11,526
Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:		
Debt principal retirement		1,594,287
Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year end and are not reported as revenue in the governmental funds.		
Property taxes	1,360	
Other revenues	<u>(542,980)</u>	(541,620)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in compensated absences	27,555	
Decrease in accrued interest	3,632	
Decrease in bond premium	75,139	
Net pension cost	920,491	
Net OPEB cost	<u>(32,116)</u>	994,701
Some items reported in the statement of activities do not result from current financial resources and therefore are not reported as revenues in governmental funds. These activities consist of:		
Decrease in deferred inflows related to right-to-use lease receivable		<u>2,081</u>
<b>Change in net position of governmental activities</b>		<b><u>\$ 695,996</u></b>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
September 30, 2022

	<u>Business-type Activities</u>			<u>Governmental</u>
	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total</u>	<u>Internal Service Funds</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 626,412	\$ 106,759	\$ 733,171	\$ 226,401
Investments	983,640	-	983,640	-
Receivables (net)	1,194,285	4,500	1,198,785	-
Prepaid items	29,196	18,031	47,227	-
Inventory	-	63,452	63,452	-
Restricted-cash and cash equivalents	<u>18,288,940</u>	<u>-</u>	<u>18,288,940</u>	<u>-</u>
Total current assets	<u>21,122,473</u>	<u>192,742</u>	<u>21,315,215</u>	<u>226,401</u>
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	10,758,425	817,358	11,575,783	-
Buildings, improvements, and equipment (net)	17,546,185	4,330,029	21,876,214	94,482
Right-to-Use lease assets				
Equipment (net)	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,644</u>
Net capital and right-to-use assets	<u>28,304,610</u>	<u>5,147,387</u>	<u>33,451,997</u>	<u>273,126</u>
Net pension asset	<u>2,205</u>	<u>-</u>	<u>2,205</u>	<u>-</u>
Total noncurrent assets	<u>28,306,815</u>	<u>5,147,387</u>	<u>33,454,202</u>	<u>273,126</u>
<b>Total assets</b>	<u>49,429,288</u>	<u>5,340,129</u>	<u>54,769,417</u>	<u>499,527</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred amount on refunding	131,829	-	131,829	-
Deferred outflow related to pension	154,535	-	154,535	-
Deferred outflow related to OPEB	<u>32,383</u>	<u>-</u>	<u>32,383</u>	<u>-</u>
<b>Total deferred outflows of resources</b>	<u>318,747</u>	<u>-</u>	<u>318,747</u>	<u>-</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	737,282	38,926	776,208	34,875
Accounts payable (payable from restricted assets)	1,574,032	-	1,574,032	-
Accrued expenses	39,418	6,884	46,302	18,213
Accrued interest payable	48,755	-	48,755	502
Deposits	643,883	6,080	649,963	-
Unearned revenue	32,505	-	32,505	-
Accrued compensated absences	5,587	606	6,193	2,382
Current portion of long term obligations	<u>1,401,292</u>	<u>-</u>	<u>1,401,292</u>	<u>41,946</u>
Total current liabilities	<u>4,482,754</u>	<u>52,496</u>	<u>4,535,250</u>	<u>97,918</u>

(continued)

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
September 30, 2022

	<u>Business-type Activities</u>			<u>Governmental</u>
	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total</u>	<u>Internal Service Funds</u>
<b>LIABILITIES - (Continued)</b>				
Noncurrent liabilities				
Accrued compensated absences	\$ 50,279	\$ 5,454	\$ 55,733	\$ 21,440
380 agreement liability	411,538	-	411,538	-
OPEB liability	160,308	-	160,308	-
Right-to-Use lease liability	-	-	-	137,832
Bonds and certificates payable (net of unamortized deferred amounts)	<u>29,583,935</u>	<u>-</u>	<u>29,583,935</u>	<u>-</u>
Total noncurrent liabilities	<u>30,206,060</u>	<u>5,454</u>	<u>30,211,514</u>	<u>159,272</u>
<b>Total liabilities</b>	<u>34,688,814</u>	<u>57,950</u>	<u>34,746,764</u>	<u>257,190</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflow related to pension	409,740	-	409,740	-
Deferred inflow related to OPEB	<u>16,830</u>	<u>-</u>	<u>16,830</u>	<u>-</u>
<b>Total deferred inflows of resources</b>	<u>426,570</u>	<u>-</u>	<u>426,570</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	14,826,115	5,147,387	19,973,502	93,348
Unrestricted net position	<u>(193,464)</u>	<u>134,792</u>	<u>(58,672)</u>	<u>148,989</u>
<b>Total net position</b>	<u>\$ 14,632,651</u>	<u>\$ 5,282,179</u>	<u>\$ 19,914,830</u>	<u>\$ 242,337</u>

(concluded)

The accompanying notes are an integral part of this statement.

**CITY OF BAY 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
	Water and Sewer	Airport	Total	Internal Service Funds
<b>OPERATING REVENUES</b>				
Charges for services	\$ 9,023,284	\$ 431,530	\$ 9,454,814	\$ -
Other	65,490	29,204	94,694	172
<b>Total operating revenues</b>	<u>9,088,774</u>	<u>460,734</u>	<u>9,549,508</u>	<u>172</u>
<b>OPERATING EXPENSES</b>				
Water and sewer system	6,324,645	-	6,324,645	-
Airport	-	719,364	719,364	-
Maintenance	-	-	-	522,034
Information technology	-	-	-	703,453
Depreciation and amortization	1,931,858	227,883	2,159,741	52,543
<b>Total operating expenses</b>	<u>8,256,503</u>	<u>947,247</u>	<u>9,203,750</u>	<u>1,278,030</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	832,271	(486,513)	345,758	(1,277,858)
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings net of change in fair value of investments	12,243	198	12,441	66
Noncapital grants and contributions	-	50,000	50,000	-
Gain on disposition of capital assets	1,875	-	1,875	-
Interest and fiscal charges	(1,167,118)	-	(1,167,118)	(3,658)
<b>Total nonoperating revenues (expenses)</b>	<u>(1,153,000)</u>	<u>50,198</u>	<u>(1,102,802)</u>	<u>(3,592)</u>
Income (loss) before contributions and transfers	(320,729)	(436,315)	(757,044)	(1,281,450)
Contributions and transfers				
Capital contributions	9,450	-	9,450	-
Transfers in	-	308,000	308,000	1,402,000
Transfers out	(1,323,500)	-	(1,323,500)	-
<b>Total contributions and transfers</b>	<u>(1,314,050)</u>	<u>308,000</u>	<u>(1,006,050)</u>	<u>1,402,000</u>
Change in net position	(1,634,779)	(128,315)	(1,763,094)	120,550
Total net position at beginning of year	16,267,430	5,410,494	21,677,924	121,787
<b>Total net position at end of year</b>	<u>\$ 14,632,651</u>	<u>\$ 5,282,179</u>	<u>\$ 19,914,830</u>	<u>\$ 242,337</u>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2022

	Business-type Activities			Governmental Activities
	Water and Sewer	Airport	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 8,988,611	\$ 456,434	\$ 9,445,045	\$ 172
Cash paid to suppliers for goods and services	(4,289,656)	(526,938)	(4,816,594)	(858,534)
Cash paid to employees for services	(1,806,143)	(222,402)	(2,028,545)	(399,595)
<b>Net cash provided (used) by operating activities</b>	<u>2,892,812</u>	<u>(292,906)</u>	<u>2,599,906</u>	<u>(1,257,957)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers (to) from other funds	(1,323,500)	308,000	(1,015,500)	1,402,000
Noncapital grants and contributions	-	82,000	82,000	-
Increase (decrease) in customer deposits	<u>29,121</u>	<u>745</u>	<u>29,866</u>	<u>-</u>
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(1,294,379)</u>	<u>390,745</u>	<u>(903,634)</u>	<u>1,402,000</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	(6,201,146)	(737,945)	(6,939,091)	(32,753)
Proceeds from capital grants and contributions	9,450	-	9,450	-
Proceeds from sale of capital assets	1,875	-	1,875	-
Proceeds from issuance of certificates	18,352,000	-	18,352,000	-
Principal paid on long-term debt	(834,525)	-	(834,525)	(24,892)
Interest and debt costs paid	(1,247,158)	-	(1,247,158)	(3,157)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>10,080,496</u>	<u>(737,945)</u>	<u>9,342,551</u>	<u>(60,802)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(985,152)	-	(985,152)	-
Proceeds from sales and maturities of investments	498,000	-	498,000	-
Investment income	<u>13,399</u>	<u>198</u>	<u>13,597</u>	<u>66</u>
<b>Net cash provided (used) by investing activities</b>	<u>(473,753)</u>	<u>198</u>	<u>(473,555)</u>	<u>66</u>
Net increase (decrease) in cash and cash equivalents	11,205,176	(639,908)	10,565,268	83,307
Cash and cash equivalents at beginning of year	<u>7,710,176</u>	<u>746,667</u>	<u>8,456,843</u>	<u>143,094</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 18,915,352</u>	<u>\$ 106,759</u>	<u>\$ 19,022,111</u>	<u>\$ 226,401</u>

(continued)

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the year ended September 30, 2022

	<u>Business-type Activities</u>			<u>Governmental</u>
	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total</u>	<u>Internal Service Funds</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 832,271	\$ (486,513)	\$ 345,758	\$ (1,277,858)
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	1,931,858	227,883	2,159,741	52,543
Changes in assets and liabilities				
(Increase) decrease in accounts receivable	(116,137)	(4,300)	(120,437)	-
(Increase) decrease in inventory	-	(37,004)	(37,004)	-
(Increase) decrease in prepaid items	(5,227)	(6,860)	(12,087)	-
(Increase) decrease in deferred outflows	(48,837)	-	(48,837)	-
Increase (decrease) in accounts payable	88,404	20,115	108,519	(15,671)
Increase (decrease) in accrued expenses	(53,582)	(5,999)	(59,581)	(18,771)
Increase (decrease) in unearned revenue	15,974	-	15,974	-
Increase (decrease) in 380 agreement liability	293,799	-	293,799	-
Increase (decrease) in net pension liability (asset)	(268,950)	-	(268,950)	-
Increase (decrease) in OPEB liability	26,682	-	26,682	-
Increase (decrease) in deferred inflows	192,761	-	192,761	-
Increase (decrease) in compensated absences	3,796	(228)	3,568	1,800
Total adjustments	<u>2,060,541</u>	<u>193,607</u>	<u>2,254,148</u>	<u>19,901</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 2,892,812</u>	<u>\$ (292,906)</u>	<u>\$ 2,599,906</u>	<u>\$ (1,257,957)</u>
<b>Noncash capital and related financing activities</b>				
Assets acquired from initiation of Right-to-Use lease	\$ -	\$ -	\$ -	\$ 204,670
<b>Reconciliation of cash and cash equivalents</b>				
Unrestricted				
Cash and cash equivalents	\$ 626,412	\$ 106,759	\$ 733,171	\$ 226,401
Restricted				
Cash and cash equivalents	<u>18,288,940</u>	<u>-</u>	<u>18,288,940</u>	<u>-</u>
Total	<u>\$ 18,915,352</u>	<u>\$ 106,759</u>	<u>\$ 19,022,111</u>	<u>\$ 226,401</u>

(concluded)



**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
**COMPONENT UNITS**  
**September 30, 2022**

	Bay City Community Development Corporation	Bay City Gas Company	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 914,038	\$ 2,214,932	\$ 3,128,970
Investments	-	713,267	713,267
Receivables (net)	18,308	481,227	499,535
Due from other governments	137,213	-	137,213
Due from primary government	16,000	-	16,000
Right-to-Use lease receivable	167,793	-	167,793
Right-to-Use lease interest receivable	4,507	-	4,507
Note receivable - current portion	100,000	-	100,000
Inventory	-	132,763	132,763
Restricted assets			
Cash and cash equivalents	-	230,262	230,262
Investments	-	217,508	217,508
<b>Total current assets</b>	<u>1,357,859</u>	<u>3,989,959</u>	<u>5,347,818</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	456,676	33,339	490,015
Buildings, improvements, and equipment (net)	5,277,437	1,362,983	6,640,420
Right-to-Use lease assets			
Buildings (net)	76,528	-	76,528
<b>Net capital and right-to-use assets</b>	<u>5,810,641</u>	<u>1,396,322</u>	<u>7,206,963</u>
Note receivable - noncurrent portion	900,000	-	900,000
<b>Total noncurrent assets</b>	<u>6,710,641</u>	<u>1,396,322</u>	<u>8,106,963</u>
<b>Total assets</b>	<u>8,068,500</u>	<u>5,386,281</u>	<u>13,454,781</u>
<b>LIABILITIES</b>			
Accounts payable	30,775	240,076	270,851
Accrued expenditures	8,765	64,695	73,460
Accrued interest payable	13,706	-	13,706
Due to primary government	23,239	-	23,239
Deposits	-	447,770	447,770
Unearned revenue	400	-	400
Long-term liabilities			
Due within one year	764,538	412,368	1,176,906
Due in more than one year	6,844,382	1,491,442	8,335,824
<b>Total liabilities</b>	<u>7,685,805</u>	<u>2,656,351</u>	<u>10,342,156</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to right-to-use lease receivable	187,691	-	187,691
<b>Total deferred inflows of resources</b>	<u>187,691</u>	<u>-</u>	<u>187,691</u>
<b>NET POSITION</b>			
Net investment in capital assets	5,732,031	1,396,322	7,128,353
Unrestricted	(5,537,027)	1,333,608	(4,203,419)
<b>Total net position</b>	<u>\$ 195,004</u>	<u>\$ 2,729,930</u>	<u>\$ 2,924,934</u>

The accompanying notes are an integral part of this statement.

**CITY OF BAY CITY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
*For the year ended September 30, 2022*

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Component Units</b>				
Bay City Community Development Corporation	\$ 2,298,926	\$ 565,433	\$ -	\$ -
Bay City Gas Company	<u>3,376,408</u>	<u>3,942,084</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 5,675,334</u>	<u>\$ 4,507,517</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:  
 Taxes:  
     Sales taxes  
     Unrestricted investment earnings  
     Miscellaneous  
 Special item  
 Total general revenues and special item  
 Change in net position  
 Net position - beginning  
 Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Component Units		
Bay City Community Dev. Corporation	Bay City Gas Company	Total
\$ (1,733,493)	\$ -	\$ (1,733,493)
-	565,676	565,676
<u>(1,733,493)</u>	<u>565,676</u>	<u>(1,167,817)</u>
1,694,153	-	1,694,153
3,409	-	3,409
197,645	-	197,645
<u>(4,451,536)</u>	<u>-</u>	<u>(4,451,536)</u>
<u>(2,556,329)</u>	<u>-</u>	<u>(2,556,329)</u>
(4,289,822)	565,676	(3,724,146)
<u>4,484,826</u>	<u>2,164,254</u>	<u>6,649,080</u>
<u>\$ 195,004</u>	<u>\$ 2,729,930</u>	<u>\$ 2,924,934</u>

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

A. Reporting Entity

The City of Bay City, Texas (the “City”) is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles (GAAP) in the United States of America, these financial statements have been prepared based on considerations regarding the potential for inclusion of component units, which are other entities or organizations that are financially accountable to the City. Blended component units, although legally separate entities, are, in substance, part of the government’s operations, and as a result, data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. Based on these considerations, the City’s financial statements include the Bay City Community Development Corporation, (“the Corporation”) and the Bay City Gas Company (the “Gas Company”) as discretely presented component units. The Corporation has a September 30 year-end and the Company has a March 31 year-end. 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 GAAP. 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 GAAP 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. The component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units

Bay City Community Development Corporation

The Bay City Community Development Corporation (the “Corporation”) has been included in the reporting entity as a discretely presented component unit. In 1994, the Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, and developing commercial, industrial and manufacturing enterprises and to promote and encourage employment and public welfare within the City. The Board of Directors consists of seven members, which are appointed by the City Council. Services provided by the Corporation almost exclusively benefit the City in that the development of the area within the community increases the tax bases, resulting in additional tax revenue to the City. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position of the Corporation shall be conveyed to the City. The operations of the Corporation are presented as a governmental fund type. Complete financial statements for the Company may be obtained from its administrative offices.

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

A. Reporting Entity - (Continued)

Discretely Presented Component Units - (Continued)

Bay City Gas Company

The Bay City Gas Company (the "Gas Company") has been included in the reporting entity as a discretely presented component unit. The Gas Company provides for the distribution of natural gas services throughout the City, is controlled by a permanent three-person board, which was originally appointed by Victor LeTulle, who contributed the gas distribution system to the City in 1938. The Gas Company is owned by the City and operates under the direction of the board. The board is comprised of two lifetime members with the City's mayor serving as the third member. The board is self-perpetuating with the lifetime members appointing their successors. The board is responsible for the daily operations and policies of the gas utility.

The City financially benefits from the Gas Company annually with appropriations being used primarily for capital improvements. Included as part of these annual contributions are gas services to City facilities and volunteer firemen, which are not billed by the Gas Company. For the year ended March 31, 2022 these contributions totaled \$428,718. Complete financial statements for the Gas Company may be obtained from its administrative offices.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all nonfiduciary activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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.

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.

Property taxes, franchise taxes, fines, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Hazard Mitigation Fund, a major special revenue fund, accounts for local and federal funds received to fund projects that respond to or mitigate future disasters.

The City reports the following major proprietary funds:

Enterprise Funds are used to account for operations: 1) that 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 be financed or recovered primarily through user charges, or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The Water and Sewer Fund accounts for the activities of the City related to its sewage treatment plant and water distribution system.

The Airport Fund accounts for the operation of the City's airport.

Additionally, the City reports the following fund types:

The Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds

The Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City maintains two Internal Service Funds which are the Maintenance Fund and the Information Technology Fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 City's enterprise funds and internal service funds are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds 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 non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources as they are needed.



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

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Annual appropriated budgets are adopted for the General Fund and Debt Service Fund using the same basis of accounting as for financial reporting. All annual appropriations lapse at year-end. Expenditures may not legally exceed budgeted appropriations at the department level. Expenditure requests, which would require an increase in the total budgeted appropriations must be approved by City Council through a formal budget amendment. At any time in the fiscal year, the Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. The Council has the power to transfer any unencumbered funds allocated by the budget from one activity, function or department, to another activity, function or department, to re-estimate revenues and expenditures, and to amend the budget.

Management has the authority to transfer available funds allocated by the budget from one function or activity to another function or activity within the same department.

In cooperation with the department heads of the City, the City Finance Director prepares an annual budget for the General Fund and the Debt Service Fund for the ensuing fiscal year, in a form and style as deemed desirable by the Council. The budgets, as adopted must set forth the appropriations for services, functions, and activities of the various City departments and agencies, and shall meet all fund requirements provided by law and applicable bond covenants.

E. Leases

City as Lessee

With the exception of short-term leases, when the City is a lessee in noncancellable lease arrangements the City recognizes a right-to-use lease liability (lease liability) and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value that would be material to the government-wide financial statements. For leases not meeting these criteria, lease payments are recognized as outflows of resources based on the payment provisions of the contract. See Note 12 for details of the City's leasing arrangements as lessee.

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 its useful life.

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

E. Leases - (Continued)

City as Lessee - (Continued)

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

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

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 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.

City as Lessor

With the exception of short-term leases and certain regulated leases, when the City is a lessor in noncancellable lease arrangements the City recognizes a right-to-use lease receivable (lease receivable) and a deferred inflow of resources in the government-wide and governmental fund financial statements. The City recognizes lease receivables with an initial, individual value that would be material to the governmental financial statements. For leases not meeting these criteria, lease revenues are recognized as inflows of resources based on the payment provisions of the contract. See Note 6 for details of the City's leasing arrangements as lessor.

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 is 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 inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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

F. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; 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; 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 of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

As of September 30, 2022, the City has adopted a formal investment policy.

Investments in government pools are recorded at amortized cost or NAV. All other investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. See Note 3 for further discussion.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes. The allowance on the unpaid property taxes is equal to 10% of the outstanding property taxes and the allowance on the penalties and interest is equal to 70% of the assessed amount.

H. Inventory and Prepaid Items

Inventory reported in the Airport Fund is held for resale and is valued at the lower of cost (first-in, first-out) or market. Estimated cost is used when actual cost figures are not available.

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as prepaid items in both the fund financial statements and the government-wide financial statements and recorded when purchased rather than when consumed.

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

I. Restricted Assets

The Texas Water Development Board requires the deposit of the proceeds of Certificates of Obligations Series 2021A, Series 2021B, Series 2022A, and Series 2022B into an escrow account subject to being withdrawn in accordance with escrow agreements in place. These funds are shown as "restricted-cash and cash equivalents" on the Water and Sewer Fund's Statement of Net Position.

J. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. The City defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on capital assets of business-type activities when acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred during the period of construction until completion of the project with interest earned on invested proceeds over the same period.

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

<u>Assets</u>	<u>Years</u>
Buildings	39
Improvements other than buildings	39
Water and wastewater distribution system	25-50
Machinery and equipment	5-15
Public domain infrastructure	25-50

K. Compensated Absences

The City allows twelve days sick leave per year for each full-time employee and further allows each employee to accumulate an unlimited number of days of sick leave. Upon termination, there is no provision to pay the employee for accumulated sick days.

The City's employees earn vacation which may be either taken or accumulated, up to certain amounts. Only earned leave is paid upon termination or retirement. A liability for this amount is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

All compensated absences pay is accrued when incurred in the government-wide and proprietary fund financial statements.

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

L. Long-term Obligations

In the government-wide financial statements, and in 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. Bonds payable are reported net of the applicable bond premium or discount. Losses or gains on refunding are capitalized and amortized over the shorter life of the new issuance or the life on existing debt.

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.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet reports 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. The City has the following items that qualify for reporting in this category.

- Pension/OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Differences between actuarial assumptions used and actual experience for determination of pension or OPEB liability – These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet 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. This year, the City has the following items that qualify for reporting in this category.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension or OPEB experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.
- Deferred amounts relating to leases represent future inflows of resources which will be recognized as revenue over the life of the lease term.

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

N. Pensions

For 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's 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. Information regarding the City's pension liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 68.

O. Supplemental Death Benefit (OPEB)

For purposes of measuring the total OPEB liability for the supplemental death benefit plan, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's 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. Information regarding the City's OPEB liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 75.

P. Fund Equity

Fund balances of Governmental Funds classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Council through a resolution. Once the resolution is passed, the commitment remains in place until another resolution is passed to remove or revise the commitment.

Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. The Council has by resolution authorized the Finance Director or his/her designee to assign fund balance. Unlike commitments, assignments generally only exist temporarily and a formal action by the Council does not have to occur in order to remove the assignment.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

Q. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

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**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

A. Budgetary Compliance

Budgetary compliance is monitored at departmental level for the General Fund. There were several situations of expenditures exceeding the amounts appropriated during the fiscal year 2021-2022.

<u>Fund / Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
City general services	\$ 1,244,064	\$ 1,259,272	\$ 15,208
Administration and council	321,426	329,368	7,942
Police	4,970,154	5,004,735	34,581
Code enforcement	488,622	491,303	2,681
Library	527,982	531,636	3,654
Transfers out	1,605,000	1,609,827	4,827

These expenditures were funded by available fund balance in the General Fund.

B. Deficit Fund Equity

As of September 30, 2022, the GLO Grant Fund and the Texas Capital Fund (nonmajor special revenue funds) had deficit fund equity balances of \$89,619 and \$55,790, respectively. These deficits will be eliminated in the 2023 fiscal year.

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**NOTE 3: DEPOSITS AND INVESTMENTS**

The City's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas Public Funds Investment Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the City's and the depository bank's agent bank. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>	<u>Credit Risk</u>	<u>Portfolio %age</u>
Public Funds Investment Pool				
TexPool	\$ 1,569,014	0.8	AAAm	31%
Texas CLASS	324,449	1.0	AAAm	6%
Certificates of Deposit	1,242,000	31.8	N/A	25%
Municipal Bonds	<u>1,916,638</u>	51.8	AA+	38%
	<u>\$ 5,052,101</u>			

Following the criteria for GASB Statement No. 79, Certain External Investment Pools and Pool Participants, TexPool uses amortized cost and Texas CLASS uses the fair value method to value portfolio assets. The pools operate in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pools are the State of Texas. The investment pools transact at a net asset value of \$1.00 per share and are classified as cash and cash equivalents for reporting purposes.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of September 30, 2022, the City has certificates of deposit and municipal bonds valued using quoted prices for similar assets in active markets (Level 2 inputs).

#### Interest Rate Risk

In compliance with the City's investment policy, the City minimized its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturities of the investment pools did not exceed 60 days. Also, investments in obligations of the US government, its agencies and instrumentalities, and government sponsoring enterprises did not exceed five years to stated maturity as well as investments in brokered certificates of deposits from banks within any US state did not exceed two years to maturity.

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to limit its investments to those with ratings of not less than A or its equivalent.



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**NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 110% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the City was not exposed to custodial credit risk.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2022, and for the year then ended, the City was not exposed to any custodial credit risk.

**NOTE 4: RECEIVABLES**

Receivables at September 30, 2022, consist of the following:

	<u>General</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:					
Accounts	\$ 282,543	\$ 1,297,228	\$ 4,500	\$ -	\$ 1,584,271
Ad valorem taxes	528,154	-	-	117,626	645,780
Franchise taxes	80,560	-	-	-	80,560
Occupancy taxes	-	-	-	154,911	154,911
Municipal court fines	220,640	-	-	-	220,640
Interest	978	356	-	-	1,334
Right-to-use lease	78,610	-	-	-	78,610
Other	800,070	11,996	-	375	812,441
Total gross receivables	1,991,555	1,309,580	4,500	272,912	3,578,547
Less: Allowances	<u>991,279</u>	<u>115,295</u>	<u>-</u>	<u>36,953</u>	<u>1,143,527</u>
Total net receivables	<u>\$ 1,000,276</u>	<u>\$ 1,194,285</u>	<u>\$ 4,500</u>	<u>\$ 235,959</u>	<u>\$ 2,435,020</u>

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**NOTE 4: RECEIVABLES - (Continued)**

The City's governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 333,876	\$ -	\$ 333,876
Fines	26,477	-	26,477
Other	218,807	-	218,807
Hazard Mitigation Fund			
Grant	283,932	4,192,567	4,476,499
Nonmajor Funds			
Ad valorem taxes	80,673	-	80,673
Grant	61,481	-	61,481
Fines and forfeitures	-	16,781	16,781
	<u>\$ 1,005,246</u>	<u>\$ 4,209,348</u>	<u>\$ 5,214,594</u>

The City's property taxes are levied annually on October 1<sup>st</sup> on the basis of the Appraisal District's assessed values as of January 1<sup>st</sup> of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. The City's property taxes are billed and collected by the Matagorda County Tax Office and are due and payable on January 31<sup>st</sup>. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on the property on January 1<sup>st</sup> of the subsequent calendar year.

For the current year, the City levied property taxes of \$0.6350 per \$100 of assessed valuation, for maintenance and operations, \$0.47137 and interest and sinking, \$0.16363. The resulting adjusted total tax levy was \$6,117,480 on the total adjusted taxable valuation of \$968,851,553 for the 2021 tax roll.

**NOTE 5: DUE FROM OTHER GOVERNMENTS**

The City reported amounts due from other governments as of the end of the current fiscal year. These amounts are comprised of the following at September 30, 2022:

	<u>General</u>	<u>Hazard Mitigation</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Property taxes	\$ 12,444	\$ -	\$ 3,532	\$ 12,444
Sales taxes	411,640	-	-	411,640
Federal and state grants	33,050	283,932	61,481	94,531
Contract payments	33,585	-	-	33,585
	<u>\$ 490,719</u>	<u>\$ 283,932</u>	<u>\$ 65,013</u>	<u>\$ 839,664</u>

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**NOTE 6: LEASE RECEIVABLE**

The City is a lessor in a noncancelable lease agreement for office space with the Bay City Community Development Corporation ("CDC"). The present value of future minimum lease payments as of September 30, 2022 of \$78,610 is recorded as a right-to-use lease receivable in the government-wide and fund financial statements. The related deferred inflow of resources as of September 30, 2022 of \$78,610 is recorded in the fund financial statements.

Inflows of resources during the current fiscal year include \$59,141 in base lease revenues and \$4,219 in lease interest revenues. No variable payments were recorded.

The term of the lease began in fiscal year 2019 and is payable in monthly installments through December 2023, with base rent increases each year.

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**NOTE 7: CAPITAL ASSETS**

The City's capital assets activity for the year ended September 30, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 1,603,907	\$ -	\$ -	\$ 1,603,907
Construction in progress	<u>750,429</u>	<u>923,659</u>	<u>13,500</u>	<u>1,660,588</u>
Total capital assets not being depreciated	<u>2,354,336</u>	<u>923,659</u>	<u>13,500</u>	<u>3,264,495</u>
Capital assets, being depreciated				
Machinery and equipment	12,233,490	439,820	426,128	12,247,182
Buildings	6,593,609	81,620	-	6,675,229
Infrastructure	<u>41,575,142</u>	<u>340,353</u>	<u>-</u>	<u>41,915,495</u>
Total capital assets being depreciated	<u>60,402,241</u>	<u>861,793</u>	<u>426,128</u>	<u>60,837,906</u>
Right-to-Use lease assets, being amortized				
Machinery and equipment	<u>-</u>	<u>204,670</u>	<u>-</u>	<u>204,670</u>
Total right-to-use lease assets being amortized	<u>-</u>	<u>204,670</u>	<u>-</u>	<u>204,670</u>
Less accumulated depreciation and amortization for				
Capital assets, being depreciated				
Machinery and equipment	8,352,689	568,507	426,128	8,495,068
Buildings	5,558,175	283,799	-	5,841,974
Infrastructure	<u>20,134,872</u>	<u>1,397,159</u>	<u>-</u>	<u>21,532,031</u>
Right-to-Use lease assets, being amortized				
Machinery and equipment	<u>-</u>	<u>26,026</u>	<u>-</u>	<u>26,026</u>
Total accumulated depreciation and amortization	<u>34,045,736</u>	<u>2,275,491</u>	<u>426,128</u>	<u>35,895,099</u>
Total capital assets being depreciated and right-to-use lease assets being amortized, net	<u>26,356,505</u>	<u>(1,209,028)</u>	<u>-</u>	<u>25,147,477</u>
Governmental activities capital assets, net	<u>\$ 28,710,841</u>	<u>\$ (285,369)</u>	<u>\$ 13,500</u>	<u>\$ 28,411,972</u>

**NOTE 7: CAPITAL ASSETS - (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 403,117	\$ -	\$ -	\$ 403,117
Construction in progress	3,680,326	8,075,541	583,201	11,172,666
Total capital assets not being depreciated	<u>4,083,443</u>	<u>8,075,541</u>	<u>583,201</u>	<u>11,575,783</u>
Capital assets, being depreciated				
Machinery and equipment	15,827,555	152,157	30,044	15,949,668
Buildings and improvements	2,371,044	-	-	2,371,044
Infrastructure	36,661,820	500,147	-	37,161,967
Total capital assets being depreciated	<u>54,860,419</u>	<u>652,304</u>	<u>30,044</u>	<u>55,482,679</u>
Less accumulated depreciation for				
Machinery and equipment	9,535,171	1,026,800	30,044	10,531,927
Buildings and improvements	758,950	61,216	-	820,166
Infrastructure	21,182,647	1,071,725	-	22,254,372
Total accumulated depreciation	<u>31,476,768</u>	<u>2,159,741</u>	<u>30,044</u>	<u>33,606,465</u>
Total capital assets being depreciated, net	<u>23,383,651</u>	<u>(1,507,437)</u>	<u>-</u>	<u>21,876,214</u>
Business-type activities capital assets, net	<u>\$ 27,467,094</u>	<u>\$ 6,568,104</u>	<u>\$ 583,201</u>	<u>\$ 33,451,997</u>

Depreciation and amortization expense was charged to functions/programs of the City as follows:

**Governmental activities**

General government	\$ 119,693
Public safety	222,591
Public works	1,436,129
Cultural and recreation	444,535
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>52,543</u>

Total depreciation and amortization expense - governmental activities \$ 2,275,491

**Business-type activities**

Water and sewer	\$ 1,931,858
Airport	<u>227,883</u>

Total depreciation expense - business-type activities \$ 2,159,741

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**NOTE 8: DEFINED BENEFIT PENSION PLAN**

Plan Description

The City participates as one of 895 plans in the defined benefit cash-balance plan administered by the TMRS. TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of the TMRS with a six-member, Governor appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (Annual report) that can be obtained at [www.tmr.com](http://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% 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 of the City for plan year 2022 were as follows:

Employee deposit rate	5.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25
Updated service credit	Last adopted 1992-Auto Readoption-100%-Transfers
Annuity increase (for retirees)	70% of CPI repeating
Military service credit	Yes, adopted 1-1984
Restricted prior service credit	Yes, adopted 12-2005
Buy back last adopted	Not elected

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	129
Inactive employees entitled to but not yet receiving benefits	110
Active employees	<u>155</u>
	<u>394</u>

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**NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)**

Contributions

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

Employees for the City were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.76% and 9.33% in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2022 were \$753,637, and 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 Net Pension Liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The Total Pension Liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees 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 through 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 Rate (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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**NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)****Net Pension Liability - (Continued)***Actuarial Assumptions - (Continued)*

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2022 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Public Equity	35.00%	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	<u>10.00%</u>	10.00%
<b>Total</b>	<u>100.00%</u>	



**NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)**

Net Pension Liability - (Continued)

*Discount Rate*

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	<b>Increase (Decrease)</b>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability/(Asset)</u>
	(a)	(b)	(a) - (b)
<b>Balance at 12/31/2020</b>	\$ 38,636,361	\$ 36,584,477	\$ 2,051,884
Changes for the year:			
Service cost	896,967	-	896,967
Interest	2,567,078	-	2,567,078
Changes of benefit terms	-	-	-
Difference between expected and actual experience	426,662	-	426,662
Change of assumptions	-	-	-
Contributions - Employer	-	804,627	(804,627)
Contributions - Employee	-	412,209	(412,209)
Net investment income	-	4,762,371	(4,762,371)
Benefit payments, including refunds of employee contributions	(2,108,116)	(2,108,116)	-
Administrative expense	-	(22,067)	22,067
Other changes	-	151	(151)
Net changes	<u>1,782,591</u>	<u>3,849,175</u>	<u>(2,066,584)</u>
<b>Balance at 12/31/2021</b>	<u>\$ 40,418,952</u>	<u>\$ 40,433,652</u>	<u>\$ (14,700)</u>

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Net Pension Liability of the City, calculated using the discount rate of 6.75%, as well as what the City's Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's Net Pension Liability (Asset):	\$5,442,639	\$(14,700)	\$(4,479,594)

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at [www.tmrs.com](http://www.tmrs.com).

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**NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)**

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

For the year ended September 30, 2022 the City recognized pension expense of \$(202,939).

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	\$ 290,348	\$ 162,112
Changes in actuarial assumptions	26,652	-
Difference between projected and actual investment earnings	-	2,440,263
Contributions subsequent to the measurement date	621,741	-
Total	\$ 938,741	\$ 2,602,375

\$621,741 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the 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:

Year ended December 31:	Pension Expense Amount
2022	\$ (395,883)
2023	(932,656)
2024	(498,253)
2025	(458,583)
2026	-
Thereafter	-
Total	\$ (2,285,375)

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**NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB)**

Plan Description and Benefits Provided

TMRS administers an optional death benefit plan known as the Supplemental Death Benefits Fund (SDBF), which operates like a group-term life insurance plan. This voluntary program allows participating cities to provide supplemental death benefits for their active members, with optional coverage for their retirees. A City may terminate coverage in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The SDBF had 777 participating cities on December 31, 2021.

Benefits payable from SDBF become due after the death of a covered active member or retiree and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active members provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the member's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (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, single-employer OPEB plan (i.e. no assets are accumulated).

Membership

At the December 31, 2021 valuation and measurement date, the following is the number of members in the plan:

Inactive employees currently receiving benefits	94
Inactive employees entitled to but not yet receiving benefits	21
Active employees	<u>155</u>
Total	<u>270</u>

Contributions

Contributions to the SDBF are made monthly based on the payroll of covered members of the cities participating in the SDBF. The required contribution rate is actuarially determined annually for each City participating in the SDBF. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the City's contribution rate and the calendar year when the rate goes into effect. 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 retired term life insurance during employees' entire careers. Therefore, there are no assets that are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The SDBF is considered an unfunded OPEB plan and benefit payments made by the City are treated as being equal to the City's yearly contribution for retirees.

The City's contribution rates for the program are as follows:

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2018	0.22%	0.07%
2019	0.23%	0.08%
2020	0.22%	0.08%
2021	0.32%	0.23%
2022	0.30%	0.21%

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**NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**

Total OPEB Liability

The City's total OPEB liability and the OPEB expense is recognized on the City's financial statements. The OPEB expense recognized each fiscal year is equal to the change in the total OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of certain changes in the liability.

*Actuarial Assumptions*

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.

Inflation	2.5%
Salary increases	3.5% to 11.5% including inflation
Discount rate	1.84%*
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
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% 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 was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

**NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**

Total OPEB Liability - (Continued)

*Changes in Total OPEB Liability*

The following details the changes in the Total OPEB liability:

<b>Balance at 12/31/20</b>	\$ 740,069
Changes for the year:	
Service cost	28,855
Interest	14,900
Change of benefit terms	-
Difference between expected and actual experience	(22,483)
Change of assumptions	21,857
Benefit payments	(18,962)
Net changes	<u>24,167</u>
<b>Balance at 12/31/21</b>	<u>\$ 764,236</u>

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

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 1.84%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.84%) or 1-percentage-point higher (2.84%) than the current rate:

	1.0% Decrease in Discount Rate (0.84%)	Discount Rate (1.84%)	1.0% Increase in Discount Rate (2.84%)
City's Total OPEB Liability:	\$921,244	\$764,236	\$640,897

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$68,164.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,516	\$ 46,430
Changes in actuarial assumptions	103,480	7,056
Contributions subsequent to the measurement date	13,995	-
Total	<u>\$ 118,991</u>	<u>\$ 53,486</u>

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**NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - (Continued)

\$13,995 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 OPEB liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	OPEB Expense Amount
2022	\$ 20,433
2023	23,836
2024	7,304
2025	(62)
2026	-
Thereafter	-
Total	\$ 51,511

**NOTE 10: RETIREE HEALTH BENEFIT PLAN (OPEB)**

Plan Description

In addition to providing pension benefits, the City provides medical benefits to eligible retirees and dependents with postemployment health care benefits through a single-employer postemployment healthcare plan (the "plan") administered by Texas Municipal League Multistate Intergovernmental Employee Benefits Pool. A separate audited financial report is not issued on the plan. All permanent full-time employees of the City are eligible to participate in the retiree health care plan. In order for a City employee to be eligible for this benefit, he or she must currently be enrolled in the health care policy and be eligible to retire through TMRS. The City's TMRS retirement eligibility is five years of service credit and at least 60 years of age or 25 years of service credit at any age. For retiree medical eligibility, there is no minimum service requirement with the City.

Members that terminate before normal retirement conditions are not eligible for retiree health care. The City does not provide death-in-service benefits to a surviving spouse other than COBRA. Employees who retire under a disability retirement are immediately eligible for retiree health care benefits. For a spouse to be eligible for retiree health care benefits, the spouse must be enrolled in the plan at the time of the retiree's retirement. This health care coverage can continue to the surviving spouse of deceased retiree if the spouse had coverage prior to the member's death. A surviving spouse who chooses to maintain their coverage is required to pay the rate for dependent coverage.

Retirees have the option to maintain their health care coverage after they become eligible for Medicare. The City does not require retirees to enroll in Medicare. The City does not provide an "opt-out" benefit for retirees. There is no incentive if they do not elect coverage.

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**NOTE 10: RETIREE HEALTH BENEFIT PLAN (OPEB) - (Continued)**

Plan Description - (Continued)

The retiree pays 100% of the monthly premium for health coverage. Retiree may purchase retiree health care coverage for eligible spouses and dependents at their own expense. The following are the monthly premiums effective October 1, 2022:

Plan	Employee Only	Employee & Spouse	Employee & Child(ren)	Employee & Family
Base Medical Plan	\$ 709.15	\$ 1,489.18	\$ 1,276.44	\$ 2,127.42
Buy-Up Medical Plan	944.35	1,938.08	1,699.77	2,833.02
Dental	25.41	50.81	68.78	104.16
Vision	5.34	10.31	10.81	16.17

At the December 31, 2021 valuation and measurement date, the following represents the participants in the plan:

Inactive plan members or beneficiaries currently receiving benefits	1
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>134</u>
Total plan members	<u>135</u>

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**NOTE 10: RETIREE HEALTH BENEFIT PLAN (OPEB) - (Continued)**

Total OPEB Liability

The most recent actuarial valuation was performed as of December 31, 2021.

*Funded Status*

As of December 31, 2021, the measurement date, the Total OPEB Liability for benefits was \$304,490, all of which was unfunded. There are no assets that are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

*Actuarial Methods and Assumptions*

Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. The actuarial methods and assumptions used in the December 31, 2021 valuation are as follows:

Actuarial method	Individual entry age normal cost method
Discount rate	1.84% as of December 31, 2021
Inflation	2.50%
Salary increases	3.50% to 11.50%, including inflation
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 published through 2019 to account for future mortality improvements.
Health care trend rates	Initial rate of 6.75% declining to an ultimate rate of 4.15% after 12 years
Participation rates	20% of those retiring between ages 50 and 65 were assumed to elect medical coverage through the City's plan



**NOTE 10: RETIREE HEALTH BENEFIT PLAN (OPEB) - (Continued)**

Total OPEB Liability - (Continued)

*Changes in Total OPEB Liability*

The following details the changes in the Total OPEB liability:

<b>Balance at 12/31/20</b>	\$ 287,826
Changes for the year:	
Service cost	20,169
Interest	5,820
Change of benefit terms	-
Difference between expected and actual experience	22,391
Change of assumptions	(17,858)
Benefit payments	(13,858)
Net changes	<u>16,664</u>
<b>Balance at 12/31/21</b>	<u>\$ 304,490</u>

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

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 1.84%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.84%) or 1-percentage-point higher (2.84%) than the current rate:

	1.0% Decrease in Discount Rate (0.84%)	Discount Rate (1.84%)	1.0% Increase in Discount Rate (2.84%)
City's Total OPEB Liability:	\$338,181	\$304,490	\$274,753

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate*

The following presents the Net OPEB Liability of the City, calculated using the trend rate, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1.0% Decrease in Trend Rate	Trend Rate	1.0% Increase in Trend Rate
City's Net OPEB Liability:	\$267,453	\$304,490	\$349,750

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$30,719.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 19,423	\$ 25,289
Changes in actuarial assumptions	50,326	20,114
Contributions subsequent to the measurement date	9,544	-
<b>Total</b>	<b>\$ 79,293</b>	<b>\$ 45,403</b>

**NOTE 10: RETIREE HEALTH BENEFIT PLAN (OPEB) - (Continued)**

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - (Continued)

\$9,544 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 OPEB liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	OPEB Expense Amount
2023	\$ 4,730
2024	4,730
2025	4,730
2026	3,412
2027	4,686
Thereafter	2,058
Total	\$ 24,346

Summary of OPEB Accounts

Plan	OPEB Liability (Asset)	Deferred Outflows	Deferred Inflows	OPEB Expense (Reduction)
TMRS Supplemental Death Benefit	\$ 764,236	\$ 118,991	\$ 53,486	\$ 71,709
Retiree Health Benefit	304,490	79,293	45,403	30,719
Totals	\$ 1,068,726	\$ 198,284	\$ 98,889	\$ 102,428

**NOTE 11: RISK MANAGEMENT**

The City is exposed to various risks of loss encompassed in the areas of general liabilities, workers' compensation claims, and employee health related expenses. The City has purchased general liability and workers' compensation insurance to cover potential losses in those areas. The City has entered into interlocal agreements with the Texas Municipal League Intergovernmental Risk Pool for general liability and workers' compensation coverage. Through the payment of contributions to the Texas Municipal League Intergovernmental Risk Pool, the City has transferred these risks to the pool. The City has not retained any risks other than the deductible and is covered up to the limits of coverage after the deductible. Settlements of claims did not exceed insurance coverage for any of the past three years.

The City solicits competitive proposals each year for employee health care insurance. The City Council awards a health care insurance provider annually. The City pays a portion of the health care premiums for City employees and the City's contribution can change from year to year depending on budgetary constraints. Employees pay health care premiums including optional dependent coverage via payroll deductions. The City has no liability for any claims incurred by participants in this plan.

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**NOTE 12: LONG-TERM DEBT**Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Bonds and certificates payable					
General obligation bonds	\$ 2,751,000	\$ -	\$ 593,800	\$ 2,157,200	\$ 613,950
Certificates of obligation	13,177,238	-	756,675	12,420,563	783,759
Plus deferred amounts:					
Bond premium	<u>960,198</u>	<u>-</u>	<u>75,140</u>	<u>885,058</u>	<u>-</u>
Total bonds and certificates payable	<u>16,888,436</u>	<u>-</u>	<u>1,425,615</u>	<u>15,462,821</u>	<u>1,397,709</u>
Tax notes	865,000	-	205,000	660,000	210,000
Direct borrowing					
Financed purchases	78,735	-	38,812	39,923	39,923
Right-to-Use lease	-	204,670	24,892	179,778	41,946
Net pension liability (asset)	1,785,139	-	1,797,634	(12,495)	-
OPEB liability	894,269	14,149	-	908,418	-
Compensated absences	<u>362,086</u>	<u>456,365</u>	<u>482,119</u>	<u>336,332</u>	<u>33,633</u>
Total governmental activity long-term liabilities	<u>\$ 20,873,665</u>	<u>\$ 675,184</u>	<u>\$ 3,974,072</u>	<u>\$ 17,574,777</u>	<u>\$ 1,723,211</u>
<b>Business-type activities</b>					
Bonds and certificates payable					
General obligation bonds	\$ 3,834,000	\$ -	\$ 511,200	\$ 3,322,800	\$ 536,050
Certificates of obligation	8,929,771	18,352,000	323,325	26,958,446	865,242
Plus deferred amounts:					
Bond premium	<u>830,704</u>	<u>-</u>	<u>126,723</u>	<u>703,981</u>	<u>-</u>
Total certificates payable	<u>13,594,475</u>	<u>18,352,000</u>	<u>961,248</u>	<u>30,985,227</u>	<u>1,401,292</u>
Net pension liability (asset)	266,745	-	268,950	(2,205)	-
OPEB liability	133,626	26,682	-	160,308	-
380 agreement liability (Note 15)	513,819	411,538	171,779	753,578	342,040
Compensated absences	<u>58,359</u>	<u>82,347</u>	<u>78,780</u>	<u>61,926</u>	<u>6,193</u>
Total business-type activity long-term liabilities	<u>\$ 14,567,024</u>	<u>\$ 18,872,567</u>	<u>\$ 1,480,757</u>	<u>\$ 31,958,834</u>	<u>\$ 1,749,525</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year-end, \$179,778 and \$23,822 of internal service funds' right-to-use lease liability and compensated absences are included in the above amounts. Also, for the governmental activities, compensated absences, pension benefits, and other post-employment benefits are generally liquidated by the General Fund.

**NOTE 12: LONG-TERM DEBT - (Continued)**

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities or to advance refund previously issued debt. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The bonds have been issued for both governmental and business-type activities.

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amount</u>
Refunding Series 2013	2013 - 2024	3.00% - 4.50%	\$ 4,975,000
Refunding Series 2021	2021 - 2030	5.00%	6,205,000

Annual debt service requirements to maturity for general obligation refunding bonds are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2023	\$ 613,950	\$ 83,860	\$ 536,050	\$ 166,140	\$ 1,400,000
2024	635,550	65,013	564,450	139,338	1,404,351
2025	240,700	45,385	589,300	111,115	986,500
2026	253,750	33,350	621,250	81,650	990,000
2027	266,800	20,663	653,200	50,588	991,251
2028-2030	146,450	14,864	358,550	36,389	556,253
	<u>\$ 2,157,200</u>	<u>\$ 263,135</u>	<u>\$ 3,322,800</u>	<u>\$ 585,220</u>	<u>\$ 6,328,355</u>

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**NOTE 12: LONG-TERM DEBT - (Continued)**Combination Tax and Revenue Certificates of Obligation

The City also issues combination tax and revenue certificates of obligation (C.O.s) to provide funds for the acquisition and construction of major capital facilities payable from the proceeds of an annual ad valorem tax and further payable from a junior and subordinate pledge of the net revenues of the City's water and sewer system.

The 2021 and 2022 C.O.s are held by the Texas Water Development Board and contain no subjective acceleration clauses, events of default with finance-related consequences or termination events with finance-related consequences. The Series 2021A and 2022A are funded through the Clean Water Act's Clean Water State Revolving Fund (CWSRF) which assists communities by providing low-cost financing for a wide range of wastewater, stormwater, reuse, and other pollution control projects. The Series 2021B and 2022B are funded through the Clean Water Act's Drinking Water State Revolving Fund (DWSRF) which assists communities by providing low-cost financing for a wide range of water projects that facilitate compliance with drinking water standards.

The C.O.s have been issued for both governmental and business-type activities. C.O.'s currently outstanding are as follows:

	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amount</u>
Certificates of Obligation 2014 Series	2014-2034	2.0% - 4.0%	\$ 3,995,000
Certificates of Obligation 2016 Series	2016-2036	2.0% - 3.0%	5,665,000
Certificates of Obligation 2020 Series	2020-2045	2.11%	8,965,000
Certificates of Obligation 2021 A Series	2021-2050	0.8% - 2.29%	4,742,000
Certificates of Obligation 2021 B Series	2021-2050	0.8% - 2.34%	2,125,000
Certificates of Obligation 2022 A Series	2022-2051	0.8% - 2.35%	12,707,000
Certificates of Obligation 2022 B Series	2022-2051	0.8% - 2.35%	5,645,000

**NOTE 12: LONG-TERM DEBT - (Continued)**

Combination Tax and Revenue Certificates of Obligation - (Continued)

Annual debt service requirements to maturity for certificates of obligation are as follows:

Year	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2023	\$ 783,759	\$ 345,139	\$ 865,242	\$ 442,459	\$ 2,436,599
2024	810,842	323,326	872,158	433,720	2,440,046
2025	827,926	300,453	884,075	424,784	2,437,238
2026	855,009	276,800	891,991	415,606	2,439,406
2027	875,426	251,450	900,574	405,860	2,433,310
2028-2032	4,530,471	851,318	4,661,535	1,867,884	11,911,208
2033-2037	2,997,130	275,816	4,666,871	1,568,463	9,508,280
2038-2042	445,000	76,650	4,404,000	1,222,791	6,148,441
2043-2047	295,000	16,363	4,842,000	778,052	5,931,415
2048-2050	-	-	3,970,000	223,103	4,193,103
	<u>\$ 12,420,563</u>	<u>\$ 2,717,315</u>	<u>\$ 26,958,446</u>	<u>\$ 7,782,722</u>	<u>\$ 49,879,046</u>

Interlocal Receivable

In 2020, the City entered into interlocal cooperation agreements with the CDC and the Bay City Gas Company ("Company"). Each entity agreed to pay funds in the amount of \$3,590,557 to the City to assist with the financing of the Nile Valley road construction project ("Project"). According to the agreements, the City is responsible to oversee the construction of the Project and to finance the costs of the Project with indebtedness to be issued by the City. In May 2020, the City issued Series 2020 Tax and Revenue Certificates of Obligation ("C.O.s") in the amount of \$8,965,000 for the purpose of fulfilling their obligation arising under the agreement. The amount of the C.O.s includes \$3,030,000 for projects not associated with the said Project. The payments by CDC and the Company to the City will be paid annually over fifteen years, beginning in 2020 and continuing through 2035. If the costs for the Project accumulate to less than the estimated amount of \$6,000,000, the City and the two entities will identify additional roads in need of construction or improvement. If all funds designated for the Project are expended, the entities will not be liable for the completion of the Project or any additional projects.

In fiscal year 2022, CDC and the Company paid a total of \$478,232 to the City relating to the interlocal commitment. The remaining amount of \$6,186,836 is reported as an interlocal receivable on the government-wide financial statements at September 30, 2022.

Annual payments on this long-term interlocal receivable are as follows:

	Principal and Interest
2023	\$ 473,582
2024	478,382
2025	477,732
2026	476,782
2027	475,532
2028-2032	2,380,210
2033-2035	1,424,616
	<u>\$ 6,186,836</u>

**NOTE 12: LONG-TERM DEBT - (Continued)**

Tax Notes

The City also issues tax notes to provide funds for the acquisition, repair, replacement and construction of facilities and equipment. The tax notes have been issued for governmental activities and currently outstanding are as follows:

	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amount</u>
Tax Notes - 2018 Series	2019-2025	3.01%	\$ 1,285,000

Annual debt service requirements to maturity for the tax notes are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2023	\$ 210,000	\$ 19,866	\$ 229,866
2024	220,000	13,545	233,545
2025	230,000	3,461	233,461
	<u>\$ 660,000</u>	<u>\$ 36,872</u>	<u>\$ 696,872</u>

Financed Purchases

The City has entered into a financed purchase agreement (direct borrowing) to purchase four vehicles for the City's police department. The agreement qualifies as a financed purchase for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception.

Annual debt service requirements to maturity for the financed purchase are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2023	\$ 39,923	\$ 1,142	\$ 41,065
	<u>\$ 39,923</u>	<u>\$ 1,142</u>	<u>\$ 41,065</u>

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**NOTE 12: LONG-TERM DEBT - (Continued)**

Right-to-Use Lease

The City's noncancelable lease agreements with Konica Minolta Business Solutions USA, Inc., recorded in the Information Technology Internal Service Fund, are reported as a right-to-use lease liability as of September 30, 2022. The leases are payable in monthly installments over five-year terms.

Annual requirements to maturity for the right-to-use lease liability are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 41,946	\$ 5,615	\$ 47,561
2024	43,429	4,132	47,561
2025	43,409	2,601	46,010
2026	31,712	1,279	32,991
2027	<u>19,282</u>	<u>230</u>	<u>19,512</u>
	<u>\$ 179,778</u>	<u>\$ 13,857</u>	<u>\$ 193,635</u>

Prior Year Defeasance of Debt

In prior years the City defeased certain certificates of obligations and general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability of the debt are not included in the City's financial statements. At September 30, 2022, \$6,225,000 of debt outstanding is considered defeased.



**NOTE 13: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2022, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 133,988
		<u>\$ 133,988</u>

Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's enterprise funds to specified governmental funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. In most cases there is not a specific reason for the amount of the transfer or the purpose other than to subsidize the receiving fund. During the current fiscal year, transfers between funds consisted of the following:

<u>Transfers Out</u>	<u>Transfers In</u>				<u>Total</u>
	<u>General Fund</u>	<u>Airport Fund</u>	<u>Internal Service Funds</u>	<u>Nonmajor Govt. Funds</u>	
General	\$ -	\$ 308,000	\$ 701,000	\$ 600,827	\$ 1,609,827
Hazard Mitigation	600,000	-	-	-	600,000
Nonmajor Govt. Funds	58,042	-	-	-	58,042
Water and Sewer	510,000	-	701,000	112,500	1,323,500
	<u>\$ 1,168,042</u>	<u>\$ 308,000</u>	<u>\$ 1,402,000</u>	<u>\$ 713,327</u>	<u>\$ 3,591,369</u>

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**NOTE 14: COMMITMENTS AND CONTINGENCIES**

Grant Programs

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2022, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Litigation

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

Construction Commitments

As of September 30, 2022, the following construction projects were in progress:

Project Description	Costs Incurred To Date	Estimated Remaining Costs	Source of Funds
<b>Governmental activities:</b>			
Civic Center digital sign	\$ 40,569	\$ 38,819	City
Theatre Arts Center	537,463	1,962,537	City
Cottonwood Creek diversion	48,660	100,152	City/Grant
Cottonwood Creek drainage	82,925	52,075	City/Grant
Elliot Subdivision street improvements	674,724	576,795	City
Hamman Road drainage - Phase 1b	74,865	42,135	City/Grant
Highway 35 sidewalk improvements	79,790	45,210	City/Grant
United Rentals drainage improvements	74,000	6,000	City/Grant
Hardeman Soccer Field lighting	5,575	15,425	City/Grant
Radio encryption	6,507	92,061	City/Grant
Generator grant DR 4586 & DR 4572	3,000	-	City/Grant
COVID DR 4485 generators	10,500	-	City/Grant
Stormwater management plan	3,500	-	City/Grant
City Hall re-roof	13,200	2,400	City
Armory building re-roof	5,310	1,770	City
	1,660,588	2,935,379	

**NOTE 14: COMMITMENTS AND CONTINGENCIES - (Continued)**

Construction Commitments - (Continued)

<u>Project Description</u>	<u>Costs Incurred To Date</u>	<u>Estimated Remaining Costs</u>	<u>Source of Funds</u>
<b>Business-type activities:</b>			
Water system evaluation	\$ 355,903	\$ 32,120	City/State
WWTP improvements	218,167	-	City/State
T-Hangar A row remodel	67,336	-	City
Taxiway relocation	726,060	-	City/State
AMI Meter replacement project	3,935,106	-	City/State
East water plant	521,338	2,978,662	City/State
North water plant	469,514	3,030,486	City/State
WWTP improvements	4,362,382	27,237,618	City/State
Elliott waterline improvements	361,628	-	City
Mockingbird water plant rehab	155,232	79,826	City
	<u>11,172,666</u>	<u>33,358,712</u>	
	<u>\$ 11,178,241</u>	<u>\$ 33,374,137</u>	

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**NOTE 15: FUND BALANCES**

The following is a detail of the governmental fund balances at September 30, 2022.

	Governmental Fund Balances			Total
	Nonspendable	Restricted	Unassigned	
General				
Prepaid items	\$ 83,640	\$ -	\$ -	\$ 83,640
Unassigned	-	-	4,158,460	4,158,460
Hazard Mitigation				
Public safety: Various	-	253,812	-	253,812
Nonmajor Governmental				
Prepaid items	18,536	-	-	18,536
Retirement of long-term debt	-	222,898	-	222,898
Arts, tourism, and conventions	-	692,868	-	692,868
Municipal court	-	32,941	-	32,941
Public safety: Police	-	62,812	-	62,812
Public works: Various	-	320,355	-	320,355
Various capital projects	-	2,192,135	-	2,192,135
Unassigned	-	-	(145,409)	(145,409)
	<u>\$ 102,176</u>	<u>\$ 3,777,821</u>	<u>\$ 4,013,051</u>	<u>\$ 7,893,048</u>

**NOTE 16: ECONOMIC INCENTIVE AGREEMENTS**

The City has executed multiple economic incentive agreements, authorized under Chapter 380 of the Local Government Code, with various business entities. The purpose of the incentive is to create jobs, housing, and invigorate the local economy. The companies are tax collecting entities inside and outside the City limits engaged in desirable economic development activities. In addition to the 380 agreements, the City also has entered into a Chapter 312 agreement with one entity which the purpose of the incentive is identical to the Chapter 380 agreements.

The agreements are contingent upon the following conditions: a) Certain minimum number of full-time jobs must be created and maintained, and b) a certain amount of capital investment must be made by the participating entities. If conditions are not met the agreements will be null and void, and the City will have no further obligations.

The agreements, both Chapter 380 and 312 are typically for a period of 10 year, unless terminated sooner. For the year ended September 30, 2022, the City incurred costs of \$1,912 for property tax rebates under the Chapter 380 economic incentive agreement. In addition, the City reports a liability at fiscal year-end in the amount of \$753,578 for water and sewer rebates. \$342,040 will be paid in fiscal year 2023, \$163,812 will be paid in fiscal year 2024, and \$247,726 will be paid in fiscal year 2025. These rebates are calculated as the difference between outside and inside city limit utility rates. To date there has been no tax abatements granted under the Chapter 312 agreements due to certain aspects of the agreement not being completed as of September 30, 2022. All of these agreements have a contract end date of 2023 or 2025.

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**NOTE 17: IMPLEMENTATION OF NEW STANDARD**

The City implemented GASB Statement No. 87, *Leases* ("GASB 87") during the fiscal year ended September 30, 2022. GASB 87 requires recognition of certain lease assets, liabilities, and deferred inflows of resources for leases that previously were classified as operating leases and were previously recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying assets. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City implemented GASB 87 as of the beginning of the fiscal year, resulting in the recognition of \$204,670 in both a right-to-use lease liability and an intangible right-to-use lease asset, related to leasing arrangements under which the City is the lessee, upon implementation. Implementation also resulted in the recognition of \$137,751 in both a lease receivable and deferred inflows of resources, related to leasing arrangements under which the City is the lessor. Implementation of GASB 87 had no impact on the net position or the change in net position previously reported prior to implementation.

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**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION**

A. Organization

CDC is a public instrumentality and nonprofit economic development corporation under Section 4B of the Development Corporation Act of 1979, Article 5190.6 of the Revised Civil Statutes of Texas ("Act") on March 13, 1998. Under the Act, the Board of Directors consists of five members appointed by and who serve at the pleasure of the City Council of the City of Bay City, Texas ("City Council") for one-year terms.

CDC is organized exclusively for the purpose of benefiting and accomplishing public purposes of the City of Bay City, Texas ("City"), by promoting, assisting and enhancing economic development activities for the City.

CDC prepares annual financial statements as of September 30 of each year. CDC reports its financial results as a governmental type entity.

B. Summary of Significant Accounting Policies

The accounting and reporting policies of Bay City Community Development Corporation conform to generally accepted accounting principles (GAAP), as applicable to governmental units. The more significant accounting policies are described below.

1. Reporting Entity - Component Unit Status

CDC is reported as a component unit of the City in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, The Financial Reporting Entity, as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units. CDC meets the criteria established by GASB to be a component unit of the City, due to the fact that the City Council appoints each member of its Board of Directors. CDC is included in the City's annual financial statements as a discretely presented component unit.

2. Government-wide and Fund Accounting

The combined government-wide and fund financial statements (i.e., the Statement of Net Position and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance) report information on all activities of CDC.

The combined Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance demonstrate the degree to which the direct expenses of CDC are offset by program revenues. Direct expenses are those that are clearly identifiable with CDC's specific function, that of economic development. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide and fund financial statements are provided for CDC with a column for adjustments between the two statements.

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**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION – (Continued)**

B. Summary of Significant Accounting Policies - (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide information (i.e., the columns labeled “Statement of Net Position” and “Statement of Activities”) in the financial statements is 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund (i.e., the column labeled “General 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, CDC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Sales taxes and interest revenue 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. All other revenue items are considered to be measurable and available only when CDC receives cash.

CDC reports the following major governmental fund:

General Fund - The General Fund is CDC's operating fund. All financial resources are accounted for in the General Fund. The General Fund's transactions consist primarily of revenues realized from the collection of sales tax revenue dedicated to the purpose of economic development and income received on operating leases.

CDC reports no other funds.

4. Budgets and Budgetary Accounting

In accordance with CDC's articles of incorporation, the budget for the forthcoming fiscal year shall be submitted to, and approved by, the Board of Directors, and the City Council. In submitting the budget to the City Council, the Board of Directors shall submit the budget on forms prescribed by the City Council and in accordance with the annual budget preparation schedule as set forth by the City Council. The budget shall be submitted to the City Council for inclusion in the annual budget presentation to the City Council. The budget proposed for adoption shall include the projected operating expenses, and such other budgetary information as shall be useful to or appropriate for the Board of Directors and the City Council.

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**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

B. Summary of Significant Accounting Policies - (Continued)

4. Budgets and Budgetary Accounting - (Continued)

The budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by functions/categories. Expenditures may not exceed appropriations at the line-item level for project expenditures, the administration does have the authority to modify the budget for certain administrative and prospect expenditures. Within these above control levels, the Board of Directors may transfer appropriations without approval by the City. Budgetary level of controls based on the above criteria are deemed to be at the line item level. Any unencumbered appropriations for annually budgeted funds lapse at fiscal year-end. There were several amendments made to the original budget.

5. Leases

CDC as Lessee

With the exception of short-term leases, when CDC is a lessee in noncancellable lease arrangements the CDC recognizes a right-to-use lease liability (lease liability) and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The CDC recognizes lease liabilities with an initial, individual value that would be material to the government-wide financial statements. For leases not meeting these criteria, lease payments are recognized as outflows of resources based on the payment provisions of the contract. See Note 8 for details of the CDC's leasing arrangements as lessee.

At the commencement of a lease, the CDC 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 its useful life.

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

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

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



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**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

B. Summary of Significant Accounting Policies - (Continued)

5. Leases - (Continued)

CDC as Lessor

With the exception of short-term leases and certain regulated leases, when the CDC is a lessor in noncancellable lease arrangements the CDC recognizes a right-to-use lease receivable (lease receivable) and a deferred inflow of resources in the government-wide and governmental fund financial statements. The CDC recognizes lease receivables with an initial, individual value that would be material to the governmental financial statements. For leases not meeting these criteria, lease revenues are recognized as inflows of resources based on the payment provisions of the contract. See Note 6 for details of the CDC's leasing arrangements as lessor.

At the commencement of a lease, the CDC 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 CDC determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The CDC 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 is composed of fixed payments from the lessee.

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

6. Deposits and Investments

CDC's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

CDC may invest its excess funds in certain instruments authorized by the Public Funds Investment Act (Chapter 2256.001 Texas Government Code). CDC limits the investment of excess funds to certificates of deposit issued by banking institutions and credit unions with office locations within the City limits and Texas Local Government Investment Pool money market mutual fund. Investment balances with bank institutions should not exceed the limits of the Federal Deposit Insurance Corporation ("FDIC").

CDC has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995.

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**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

B. Summary of Significant Accounting Policies - (Continued)

7. Capital Assets

CDC's capital assets, which consist of land, buildings, and office equipment, are reported in the applicable governmental activities columns in the government-wide statement of net position. CDC defines capital assets, as assets with an estimated useful life in excess of one year, regardless of cost.

As CDC constructs or acquires capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original amount. In the case of donations, CDC values these capital assets at acquisition value at the date of donation.

These assets are depreciated using the straight-line method of 39 years for buildings and five to seven years for equipment.

8. Compensated Absences

CDC offers vacation, sick, and emergency leave to full-time employees. Leave time is accrued at different rates and no payment is made by CDC in lieu of taking the time off. However, in the case of termination, only accrued vacation time through the date of termination will be paid upon approval of the Board of Directors. Accumulated vacation time benefits payable were not considered material to the accompanying financial statements. As such, no liability for these benefits has been reported as of September 30, 2022.

9. Long-term Obligations

In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activities statement of net position. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position and/or balance sheet 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. CDC reports deferred inflows related to leases in the governmental funds balance sheet, as well as the government-wide statements. Deferred amounts relating to leases represent future inflows of resources which will be recognized as revenue over the life of the lease term.

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**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

B. Summary of Significant Accounting Policies - (Continued)

11. Fund Equity

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," ("Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances - nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The CDC did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2022. This Statement did not have an impact on the CDC's functions, financial position or results of operations.

For the classification of Governmental Fund balances, the CDC considers an expenditure to be made from the most restrictive first when more than one classification is available.

12. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires management to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

The preparation of financial statements in conformity with GAAP requires the use of the management's estimates.

C. Stewardship, Compliance, and Accountability

Budgetary Compliance

Budgetary compliance is monitored at the line-item level in the General Fund. For the fiscal year ended September 30, 2022, CDC complied with budgetary restrictions at all function levels except as detailed in the following table:

	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
Current			
Business	\$ 7,927	\$ 8,104	\$ 177
Contractual services	6,750	7,308	558
Equipment rental	3,100	3,461	361
Office	13,700	16,091	2,391
Program expenditures	1,099,101	1,205,025	105,924
Utilities	4,000	4,451	451
Right-to-Use lease asset	-	137,751	137,751
Debt Service			
Principal	463,086	6,824,200	6,361,114
Interest and fiscal charges	365,000	369,523	4,523

These over expenditures were funded by available fund balance in the General Fund.

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**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)****D. Deposits and Investments**

The CDC's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas Public Funds Investment Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the CDC's and the depository bank's agent bank. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Risk</u>	<u>Portfolio %age</u>
Public Funds Investment Pool				
TexPool	\$ 11,425	24	AAAm	100%
	<u>\$ 11,425</u>			

Following the criteria for GASB Statement No. 79, Certain External Investment Pools and Pool Participants, TexPool uses amortized cost to value portfolio assets. The pool operates in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pool is the State of Texas. The investment pool transact at a net asset value of \$1.00 per share and are classified as cash and cash equivalents for reporting purposes.

**Interest Rate Risk**

In accordance with CDC's investment policy, CDC manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 36 months or less.

**Credit Risk**

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. As of September 30, 2022, and for the year then ended, CDC was not exposed to credit risk.

**Concentration of Credit Risk**

CDC's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, CDC was not exposed to concentration of credit risk.

**Custodial Credit Risk - Deposits**

CDC's custodial credit risk refers to the risk that in the event of a bank failure, CDC's deposits may not be returned to it. CDC's investment policies require that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to CDC by the depository in an amount equal to at least 102% of the carrying value of deposits held. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore CDC was not exposed to custodial credit risk. Funds held with TDECU were fully insured through the National Credit Union Association.

**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

D. Deposits and Investments - (Continued)

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, CDC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. CDC's investment policy requires that securities be held in the name of CDC or held on behalf of CDC and that all securities are purchased using the delivery versus payment method. As of September 30, 2022, and for the year then ended, CDC was not exposed to any custodial credit risk.

E. Receivables

Receivables at September 30, 2022, including the applicable allowances for uncollectible accounts, consisted of the following:

	<u>General Fund</u>	<u>Total</u>
Gross receivables:		
Accounts	\$ 14,708	\$ 14,708
Rent	<u>3,600</u>	<u>3,600</u>
Total gross receivables	18,308	18,308
Less: Allowances	<u>-</u>	<u>-</u>
Total net receivables	<u>\$ 18,308</u>	<u>\$ 18,308</u>

The CDC's General Fund reports unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The General Fund also defers revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable and unearned revenue reported in the General Fund were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Rental income	\$ -	\$ 400	\$ 400
	<u>\$ -</u>	<u>\$ 400</u>	<u>\$ 400</u>

F. Due From Other Governments

CDC, by law, is to receive one-fourth of the sales tax earned by the City and paid monthly to the City by the State of Texas. CDC's outstanding receivable of the sales tax earned by the City for the year ended September 30, 2022, was \$137,213. The City collects the sales tax from the State of Texas and then pays CDC's portion monthly when collected.

In addition, Main Street reimbursements from the City in the amount of \$16,000 were reported as due from other government.

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**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

G. Lease Receivable

CDC is a lessor in a noncancelable lease agreement for office space with STP Nuclear Operating Company. The present value of future minimum lease payments as of September 30, 2022 of \$167,793 is recorded as a right-to-use lease receivable in the government-wide and fund financial statements. The related deferred inflow of resources as of September 30, 2022 of \$188,587 is recorded in the fund financial statements, adjusted by \$20,794 for lease payments received prior to the implementation of GASB 87 that related to fiscal year 2022.

Inflows of resources during the current fiscal year include \$82,523 in base lease revenues and \$7,645 in lease interest revenues. No variable payments were recorded.

The term of the lease began on January 1, 2020 and will end on December 31, 2024. The lease will automatically renew for an additional five years unless terminated by either party. The base rental rate of the space is \$0.325 per square foot per month, with a \$0.01 increase per square foot each year.

H. Note Receivable

In August 2022, CDC sold its assets relating to the Family Entertainment Center to Schulman's Movie Bowl Grille, LLC ("SMBG"). As part of the sale, SMBG entered into an agreement with the CDC to pay \$100,000 per year over a ten-year term. As of September 30, 2022, \$100,000 is recorded as a current note receivable in the statement of net position. The remaining balance of \$900,000 is shown as long-term note receivable in the statement of net position.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 100,000	\$ -	\$ 100,000
2024	100,000	-	100,000
2025	100,000	-	100,000
2026	100,000	-	100,000
2027	100,000	-	100,000
2028-2032	500,000	-	500,000
	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>

**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

I. Capital Assets

CDC's capital asset activity for the year ended September 30, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated				
Land	\$ 456,676	\$ -	\$ -	\$ 456,676
Total capital assets not being depreciated	<u>456,676</u>	<u>-</u>	<u>-</u>	<u>456,676</u>
Capital assets being depreciated				
Machinery and equipment	159,254	-	-	159,254
Buildings	19,865,982	-	12,049,495	7,816,487
Total capital assets being depreciated	<u>20,025,236</u>	<u>-</u>	<u>12,049,495</u>	<u>7,975,741</u>
Right-to-Use lease assets being amortized				
Buildings	-	137,751	-	137,751
Total right-to-use leased assets being amortized	<u>-</u>	<u>137,751</u>	<u>-</u>	<u>137,751</u>
Less accumulated depreciation and amortization for Capital assets being depreciated				
Machinery and equipment	(125,595)	11,077	-	(136,672)
Buildings	(3,651,250)	531,593	1,621,211	(2,561,632)
Right-to-Use lease assets being amortized				
Buildings	-	61,223	-	(61,223)
Total accumulated depreciation and amortization	<u>(3,776,845)</u>	<u>603,893</u>	<u>1,621,211</u>	<u>(2,759,527)</u>
Total capital assets being depreciated and right-to-use lease assets being amortized, net	<u>16,248,391</u>	<u>(466,142)</u>	<u>10,428,284</u>	<u>5,353,965</u>
Governmental activities capital assets, net	<u>\$ 16,705,067</u>	<u>\$ (466,142)</u>	<u>\$ 10,428,284</u>	<u>\$ 5,810,641</u>

Depreciation expense of \$603,893 was charged to the general government function/program.

J. Due to City of Bay City, Texas

The Due to City of Bay City, Texas of \$23,239, reported on the fund financial statements, primarily relates to amounts owed for utility payments made by the City on behalf of CDC, as well as rents payable as of September 30, 2022.

**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

K. Long-term Debt

Long-term liability activity for the year ended September 30, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable - direct borrowings					
Government Capital Series 2021	\$ 3,144,859	\$ -	\$ 185,485	\$ 2,959,374	\$ 189,185
TDECU	6,616,233	-	6,616,233	-	-
Prosperity Bank	-	1,500,000	22,482	1,477,518	276,074
Total notes payable - direct borrowings	<u>9,761,092</u>	<u>1,500,000</u>	<u>6,824,200</u>	<u>4,436,892</u>	<u>465,259</u>
Interlocal commitment	<u>3,330,159</u>	-	<u>236,741</u>	<u>3,093,418</u>	<u>236,791</u>
Right-to-Use lease	-	<u>137,751</u>	<u>59,141</u>	<u>78,610</u>	<u>62,488</u>
	<u>\$ 13,091,251</u>	<u>\$ 1,637,751</u>	<u>\$ 7,120,082</u>	<u>\$ 7,608,920</u>	<u>\$ 764,538</u>

Notes Payable

Series 2021 note payable was a direct borrowing in January 2021 to refinance the Series 2016 and Series 2016 A notes payable with Government Capital Corporation in the amount of \$3,190,661. Interest is fixed at an initial rate of 1.98% and is adjustable at the 5 and 10 year anniversaries. Principal and interest is payable on a quarterly basis of \$61,595 through April 2036. The note is secured by all sales and use taxes levied and collected.

In August 2022, the CDC obtained direct borrowing financing with Prosperity Bank in the amount of \$1,500,000 to in order to pay off the note payable with TDECU in conjunction with the sale of the Family Entertainment Center to SMBG. Interest is fixed at a rate of 4.25%. Principal and interest is payable on a monthly basis of \$27,794 through August 2027.

Annual debt service requirements to maturity for the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 465,259	\$ 114,655	\$ 579,914
2024	480,997	98,917	579,914
2025	497,329	82,585	579,914
2026	514,279	65,635	579,914
2027	504,078	48,042	552,120
2028-2032	1,086,603	145,306	1,231,909
2033-2036	<u>888,347</u>	<u>35,584</u>	<u>923,931</u>
	<u>\$ 4,436,892</u>	<u>\$ 590,724</u>	<u>\$ 5,027,616</u>



**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

K. Long-term Debt - (Continued)

Interlocal Commitment

In April 2020, CDC agreed to pay funds in the amount of \$3,590,557 to the City to assist with the financing of the Nile Valley road construction project ("Project"), with matching funding provided by the Bay City Gas Company. According to the agreement, the City is responsible to oversee the construction of the Project and to finance the costs of the Project with indebtedness to be issued by the City. In May 2020, the City issued Series 2020 Tax and Revenue Certificates of Obligation ("C.O.s") in the amount of \$8,965,000 for the purpose of fulfilling their obligation arising under the agreement. The amount of the C.O.s includes \$3,030,000 for projects not associated with the said Project. The payments by CDC to the City will be paid annually over fifteen years, beginning in 2020 and continuing through 2035. The payments are to be made on or before August 1 of each year. If the costs for the Project accumulate to less than the estimated amount of \$6,000,000, the City and CDC will identify additional roads in need of construction or improvement. If all funds designated for the Project are expended, CDC will not be liable for the completion of the Project or any additional projects.

In fiscal year 2022, CDC paid \$236,741 to the City relating to the interlocal commitment. The remaining payable of \$3,093,418 is reported as a long-term obligation on the government-wide financial statements at and as of September 30, 2022.

Annual requirements on this long-term interlocal commitment are as follows:

	<u>Principal and Interest</u>
2023	\$ 236,791
2024	239,191
2025	238,866
2026	238,391
2027	237,766
2028-2032	1,190,105
2033-2035	<u>712,308</u>
	<u>\$ 3,093,418</u>

Right-to-Use Lease

The CDC's noncancelable lease agreement with the City for office space is reported as a right-to-use lease liability as of September 30, 2022. The lease began in fiscal year 2019 and is payable in monthly installments through December 2023, with base rent increases each year.

Annual requirements to maturity for the right-to-use lease liability are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 62,488	\$ 2,138	\$ 64,626
2024	<u>16,122</u>	<u>114</u>	<u>16,236</u>
	<u>\$ 78,610</u>	<u>\$ 2,252</u>	<u>\$ 80,862</u>

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**NOTE 18: BAY CITY COMMUNITY DEVELOPMENT CORPORATION - (Continued)**

L. Sales Tax Reimbursement Agreement

As part of the sale of the SMBG property in fiscal year 2022, CDC entered into a sales tax reimbursement agreement, authorized under Chapter 380 of the Local Government Code, with SMBG. The purpose of the agreement is to create jobs and invigorate the local economy.

The agreement with SMBG became effective July 1, 2022 and will remain in effect until June 30, 2032. CDC will reimburse SMBG for 100% of Economic Development Type B Sales Tax (0.005), net of collection fees. For the year ended September 30, 2022, tax rebate expenditures were not incurred.

As part of the agreement, SMBG shall provide CDC written evidence of SMBG's quarterly qualifying sales that are eligible for the sale tax rebate.

M. Employees' Retirement Plan

The CDC provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional, defined benefit plan in the statewide Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. Details of the funding arrangements can be found in the City's comprehensive annual financial report. The employees of CDC are treated as employees of the City for retirement plan purposes.

N. Fund Balances

As of September 30, 2022, committed fund balance of \$75,997 relates to various grants approved by the Board. The remaining balance of \$929,818 is unassigned.

O. Implementation of New Standard

CDC implemented GASB Statement No. 87, *Leases* ("GASB 87") during the fiscal year ended September 30, 2022. GASB 87 requires recognition of certain lease assets, liabilities, and deferred inflows of resources for leases that previously were classified as operating leases and were previously recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying assets. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. CDC implemented GASB 87 as of the beginning of the fiscal year, resulting in the recognition of \$137,751 in both a right-to-use lease liability and an intangible right-to-use lease asset, related to leasing arrangements under which the CDC is the lessee, upon implementation. Implementation also resulted in the recognition of \$250,316 in a lease receivable and \$271,110 in deferred inflows of resources, related to leasing arrangements under which the CDC is the lessor. Implementation of GASB 87 had no impact on the net position or the change in net position previously reported prior to implementation.

P. Special Item

As a result of the sale of the Family Entertainment Center to SMBG in the current fiscal year, CDC reported a loss on the disposition of capital assets in the amount of \$4,451,536.

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**NOTE 19: BAY CITY GAS COMPANY**

A. Summary of Significant Accounting Policies

The combined financial statements of Bay City Gas Company (A Component Unit of the City of Bay City, Texas) (the "Company") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Bay City Gas Company (the "Company") was donated to the City of Bay City, Texas (the "City") in 1938 by a local resident businessman, to aid, operate and benefit the citizens of the City. The goal of the gift was to provide affordable and reliable natural gas service to all residents.

Based on criteria prescribed by generally accepted accounting principles, the Company is considered a discretely presented component unit of the City. The primary criteria for inclusion of the Company in the City's financial reporting entity is that of financial accountability. The Board of Trustees of the Company consists of the current Mayor of the City and two lifetime members. The surviving life trustee appoints the new lifetime member. The Board of Trustees has the authority to significantly influence operations and to hire management of the Company. The Board of Trustees are responsible and accountable for all fiscal matters.

2. Measurement Focus and Basis of Accounting

The accompanying basic financials are 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 the related cash flows. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operations of these activities are included in the statement of net position.

Grants are considered earned to the extent of the expenditures are made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until the related and authorized expenditures have been made. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

3. Budgetary Data

Although proprietary funds are not required to adopt an annual budget, the Company has chosen to prepare and adopt annual budget to aid in planning and monitoring of its activities of the Company. This schedule can be found in the supplementary information.

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**NOTE 19: BAY CITY GAS COMPANY - (Continued)**

A. Summary of Significant Accounting Policies - (Continued)

4. Assets, Liabilities and Net Position

a. Cash and Investments

Cash and temporary investments include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Company. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. In accordance with GASB statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value.

b. Inventories

The Company utilizes the consumption method to account for inventory. Under this method, inventory is considered an expense when used rather than when purchased. Significant inventories are reported on the balance sheet at cost, using first-in, first-out. Inventories are comprised of meters, regulators, and transponders.

c. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items on the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than purchased.

d. Compensated Absences

It is the policy of the Company to permit employees to accrue paid time off based on years of service. Unused paid time off may accumulate and carry forward up to a maximum of 160 hours which is payable upon termination. As of March 31, 2022, the Company reported compensated absences of \$54,284.

e. Capital Assets

Capital assets, which include utility plant, plant additions, regulators, office building, vehicles, machinery & equipment and furniture & fixtures, are used in the Company's operations. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$5,000 or more and over two years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Utility plant	20-40
Plant additions	20-40
Regulators	20-40
Office building	40
Vehicles	5-10
Machinery & equipment	3-10
Furniture & fixtures	7-10

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**NOTE 19: BAY CITY GAS COMPANY - (Continued)**

A. Summary of Significant Accounting Policies - (Continued)

4. Assets, Liabilities and Net Position - (Continued)

f. Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows or resources (revenues).

g. Net Position

Net Position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on the use either through enabling legislation or regulations of those governments. As of March 31, 2022, the Company did not report any restricted net position.

5. Estimates

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

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**NOTE 19: BAY CITY GAS COMPANY - (Continued)****B. Deposits and Investments and Derivatives**

The Company classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased had a maturity date of three months or less. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures. Cash and temporary investments as reported on the financial statements at March 31, 2022 are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and temporary investments			
Cash (petty cash accounts)	\$ 1,900	\$ -	\$ 1,900
Financial institution deposits			
Demand deposits	2,212,126	230,262	2,442,388
Local government investment pools			
TexPool	<u>906</u>	<u>-</u>	<u>906</u>
Total cash and temporary investments	<u>2,214,932</u>	<u>230,262</u>	<u>2,445,194</u>
Investments			
Certificates of deposit	712,645	217,508	930,153
Government agency securities	<u>622</u>	<u>-</u>	<u>622</u>
Total investments	<u>713,267</u>	<u>217,508</u>	<u>930,775</u>
Total cash and temporary investments and investments	<u>\$ 2,928,199</u>	<u>\$ 447,770</u>	<u>\$ 3,375,969</u>

**Deposits**

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a financial institution failure, the Company's deposits may not be returned to them. The Company requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

As of March 31, 2022, the carrying amount, of the Company's deposits, were \$3,372,541, while the financial institution balances totaled \$3,087,435. Of the financial institution balances, \$2,451,521 was covered by federal depository insurance coverage, \$90,667 was covered by the Securities Investor Protection Corporation and \$545,247 was covered by collateral held by the Company's agent in the Company's name.

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**NOTE 19: BAY CITY GAS COMPANY - (Continued)**

B. Deposits and Investments and Derivatives - (Continued)

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the Company to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The Company invests in Texpool to provide its liquidity needs. Texpool is a local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool and Texas Class are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. Texpool is rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

At March 31, 2022, Texpool had a weighted average maturity of 29 days. Although Texpool had a weighting average maturity of 29 days, the Company considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

As of March 31, 2022, The Company had the following investments:

<u>Investment Type</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Weighted Avg. Maturity (Days)</u>
TexPool	Varies	\$ 906	29
Certificates of deposit	Varies	930,153	234
Government agency securities	Varies	622	2,060
		<u>\$ 931,681</u>	

Credit Risk – As of March 31, 2022, Texpool (which represent approximately 0.10% of the investment portfolio) is rated AAAM by Standard and Poor's or AAA by Finch. The certificates of deposit (which represent approximately 99.84% of the investment portfolio) are fully covered by the FDIC. The government agency securities (which represent approximately 0.06% of the investment portfolio) are backed by the full faith and credit of the U.S. government.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the Company's cash flow requirements.

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**NOTE 19: BAY CITY GAS COMPANY - (Continued)**

B. Deposits and Investments and Derivatives - (Continued)

Fair Value Measures

Government Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of the observable inputs and minimize the use of the unobservable inputs.

The Company had no investments that were required to be measured at fair value as of March 31, 2022.



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**NOTE 19: BAY CITY GAS COMPANY - (Continued)****C. Accounts Receivable**

Receivables as of March 31, 2022 for the Company, including the applicable allowances for uncollectible accounts, are as follows:

Receivables	
Accounts	\$ 451,391
Accrued interest	<u>2,360</u>
Gross receivables	453,751
Less allowance for uncollectibles	
Accounts	<u>22,524</u>
Net receivables	<u>\$ 431,227</u>

**D. Capital Assets**

A summary of changes in capital assets for the year ended March 31, 2022, is as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 33,339	\$ -	\$ 33,339
Total capital assets not being depreciated	<u>-</u>	<u>33,339</u>	<u>-</u>	<u>33,339</u>
Capital assets, being depreciated:				
Utility plant	1,614,822	-	-	1,614,822
Plant additions	1,390,680	-	-	1,390,680
Regulators	8,129	-	-	8,129
Office building	569,526	34,734	-	604,260
Vehicles	277,568	6,338	-	283,906
Machinery and equipment	369,209	-	-	369,209
Furniture and fixtures	<u>25,767</u>	<u>-</u>	<u>-</u>	<u>25,767</u>
Total capital assets being depreciated	<u>4,255,701</u>	<u>41,072</u>	<u>-</u>	<u>4,296,773</u>
Less accumulated depreciation for:				
Utility plant	(1,503,803)	(40,371)	-	(1,544,174)
Plant additions	(413,820)	(45,846)	-	(459,666)
Regulators	(1,316)	(453)	-	(1,769)
Office building	(423,567)	(14,935)	-	(438,502)
Vehicles	(177,518)	(16,136)	-	(193,654)
Machinery and equipment	(248,896)	(21,362)	-	(270,258)
Furniture and fixtures	<u>(25,767)</u>	<u>-</u>	<u>-</u>	<u>(25,767)</u>
Total accumulated depreciation	<u>(2,794,687)</u>	<u>(139,103)</u>	<u>-</u>	<u>(2,933,790)</u>
Total capital assets being depreciated, net	<u>1,461,014</u>	<u>(98,031)</u>	<u>-</u>	<u>1,362,983</u>
Bay City Gas Company capital assets, net	<u>\$ 1,461,014</u>	<u>\$ (64,692)</u>	<u>\$ -</u>	<u>\$ 1,396,322</u>

There were no contract commitments as of March 31, 2022.

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**NOTE 19: BAY CITY GAS COMPANY - (Continued)**

E. Pension Plan

1. Plan Description

The Gas Company participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the Gas Company, 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 Gas Company-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

3. Contributions

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

Employees for the Gas Company were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the Gas Company were 10.08% and 9.63% in calendar years 2021 and 2022, respectively. The Gas Company's contributions to TMRS for the fiscal year ended March 31, 2022 were \$77,176, and were equal to the required contributions.

4. Net Pension Liability

The Gas Company pension plan is incorporated with the City of Bay City, information related to the net pension liability is included in the totals for the City of Bay City, Texas. As a result, the Gas Company does not recognize a net pension liability or deferred inflows/outflows of resources. This information may be obtained by writing the City of Bay City, Texas, 1901 5<sup>th</sup> Street, Bay City, Texas 77414.

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**NOTE 19: BAY CITY GAS COMPANY - (Continued)**F. Contingencies and Commitments

The Company is contingently liable with respect to lawsuits and other claims in the ordinary course of its operations. The settlement of such contingencies under the budgetary process would not materially affect the financial position of the Company as of March 31, 2022.

G. Note Payable

The Company reported an extraordinary item from Winter Storm Uri (the "Storm") that impacted the Company from February 13 through February 17, 2021. The Storm caused demand for natural gas to rise to an unprecedented level due to the need to generate power on the Texas power grid. The resulting demand caused natural gas prices to increase at an extraordinary level. The Company received an invoice from the supplier at approximately twenty times the normal level. The amount recognized as an extraordinary item for the year ending March 31, 2021 was \$3,200,000. During June 2021, the company entered into a note payable of \$3,200,000 with a down payment of \$1,000,000 plus interest at % annum to be paid in monthly payments over a period of 5 years beginning on June 15, 2021.

	<u>2022</u>
Note payable, April 1, 2021	\$ -
Add current issuances	3,200,000
Less current maturities	<u>(1,296,190)</u>
Note payable, March 31, 2022	<u>\$ 1,903,810</u>

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 412,368	\$ 85,833	\$ 498,201
2024	433,466	64,734	498,200
2025	455,642	42,558	498,200
2026	478,954	19,247	498,201
2027	<u>123,380</u>	<u>1,170</u>	<u>124,550</u>
	<u>\$ 1,903,810</u>	<u>\$ 213,542</u>	<u>\$ 2,117,352</u>

H. Evaluation of Subsequent Events

The Company has evaluated subsequent events through June 21, 2022, the date which the financial statements were available to be issued.

**Required Supplementary Information**

**CITY OF BAY CITY, TEXAS**

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended September 30, 2022

With comparative totals for the year ended September 30, 2021

	2022			Variance Positive (Negative)	2021
	Original Budget	Final Budget	Actual		Actual
<b>REVENUES</b>					
Taxes					
Ad valorem taxes	\$ 4,634,000	\$ 4,634,000	\$ 4,606,665	\$ (27,335)	\$ 4,406,292
Other taxes	6,278,000	6,380,000	6,405,219	25,219	6,243,603
Licenses and permits	193,500	224,500	246,296	21,796	193,014
Fines and forfeitures	192,300	192,300	176,879	(15,421)	193,433
Fees and charges for services	2,899,000	2,945,000	2,956,281	11,281	2,876,212
Intergovernmental	335,700	418,200	452,587	34,387	432,506
Investment earnings net of change in fair value of investments	20,000	22,000	(117,130)	(139,130)	22,097
Miscellaneous	93,500	164,500	209,836	45,336	629,757
<b>Total revenues</b>	<u>14,646,000</u>	<u>14,980,500</u>	<u>14,936,633</u>	<u>(43,867)</u>	<u>14,996,914</u>
<b>EXPENDITURES</b>					
Current					
General government	3,108,331	2,821,130	2,776,875	44,255	2,414,596
Public safety	5,448,681	5,855,910	5,821,878	34,032	5,499,838
Public works	3,767,564	4,468,662	4,422,647	46,015	3,838,132
Cultural and recreation	2,440,424	2,301,298	2,147,266	154,032	2,229,611
<b>Total expenditures</b>	<u>14,765,000</u>	<u>15,447,000</u>	<u>15,168,666</u>	<u>278,334</u>	<u>13,982,177</u>
Excess (deficiency) of revenues over expenditures	(119,000)	(466,500)	(232,033)	234,467	1,014,737
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	1,418,000	1,168,000	1,168,042	42	671,500
Transfers out	(1,518,000)	(1,605,000)	(1,609,827)	(4,827)	(1,403,289)
<b>Total other financing sources (uses)</b>	<u>(100,000)</u>	<u>(437,000)</u>	<u>(441,785)</u>	<u>(4,785)</u>	<u>(731,789)</u>
Net change in fund balance	(219,000)	(903,500)	(673,818)	229,682	282,948
Fund balance at beginning of year	4,915,918	4,915,918	4,915,918	-	4,632,970
<b>Fund balance at end of year</b>	<u>\$ 4,696,918</u>	<u>\$ 4,012,418</u>	<u>\$ 4,242,100</u>	<u>\$ 229,682</u>	<u>\$ 4,915,918</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

**CITY OF BAY CITY, TEXAS**

*SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS*

*TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION*

*Last ten years*

	Measurement Year		
	2014	2015	2016
<b>Total Pension Liability</b>			
Service cost	\$ 643,573	\$ 764,701	\$ 798,874
Interest (on the total pension liability)	2,059,531	2,108,170	2,137,296
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(538,291)	82,317	(245,259)
Change of assumptions	-	191,065	-
Benefit payments, including refunds of employee contributions	(1,440,240)	(1,620,823)	(1,612,009)
<b>Net Change in Total Pension Liability</b>	724,573	1,525,430	1,078,902
<b>Total Pension Liability - Beginning</b>	29,820,207	30,544,780	32,070,210
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 30,544,780</u>	<u>\$ 32,070,210</u>	<u>\$ 33,149,112</u>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	\$ 709,618	\$ 764,694	\$ 712,959
Contributions - Employee	326,089	364,143	370,192
Net Investment Income	1,531,183	41,131	1,851,007
Benefit payments, including refunds of employee contributions	(1,440,240)	(1,620,823)	(1,612,009)
Administrative expense	(15,988)	(25,056)	(20,914)
Other	(1,314)	(1,237)	(1,127)
<b>Net Change in Plan Fiduciary Net Position</b>	1,109,348	(477,148)	1,300,108
<b>Plan Fiduciary Net Position - Beginning</b>	26,768,742	27,878,090	27,400,942
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 27,878,090</u>	<u>\$ 27,400,942</u>	<u>\$ 28,701,050</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	\$ 2,666,690	\$ 4,669,268	\$ 4,448,062
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	91.27%	85.44%	86.58%
<b>Covered Employee Payroll</b>	\$ 6,521,784	\$ 7,282,870	\$ 7,403,837
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	40.89%	64.11%	60.08%

NOTE: Information for the prior two years was not readily available. The City will compile the respective information over the next two years as provided by TMRS on a "measurement date" basis.

The accompanying notes to required supplementary information are an integral part of this schedule.

	Measurement Year				
	2017	2018	2019	2020	2021
\$	822,110	\$ 817,388	\$ 795,737	\$ 852,993	\$ 896,967
	2,215,411	2,312,765	2,397,048	2,496,767	2,567,078
	-	-	-	-	-
	71,726	(66,470)	(201,953)	(375,690)	426,662
	-	-	237,059	-	-
	<u>(1,478,531)</u>	<u>(1,850,687)</u>	<u>(1,757,729)</u>	<u>(1,800,695)</u>	<u>(2,108,116)</u>
	1,630,716	1,212,996	1,470,162	1,173,375	1,782,591
	<u>33,149,112</u>	<u>34,779,828</u>	<u>35,992,824</u>	<u>37,462,986</u>	<u>38,636,361</u>
\$	<u>34,779,828</u>	<u>35,992,824</u>	<u>37,462,986</u>	<u>38,636,361</u>	<u>40,418,952</u>
\$	760,275	\$ 733,521	\$ 708,559	\$ 766,177	\$ 804,627
	381,667	381,633	372,536	398,223	412,209
	3,974,802	(967,079)	4,723,834	2,623,463	4,762,371
	(1,478,531)	(1,850,687)	(1,757,729)	(1,800,695)	(2,108,116)
	(20,615)	(18,709)	(26,727)	(17,002)	(22,067)
	<u>(1,045)</u>	<u>(979)</u>	<u>(802)</u>	<u>(663)</u>	<u>151</u>
	3,616,553	(1,722,300)	4,019,671	1,969,503	3,849,175
	<u>28,701,050</u>	<u>32,317,603</u>	<u>30,595,303</u>	<u>34,614,974</u>	<u>36,584,477</u>
\$	<u>32,317,603</u>	<u>30,595,303</u>	<u>34,614,974</u>	<u>36,584,477</u>	<u>40,433,652</u>
\$	2,462,225	\$ 5,397,521	\$ 2,848,012	\$ 2,051,884	\$ (14,700)
	92.92%	85.00%	92.40%	94.69%	100.04%
\$	7,633,333	\$ 7,617,786	\$ 7,450,724	\$ 7,964,453	\$ 8,244,184
	32.26%	70.85%	38.22%	25.76%	-0.18%

**CITY OF BAY CITY, TEXAS**  
*SCHEDULE OF EMPLOYER CONTRIBUTIONS*  
*TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION*  
*Last ten fiscal years*

	Fiscal Year		
	2015	2016	2017
Actuarially Determined Contribution	\$ 733,848	\$ 723,264	\$ 756,345
Contribution in relation to the actuarially determined contribution	<u>(751,736)</u>	<u>(740,221)</u>	<u>(773,967)</u>
Contribution deficiency (excess)	<u>\$ (17,888)</u>	<u>\$ (16,957)</u>	<u>\$ (17,622)</u>
Covered employee payroll	\$ 6,930,006	\$ 7,332,068	\$ 7,661,683
Contributions as a percentage of covered employee payroll	10.85%	10.10%	10.10%

NOTE: Information for the prior two fiscal years was not readily available. The City will compile the respective information over the next two fiscal years.

The accompanying notes to required supplementary information are an integral part of this schedule.



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Fiscal Year				
2018	2019	2020	2021	2022
\$ 729,678	\$ 729,035	\$ 749,247	\$ 701,118	\$ 753,637
<u>(747,195)</u>	<u>(773,967)</u>	<u>(766,441)</u>	<u>(722,206)</u>	<u>(777,997)</u>
<u>\$ (17,517)</u>	<u>\$ (44,932)</u>	<u>\$ (17,194)</u>	<u>\$ (21,088)</u>	<u>\$ (24,360)</u>
\$ 7,519,621	\$ 7,465,829	\$ 7,811,908	\$ 7,212,160	\$ 7,982,505
9.94%	10.37%	9.81%	10.01%	9.75%

**CITY OF BAY CITY, TEXAS**

*SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT  
Last ten years*

	Measurement Year		
	2017	2018	2019
<b>Total OPEB Liability</b>			
Service cost	\$ 16,793	\$ 19,806	\$ 15,647
Interest (on the total OPEB liability)	18,443	18,468	20,829
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	7,403	(43,682)
Change of assumptions	39,009	(34,457)	94,755
Benefit payments	(6,107)	(5,332)	(5,961)
<b>Net Change in Total OPEB Liability</b>	68,138	5,888	81,588
<b>Total OPEB Liability - Beginning</b>	482,561	550,699	556,587
<b>Total OPEB Liability - Ending</b>	\$ 550,699	\$ 556,587	\$ 638,175
<b>Covered Employee Payroll</b>	\$ 7,633,333	\$ 7,617,786	\$ 7,450,724
<b>Total OPEB Liability as a Percentage of Covered Employee Payroll</b>	7.21%	7.31%	8.57%

NOTE: Information for the prior five years was not readily available. The City will compile the respective information over the next five years as provided by TMRS on a "measurement date" basis.

The accompanying notes to required supplementary information are an integral part of this schedule.

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Measurement Year			
2020	2021		
\$ 22,300	\$ 28,855		
17,769	14,900		
-	-		
(22,309)	(22,483)		
90,506	21,857		
<u>(6,372)</u>	<u>(18,962)</u>		
101,894	24,167		
<u>638,175</u>	<u>740,069</u>		
<u>\$ 740,069</u>	<u>\$ 764,236</u>		
\$ 7,964,453	\$ 8,244,184		
9.29%	9.27%		

**CITY OF BAY CITY, TEXAS**

*SCHEDULE OF EMPLOYER CONTRIBUTIONS*

*TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT*

*Last ten fiscal years*

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	Fiscal Year		
	2018	2019	2020
Actuarially Determined Contribution	\$ 5,465	\$ 5,766	\$ 6,250
Contribution in relation to the actuarially determined contribution	<u>(5,465)</u>	<u>(5,766)</u>	<u>(6,250)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 7,519,621	\$ 7,465,829	\$ 7,811,908
Contributions as a percentage of covered employee payroll	0.0727%	0.0772%	0.0800%

NOTE: Information for the prior five years was not readily available. The City will compile the respective information over the next five years.

The accompanying notes to required supplementary information are an integral part of this schedule.

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Fiscal Year	
2021	2022
\$ 15,457	\$ 19,265
<u>(15,457)</u>	<u>(19,265)</u>
\$ -	\$ -
\$ 7,212,160	\$ 7,982,505
0.2143%	0.2413%

**CITY OF BAY CITY, TEXAS**

*SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS*

*RETIREE HEALTHCARE*

*Last ten years*

	Measurement Year		
	2018	2019	2020
<b>Total OPEB Liability</b>			
Service cost	\$ 11,720	\$ 13,282	\$ 11,851
Interest (on the total OPEB liability)	7,406	7,294	8,323
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	(1,646)	(36,701)
Change of assumptions	10,949	(9,216)	47,273
Benefit payments	(4,923)	(4,832)	(5,236)
<b>Net Change in Total OPEB Liability</b>	25,152	4,882	25,510
<b>Total OPEB Liability - Beginning</b>	190,988	216,140	221,022
<b>Total OPEB Liability - Ending</b>	\$ 216,140	\$ 221,022	\$ 246,532
<b>Covered Employee Payroll</b>	\$ 6,759,060	\$ 6,973,473	\$ 6,575,716
<b>Total OPEB Liability as a Percentage of Covered Employee Payroll</b>	3.20%	3.17%	3.75%

NOTE: Information for the prior five years was not readily available. The City will compile the respective information over the next five years as provided by actuaries on a "measurement date" basis.

The accompanying notes to required supplementary information are an integral part of this schedule.

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Measurement Year	
2021	2022
\$ 16,267	\$ 20,169
6,967	5,820
-	-
(2,092)	22,391
22,809	(17,858)
<u>(2,657)</u>	<u>(13,858)</u>
41,294	16,664
<u>246,532</u>	<u>287,826</u>
<u>\$ 287,826</u>	<u>\$ 304,490</u>
\$ 6,975,907	\$ 7,485,636
4.13%	4.07%

**CITY OF BAY CITY, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
 September 30, 2022

**NOTE 1: BUDGETARY INFORMATION**

The City annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

The Required Supplementary Information does not include a budgetary comparison schedule for the Major Special Revenue Fund, Hazard Mitigation Fund. The activity for the fund is funded by the federal government, thereby no local control over appropriating funds is possible. Therefore, there is no requirement of presenting a budgetary comparison schedule.

**NOTE 2: BUDGETARY LEGAL COMPLIANCE**

For the year ended September 30, 2022 the City complied with budgetary restrictions at all departmental levels except the following:

<u>Fund / Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
City general services	\$ 1,244,064	\$ 1,259,272	\$ 15,208
Administration and council	321,426	329,368	7,942
Police	4,970,154	5,004,735	34,581
Code enforcement	488,622	491,303	2,681
Library	527,982	531,636	3,654
Transfers out	1,605,000	1,609,827	4,827

These over expenditures were funded by available fund balance in the General Fund.

**NOTE 3: DEFINED BENEFIT PENSION PLAN**

Valuation Date

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

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 year Smoothed Market; 12% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018



**NOTE 3: DEFINED BENEFIT PENSION PLAN - (Continued)**

Methods and Assumptions Used to Determine Contribution Rates - (Continued)

Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety tables used for males and the General employee tables used for females. The rates are projected on a fully generational basis with scale UMP.
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Other Information

There were no benefit changes during the year.

**NOTE 4: SUPPLEMENTAL DEATH BENEFIT PLAN - OPEB**

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

There were no changes in plan provisions during the year.

Changes in Assumptions

- Discount rate decreased to 1.84% from 2.00%.

**NOTE 5: RETIREE HEALTH BENEFIT PLAN - OPEB**

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

For fiscal year 2022, the methodology for determining service cost was changed and the dependent coverage

For fiscal year 2020, the demographic assumptions were updated to reflect the 2019 TMRS Experience Study and the health care trend rates were updated.

Changes of assumptions reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2022	1.84%
2021	2.00%
2020	2.75%
2019	3.71%
2018	3.31%
2017	3.81%

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**APPENDIX D**

**FORM OF OPINION OF BOND COUNSEL**

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# BRACEWELL

[CLOSING DATE]

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CITY OF BAY CITY, TEXAS  
TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024E

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

CITY OF BAY CITY, TEXAS, TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024E, dated June 1, 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 Issuer authorizing their issuance (the “Ordinance”).

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

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

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

have 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 Issuer.
2. A continuing ad valorem tax upon all taxable property within the City of Bay 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 Issuer's water and sewer system in an amount not to exceed \$1,000 as provided in the Ordinance.
3. Interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Certificates is not an item of tax preference for purposes of the alternative minimum tax on individuals, but we observe that such interest is taken into account in computing the alternative minimum tax on certain corporations.

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

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

Our opinions are based on existing law and our knowledge of facts as 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.



**USCA MUNICIPAL ADVISORS, LLC**

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*Financial Advisor to the City*



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