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**NEW ISSUE
BOOK-ENTRY-ONLY**

PRELIMINARY OFFICIAL STATEMENT
Dated: July 21, 2020

S&P: "AA"
(See "RATINGS" herein.)

In the opinion of Bond Counsel, interest on the Obligations will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of delivery thereof, subject to the matters described under "TAX MATTERS" herein.

THE CITY WILL DESIGNATE THE OBLIGATIONS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

**CITY OF MORGAN'S POINT, TEXAS
(Harris County)**

\$6,720,000*
**COMBINATION TAX AND REVENUE CERTIFICATES OF
OBLIGATION, SERIES 2020**

\$2,685,000*
**GENERAL OBLIGATION REFUNDING BONDS,
SERIES 2020**

Dated: July 15, 2020 (interest to accrue from the Delivery Date)

Due: August 15, as shown on pages ii and iii

The \$6,720,000* City of Morgan's Point, Texas Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates") are being issued by the City of Morgan's Point, Texas (the "City") pursuant to the Constitution and general laws of the State of Texas, particularly subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an Ordinance (the "Certificate Ordinance") to be adopted by the City Council. The \$2,685,000* City of Morgan's Point, Texas General Obligation Refunding Bonds, Series 2020 (the "Bonds", and collectively with the Certificates, the "Obligations") are being issued by the City pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and an Ordinance (the "Bond Ordinance", and collectively with the Certificate Ordinance, the "Ordinance") to be adopted by the City Council.

The Obligations constitute direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City. The Certificates are additionally secured by a lien on and pledge of the "Surplus Revenues" derived from the ownership and operation of the City's waterworks and sewer system, as provided in the Certificate Ordinance. (See "THE OBLIGATIONS – Security and Source of Payment" and "TAX RATE LIMITATIONS" herein.)

Interest on the Obligations will accrue from the Delivery Date and will be payable February 15 and August 15 of each year, commencing February 15, 2021, until maturity or prior redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The definitive Obligations will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Obligations will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Obligations ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Obligations purchased. So long as DTC or its nominee is the registered owner of the Obligations, the principal of and interest on the Obligations will be payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as Paying Agent/Registrar, to Cede & Co., which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Obligations. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds of the Certificates will be used to (i) construct and equip a street improvement project generally known as the "Eastside Renewal Project," including widening existing streets and constructing and installing new streets, sidewalks, decorative pedestrian lighting, traffic signals, landscaping, and drainage improvements, (ii) construct and equip various park improvements including bathrooms, an amphitheater, a pavilion, playground equipment and fall surface, a splash pad and other water features, landscaping, sidewalk construction, ADA accessibility, and drainage improvements, and (iii) pay the costs of issuance and expenses relating to the Certificates.

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's outstanding indebtedness for debt services savings (see "SCHEDULE I - SCHEDULE OF REFUNDED OBLIGATIONS") and (ii) pay the costs of issuance and expenses relating to the Bonds.

SEE MATURITY SCHEDULE ON INSIDE COVER

The Obligations are offered for delivery when, as and if issued and received by the initial purchaser thereof named below (the "Underwriter") subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, Austin, Texas. The Obligations are expected to be available for initial delivery through the services of DTC on or about August 25, 2020 (the "Delivery Date").

SAMCO CAPITAL MARKETS

* Preliminary, subject to change.

MATURITY SCHEDULE FOR THE CERTIFICATES

\$6,720,000*

CITY OF MORGAN'S POINT, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020

Maturity Date (8/15)	Principal Amount*	Interest Rate	Yield	CUSIP No ⁽¹⁾
2021	\$ 260,000			
2022	265,000			
2023	275,000			
2024	280,000			
2025	285,000			
2026	290,000			
2027	295,000			
2028	310,000			
2029	320,000			
2030	335,000			
2031	345,000			
2032	355,000			
2033	360,000			
2034	370,000			
2035	375,000			
2036	385,000			
2037	390,000			
2038	400,000			
2039	410,000			
2040	415,000			

(Interest to accrue from the Delivery Date)

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, _____, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, _____ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS – Optional Redemption").

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Underwriter, or the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

* Preliminary, subject to change.

MATURITY SCHEDULE FOR THE BONDS

\$2,685,000*
 CITY OF MORGAN'S POINT, TEXAS
 GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020

Maturity Date <u>(8/15)</u>	Principal <u>Amount*</u>	Interest <u>Rate</u>	<u>Yield</u>	<u>CUSIP No</u> ⁽¹⁾
2024	\$ 85,000			
2025	250,000			
2026	255,000			
2027	260,000			
2028	265,000			
2029	275,000			
2030	295,000			
2031	190,000			
2032	195,000			
2033	200,000			
2034	205,000			
2035	210,000			

(Interest to accrue from the Delivery Date)

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, _____, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, _____ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS – Optional Redemption").

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Underwriter, or the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

* Preliminary, subject to change.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, this document may be treated as an “official statement” of the City with respect to the Obligations described herein 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.

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

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to the accuracy or completeness and is not to be construed as a promise or guarantee of the Underwriter or the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

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

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

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE OBLIGATIONS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

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

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

NONE OF THE CITY, THE FINANCIAL ADVISOR, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The City	The City of Morgan's Point, Texas (the "City") is a Type A general law municipality located in Harris County, Texas and encompasses 2.3 square miles. Incorporated in 1949, the City is governed by a Mayor, elected at-large, and five council members elected by place (the "City Council"). All are elected for two-year, staggered terms. The City Administrator is responsible for the day-to-day administration of the City and reports to the City Council. The Tax Assessor-Collector is responsible for collecting ad valorem taxes, certain State and City fees, and other taxes. The City had a 2010 census population of 339.
The Obligations	<p>\$6,720,000* City of Morgan's Point, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2020, dated July 15, 2020, maturing as described on page ii of this Official Statement (the "Certificates").</p> <p>\$2,685,000* City of Morgan's Point, Texas, General Obligation Refunding Bonds, Series 2020, dated July 15, 2020, maturing as described on page iii of this Official Statement (the "Bonds", and collectively with the Certificates, the "Obligations").</p>
Security for the Obligations	The Obligations constitute direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City. The Certificates are additionally secured by a lien on and pledge of the "Surplus Revenues" derived from the ownership and operation of the City's waterworks and sewer system, as provided in the Certificate Ordinance. (See "THE OBLIGATIONS – Security and Source of Payment" and "TAX RATE LIMITATIONS" herein.)
Redemption Provisions of the Obligations	The City reserves the right, at its sole option, to redeem Obligations having stated maturities on or after August 15, ____, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, ____ or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. (See "THE OBLIGATIONS – Optional Redemption" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Obligations will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of delivery thereof, subject to matters discussed herein under "TAX MATTERS". (See "TAX MATTERS" and Appendix D - "Forms of Opinions of Bond Counsel" herein.)
Use of Proceeds	<p>Proceeds of the Certificates will be used to (i) construct and equip a street improvement project generally known as the "Eastside Renewal Project," including widening existing streets and constructing and installing new streets, sidewalks, decorative pedestrian lighting, traffic signals, landscaping, and drainage improvements, (ii) construct and equip various park improvements including bathrooms, an amphitheater, a pavilion, playground equipment and fall surface, a splash pad and other water features, landscaping, sidewalk construction, ADA accessibility, and drainage improvements, and (iii) pay the costs of issuance and expenses relating to the Certificates.</p> <p>Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's outstanding indebtedness (see "SCHEDULE I - SCHEDULE OF REFUNDED OBLIGATIONS") and (ii) pay the costs of issuance and expenses relating to the Bonds.</p>
Authority for Issuance	The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and the Certificate Ordinance to be adopted by the City Council. The Bonds are being issued by the City pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and the Bond Ordinance to be adopted by the City Council.
Ratings	The Obligations are rated "AA" by S&P Global Ratings ("S&P"). See "RATINGS" herein.
Payment Record	The City has never defaulted on the payment of its bonded indebtedness.
Future Bond Issues	The City does not anticipate the issuance of additional tax debt during the next 12 months.
Delivery	When issued, anticipated on or about August 25, 2020.

* Preliminary, subject to change.

CITY OF MORGAN'S POINT, TEXAS
510 Bayridge Road
Morgan's Point, Texas 77571

ELECTED OFFICIALS

CITY COUNCIL

Name	Term Expires (May)	Occupation
Michel Bechtel Mayor	2022	Self Employed – Gas and Oil Exploration Company
Mike Fowler Mayor Pro-Tem Council Position #5	2021	Retired
Richard Helmle Council Position #1	2021	Retired
Tim Harris Council Position #2	2022	Vice President of ILA Local 28
Robert De Leon Council Position #3	2021	Construction Manager
Paul Francis Council Position #4	2022	Attorney

APPOINTED OFFICIALS

Name	Position	Years of Experience
Brian Schneider	City Administrator	19
Megan Mayes	City Secretary	7
Casey Coupland	Public Works Supervisor	13

BOND COUNSEL AND ADVISORS

Bond Counsel
 McCall Parkhurst & Horton L.L.P.
 700 N. St. Mary's, Suite 1525
 San Antonio, TX 78205

Certified Public Accountants
 Belt Harris Pechacek, LLP
 Certified Public Accountants
 730 N Post Oak Rd., Ste. 401
 Houston, TX 77024

Financial Advisor
 RBC Capital Markets, LLC
 303 Pearl Parkway, Suite 220
 San Antonio, Texas 78215

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 <i>The Cover Page, Table of Contents, Schedule and Appendices attached hereto are part of the Official Statement</i>	

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PRELIMINARY OFFICIAL STATEMENT

relating to

CITY OF MORGAN’S POINT, TEXAS

(Harris County)

\$6,720,000*

\$2,685,000*

**COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2020**

**GENERAL OBLIGATION REFUNDING BONDS,
SERIES 2020**

INTRODUCTORY STATEMENT

All financial and other information presented in this Official Statement has been provided by the City of Morgan’s Point, Texas (the “City”) from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience will necessarily continue or be repeated in the future.

There follows in this Official Statement a description of the City of Morgan’s Point, Texas Combination Tax and Revenue Certificates of Obligation, Series 2020 (the “Certificates”), City of Morgan’s Point, Texas General Obligation Refunding Bonds, Series 2020 (the “Bonds”, and collectively with the Certificates, the “Obligations”) and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City and, during the offering period, from the Financial Advisor, upon payment of reasonable copying, handling, and delivery charges. Certain capitalized terms used in the Official Statement have meanings assigned to them in the respective ordinances authorizing issuance of the Certificates (the “Certificate Ordinance”) and Bonds (the “Bond Ordinance, and collectively with the Certificate Ordinance, the “Ordinance”), except as otherwise indicated herein.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Obligations, will be deposited with the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

INFECTIOUS DISEASE OUTLOOK (COVID-19)

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the “President”) declared the Pandemic a national emergency and the Texas Governor (the “Governor”) declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the “disaster declarations”). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on March 19, 2020 of Executive Order GA-08 which, among other things, imposed strict limitations on social gatherings. On March 31, 2020, the Governor issued Executive Order GA-14 which, among other things, extended the social gathering limitation until April 30, 2020 and temporarily closed school districts throughout the State through May 4, 2020, unless otherwise extended, modified, rescinded or superseded by the Governor. Then, on April 17, 2020, the Governor issued Executive Order GA-16, which further extended the social gathering limitation, and extended the closure of Texas school districts to in person attendance through the remainder of the 2019-2020 school year. On April 27, 2020, the Governor released the Governor’s Report to Open Texas and a new series of executive orders which together laid out the plan for reopening a group of closed businesses throughout the State in a phased approach. Phase I of the plan called for allowing many customer-oriented businesses, such as restaurants and retail stores, to reopen on May 1, 2020, with occupancy restrictions in place of generally 25% of capacity. The Governor also announced in a press conference that if there were no COVID-19 “flare ups” his plan included increasing the 25% capacity limitations to 50% capacity limitations on May 18, 2020, as well as potentially opening other businesses as part of Phase 2 of the plan. On May 18, 2020, the Governor announced in a press release plans to proceed with Phase 2 of the ongoing plan to safely and strategically open Texas while minimizing the spread of COVID 19. Under Phase 2, beginning May 22, 2020, bars and a number of other businesses and activities that remained closed under Phase I were allowed to reopen with a 25% occupancy

*Preliminary, subject to change.

restriction and certain businesses such as restaurants and retail stores that opened during Phase I, will be allowed to increase their occupancy to 50%.

For the full text of the Governor's executive orders, see: <https://lrl.texas.gov/legeLeaders/governors/displayDocs.cfm?govdoctypeID=5&governorID=45>. Subsequent to those initial opening actions, the Governor has issued several additional orders to respond to a recent increase in positive COVID-19 cases and hospitalizations in Texas, including, in late June, ordering a pause in any further reopening phases in the State, and on July 2, 2020, generally restricting gatherings to no more than 10 people and ordering every person in Texas (with certain exceptions) "to wear a face covering over the nose and mouth when inside a commercial entity or other building or space open to the public, or when in an outdoor public space, wherever it is not feasible to maintain six feet of social distancing from another person not in the same household.

In addition to the actions by the state and federal officials, certain local officials, including the City Council, have declared a local state of disaster and have passed "shelter-in-place" orders or ordinances. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the State and the risk of contraction in the oil and gas industry and spillover effects into other industries, including manufacturing.

Measures taken to prevent or reduce the spread of COVID-19 could limit the growth of or reduce economic activity in the State and the City and could negatively impact the ability of taxpayers of the City to pay ad valorem taxes levied by the City and customers of services provided by the City to pay for such services, which in turn could limit the growth of or reduce the City's revenue collections. These negative impacts may reduce or negatively affect revenues of the City's waterworks and sewer system, property values and/or the collection of sales tax revenues within the City. See "TAX INFORMATION." [The Certificates are secured by an ad valorem tax (within the limits prescribed by law) and are intended to be paid from the City's waterworks and sewer system. A reduction in such waterworks and sewer system revenues may require an increase in the ad valorem tax rate required to pay the Certificates as well as the City's operations and maintenance expenses.] Additionally, the City collects a sales and use tax on all taxable transactions within the City's boundaries. A reduction in the collection of sales tax revenues may negatively impact the City's operating budget and overall financial condition. The City continues to monitor the spread of COVID-19 and is working to address the potential impact of COVID-19. While the potential impact of COVID-19 on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the City's financial condition.

THE OBLIGATIONS

General Description

The Obligations will be dated July 15, 2020, and will be issued in fully-registered form, in denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Obligations will accrue from the date of delivery to the Underwriter and interest will be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2021, until maturity or prior redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months.

Principal and interest will be paid by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Subject to the requirements associated with the use of the Book-Entry Only System, interest will be paid by check dated as of the interest payment date and mailed first class, postage paid, on or before each interest payment date by the Paying Agent/Registrar to the registered owners (the "Owners") appearing on the registration books of the Paying Agent/Registrar on the Record Date (herein defined), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense, of such Owner. Principal will be paid to the Owners at maturity or redemption upon presentation and surrender of the Obligations to the Paying Agent/Registrar. If the date for the payment of the principal or of interest on the Obligations shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The City will initially use the Book-Entry-Only System of The Depository Trust Company ("DTC"), New York, New York in regard to the issuance, payment and transfer of the Obligations. Such system will affect the timing and method of payment of the Obligations (see "BOOK-ENTRY-ONLY SYSTEM" herein).

Authority for Issuance

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and the Certificate Ordinance to be adopted by the City Council. The Bonds are being issued by the City pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and the Bond Ordinance to be adopted by the City Council.

Purpose

Proceeds of the Certificates will be used to (i) construct and equip a street improvement project generally known as the "Eastside Renewal Project," including widening existing streets and constructing and installing new streets, sidewalks, decorative pedestrian lighting, traffic signals, landscaping, and drainage improvements, (ii) construct and equip various park improvements including bathrooms, an amphitheater, a pavilion, playground equipment and fall surface, a splash pad and other water features, landscaping, sidewalk construction, ADA accessibility, and drainage improvements, and (iii) pay the costs of issuance and expenses relating to the Certificates.

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's outstanding indebtedness (see "SCHEDULE I - SCHEDULE OF REFUNDED OBLIGATIONS") and (ii) pay the costs of issuance and expenses relating to the Bonds.

Refunded Obligations

The bonds to be refunded with proceeds from the sale of the Bonds (the "Refunded Obligations"), and interest due thereon, are to be paid on the scheduled interest payment dates and redemption dates of such obligations from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as deposit agent (the "Deposit Agent") pursuant to deposit agreement between the City and the Deposit Agent (the "Deposit Agreement").

The Bond Ordinance provides that the City will deposit certain proceeds of the sale of the Bonds along with other lawfully available funds of the City, if any, with the Deposit Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Deposit Agent in a trust account (the "Trust Fund") irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations and such funds will not be available to repay the Bonds.

Simultaneously with the issuance of the Bonds, the City will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to their stated maturity, on which date money will be made available to redeem the Refunded Obligations from money held under the Deposit Agreement.

By the deposit of the cash with the Deposit Agent pursuant to the Deposit Agreement, the City will have effected the defeasance of the Refunded Obligations pursuant to the terms of each respective ordinance authorizing the issuance of such Refunded Obligations and in accordance with State law, including Chapter 1207. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance on the verification described below by Robert Thomas CPA, the Refunded Obligations are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Deposit Agreement. See Appendix D, "Forms of Legal Opinions of Bond Counsel" herein.

Robert Thomas CPA, a nationally recognized accounting firm, will verify the mathematical accuracy of schedules provided by the Financial Advisor at the time of delivery of the Bonds to the Purchasers and that the cash will be sufficient to pay the principal of and interest on the Refunded Obligations as the same shall become due on the redemption date (see "VERIFICATION OF ARITHMETICAL COMPUTATIONS").

Legality

The Obligations are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel (see "LEGAL MATTERS" herein.)

Security and Source of Payment

Tax Pledge . . . The Obligations constitute direct obligations of the City payable from an annual ad valorem tax levied against all taxable property within the City, within the limits prescribed by law (see "THE OBLIGATIONS - Tax Rate Limitations" below).

Pledge of Surplus Waterworks and Sewer System Revenues for Certificates . . . The Certificates are additionally secured by a lien on and pledge of the "Surplus Revenues" derived from the ownership and operation of the City's waterworks and sewer system, as provided in the Ordinance.

Optional Redemption

The City reserves the right, at its sole option, to redeem Obligations having stated maturities on or after August 15, ____, in whole or in part thereof, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, ____, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

Notice of Redemption for the Obligations

Not less than 30 days prior to a redemption date for the Obligations, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Obligations to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. The notice with respect to any optional redemption of Obligations may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying

Agent/Registrar no later than the redemption date, or (2) 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 an authorized representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption will be of no effect if such moneys are not so deposited or if the notice is so rescinded. 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 NOT RESCINDED), THE OBLIGATIONS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provisions

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Obligations, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Obligations only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Obligations called for redemption or any other action premised on any such notice. Redemption of portions of the Obligations by the City will reduce the outstanding principal amount of such Obligations held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Obligations held for account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Obligations and such redemption will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Obligations for redemption.

Defeasance of Obligations

The Ordinance provides for the defeasance of the Obligations when the payment of the principal of and premium, if any, on the Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent (or other financial institution permitted by applicable law), in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Obligations, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Obligations, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and, (d) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Obligations. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, the Obligations shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Obligations have been made as described above, all rights of the City to initiate proceedings to call such Obligations for redemption or take any other action amending the terms of such Obligations are extinguished; provided, however, that the right to call Obligations for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Obligations for redemption, (ii) gives notice of the reservation of that right to the owners of the Obligations immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

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

Record Date

The record date ("Record Date") for determining the person to whom the interest is payable on the Obligations on any interest payment date means the last business day of the month next preceding the date that each interest payment is due.

Special Record Date for Interest Payment

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 (the "Special Payment Date" which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Obligation 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.

Limitation on Transfer of Obligations

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Obligation or any portion thereof called for redemption prior to maturity, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable by the registered owner of the uncalled balance of a Obligation.

Mutilated, Destroyed, Lost, or Stolen Obligations

If any Obligation is mutilated, destroyed, stolen or lost, a new Obligation in the same principal amount as the Obligation so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Obligation, such new Obligation will be delivered only upon surrender and cancellation of such mutilated Obligation. In the case of any Obligation issued in lieu of and in substitution for a Obligation which has been destroyed, stolen or lost, such new Obligation will be delivered only (a) upon filing with the City and the Paying Agent/Registrar evidence satisfying to them that such Obligation has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the City and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Obligation must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

Payment Record

The City has never defaulted on the payment of its bonded indebtedness.

SOURCES AND USES OF PROCEEDS

The following table shows the estimated sources and uses of the proceeds of the Certificates:

Sources:	Principal Amount of the Certificates
	Premium/Discount on the Certificates
	Total Sources of Funds
Uses:	Deposit to Construction Fund
	Costs of Issuance and Underwriter's Discount
	Total Uses of Funds

The following table shows the estimated sources and uses of the proceeds of the Bonds:

Sources:	Principal Amount of the Bonds
	Premium/Discount on the Bonds
	Total Sources of Funds
Uses:	Deposit to Escrow Fund
	Costs of Issuance and Underwriter's Discount
	Total Uses of Funds

ENFORCEMENT OF REMEDIES

The Ordinance establishes specific events of default with respect to the Obligations. If the City defaults in the payment of the principal of or interest on the Obligations when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their

prospect or ability to be repaid in accordance with the Obligations, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Obligations and the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“*Wasson I*”), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests LTD. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) (“*Wasson II*”, and together with *Wasson I*, “*Wasson*”), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. 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 authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State’s immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a 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. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court ruled in *Tooke v. City of Mexia* (197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in clear and unambiguous language. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the City for breach of the Obligations or Ordinance covenants. 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 Obligations. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the Surplus Revenues, such provision is subject to judicial discretion, and the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state courts); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Obligations is to be transferred and how the principal of, premium, if any, and interest on the Obligations are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Obligations 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 Underwriter 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 payments of debt service on the Obligations, 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 Obligations), 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 United States 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 Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues,

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

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

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations 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 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations 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 Obligations 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 Obligations unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption, principal, and interest payments on the Obligations 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 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 the redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Obligations 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 the City takes no 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 Obligations 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 Obligations, but (i) all rights of ownership must be exercised through DTC and the Book-Entry Only-System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and DTC's book-entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Underwriter.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Obligations is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Obligations. If the Paying Agent/Registrar is replaced by the City, the Paying Agent/Registrar, promptly upon the appointment of its successor, is required to deliver the registration records to the successor Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank, or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Obligations, the City shall promptly cause a written notice of such change to be sent to each registered owner of the Obligations affected by the change, by United States mail, first class postage prepaid, which notice shall give the address for the new Paying Agent/Registrar.

Future Registration

In the event the use of the "Book-Entry-Only System" for the Obligations should be discontinued, printed physical Obligations will be delivered to the registered owners of the Obligations and thereafter such Obligations may be transferred, registered and assigned on the registration books only upon their presentation and surrender to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner except for any tax or other governmental charges required to be paid with respect to such registration and transfer. The Obligations may be assigned by the execution of an assignment form on the Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar in lieu of the Obligations being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the owner's request, risk and expense. To the extent possible, new Obligations issued in an exchange or transfer of Obligations will be delivered to the registered owner or assignee of the owner in not more than three (3) business days after the receipt of the Obligations to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Obligations registered and delivered in an exchange or transfer shall be in denominations of \$5,000 of principal amount for any one maturity or any integral multiple thereof and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

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. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Harris County Appraisal District (the "Appraisal District"). Except as generally 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 (3) 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.

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates (see “TAX INFORMATION – District and Taxpayer Remedies”).

State Mandated Homestead Exemptions

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

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 at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

Local Option Freeze for the Elderly and Disabled

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

Other Exempt Property

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

Tax Increment Reinvestment Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones (“TIRZ”) within its boundaries. At the time of the creation of the TIRZ, a “base value” for the real property in the TIRZ is established and

the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the “tax increment”. During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Tax Abatement Agreements

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

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

Public Hearing and Maintenance and Operation Tax Rate Limitations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Debt Tax Rate Limitations

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 4, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$1.50 per \$100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

Issuer and Taxpayer Remedies

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

Owners of certain property with a taxable value of at least \$50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

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

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. Taxpayers 65 years old or older, disabled veterans or an unmarried surviving spouse of a disabled veteran, are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 1 of each year and the final installment due before August 1. 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%) of the delinquent tax, penalty, and interest collected if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property 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 Property Tax Code

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$1,000,000. There are a total of 45 accounts that receive this exemption. This equates to 28 percent of the 156 total residential property tax accounts.

The City grants an additional exemption of 20 percent of the market value of residence homesteads.

The City has adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

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

The City does not tax Freeport Property.

The City does not tax Goods-in-Transit.

The City does not participate in a TIRZ.

The City has a tax abatement policy with respect to certain areas within the City.

On September 11, 2004, City voters approved the creation of a municipal development district and an additional one half cent sales tax to fund projects permitted under Chapter 377, Texas Local Government Code. The additional one half cent sales tax became effective in 2005.

Tax Abatements

Enterprise Products developed an ethylene storage, liquification, and loading facility valued at \$370,000,000. In lieu of paying taxes, the City and Enterprise Products agreed to a Chapter 312 tax agreement with the following payment schedule outlined in an approved Chapter 380 agreement:

<u>Tax Year of 380 Payment</u>	<u>Chapter 380 Payment Amount</u>
2019	\$7,000,000
2020	775,583
2021	775,583
2022	775,583
2023	775,583
2024	775,583
2025	775,583
2026	775,583
2027	775,583
2028	775,583

INVESTMENTS

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

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) interest-bearing banking deposits, other than those described by clause (7), if (A) the funds invested in the banking deposits are invested through (i) a broker with a main office or branch office in this State that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this state that the City selects; (B) the broker or depository institution as described in clause (8)(A), above, arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits or; (ii) where the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13), and require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, and that complies with SEC Rule 2a-7; and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

Investment Policies

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

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group; (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund group for which each individual investment was acquired; and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) Texas 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) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy; (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization (i) is dependent on an analysis of the makeup of the City's entire portfolio, (ii) requires an interpretation of subjective investment standards, or (iii) relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority); and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves or funds held for debt service in such mutual funds; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

See Table 11 in Appendix A for a description of the City's investments.

PENSION PLANS AND DEFERRED COMPENSATION PLANS

Pension and Retirement Fund

All qualified employees of the City are members of the Texas Municipal Retirement System. Covered employees of the City contribute 7% of gross covered salary. The City's contribution is determined annually by actuarial study as a percent of gross covered payroll. For the

calendar year 2019, the rate was 9.23%. For additional information, refer to the notes to the Combined Financial Statements for the year ended September 30, 2019, in Appendix C herein.

Deferred Compensation Payable

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by the International City Management Association Retirement Corporation (ICMARC) and Texas Municipal Retirement System (TMRS). The plan is available to all full-time City employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until separation, termination, retirement, death, or unforeseeable emergency. For additional information, see the notes to the City's financial statements for the year ended September 30, 2019, which are attached hereto as Appendix C.

TAX MATTERS

Opinions

On the date of initial delivery of the Obligations, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, will render its opinions that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (i) interest on the Obligations for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (ii) the Obligations will not be treated as "specified private activity bonds," the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations. See Appendix D – Forms of Legal Opinions of Bond Counsel.

In rendering its opinions, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, and (b) the verification report provided by Robert Thomas CPA relating to the defeasance of the Refunded Obligations, and (c) covenants of the City contained in the Obligation documents relating to certain matters, including arbitrage and the use of the proceeds of the Obligations and the property financed or refinanced therewith. Failure of the City to comply with these representations or covenants could cause the interest on the Obligations to become includable in gross income retroactively to the date of issuance of the Obligations.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Obligations in order for interest on the Obligations to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Obligations to be included in gross income retroactively to the date of issuance of the Obligations. The opinions of Bond Counsel to the City are conditioned on compliance by the City with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Obligations.

Bond Counsel's opinions represent its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinions are not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Obligations.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Obligations or the facilities financed or refinanced with the proceeds of the Obligations. Bond Counsel's opinions represent its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinions and are not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Obligations, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Obligationholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Obligations may be less than the principal amount thereof or one or more periods for the payment of interest on the Obligations may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Obligations"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Obligation would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Obligations less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Obligation in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount

Obligation equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

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

Under existing law, the original issue discount on each Original Issue Discount Obligation is accrued 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 Obligations and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Obligation 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 (a) 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 (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Obligation.

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Obligations. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed earned income credit, certain S corporations with subchapter C earnings and profits, foreign corporations subject to the branch profit's tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE OBLIGATIONS.

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Obligations will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the

backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Obligations under Federal or state law and could affect the market price or marketability of the Obligations. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Obligations should consult their own tax advisors regarding the foregoing matters.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The City expects that the Obligations will be designated, or deemed designated, as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the City will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Obligations as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Obligations would not be "qualified tax-exempt obligations."

LITIGATION

In the opinion of various officials of the City, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the City in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the City.

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Obligations be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Obligations for any of the foregoing purposes or limit the authority of such institutions or entities

to purchase or invest in the Obligations for such purposes. The City has made no review of laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish the Underwriter with a complete transcript of proceedings relating to the authorization and issuance of the Obligations, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel to the effect that the Obligations, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Obligations is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Underwriter and the Financial Advisor from time to time in matters unrelated to the issuance of the Obligations, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Obligations. In its capacity as Bond Counsel, such firm has reviewed the information relating to the Obligations and the Ordinance contained in this Official Statement under the captions "THE OBLIGATIONS" (except under the subcaption "Payment Record"), "REGISTRATION, TRANSFER AND EXCHANGE," "AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations", "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS" (excluding the last sentence of the first paragraph), "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings") and APPENDIX D, and such firm is of the opinion that the information contained under such captions and in such Appendix is a fair and accurate summary of the information purported to be shown and is correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Obligations or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Obligations will also be furnished. The legal opinions of Bond Counsel will accompany the Obligations deposited with DTC or will be printed on the definitive Obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by Norton Rose Fulbright US LLP, Austin, Texas, counsel for the Underwriter, whose compensation is contingent on the delivery of the Obligations.

The various legal opinions to be delivered concurrently with the delivery of the Obligations 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually in an electronic format that is prescribed by the MSRB and available via the Electronic Municipal Market Access System ("EMMA") at www.emma.msrb.org. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement in Appendix A (Tables 1 and 3-11) and in Appendix C. The City will update and provide the information in Appendix A within six months after the end of each fiscal year, commencing in 2020. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The City will provide audited financial statements within twelve months after the end of each fiscal year, commencing in 2020, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements of the type described above by the required time and will provide audited financial statements when and if such audited financial statements become available. Any financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the City may be required to employ from time to time pursuant to Texas law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must make available updated financial and operating data by the end of March in each year and financial statements by the end of September in each year, unless the City changes its fiscal year.

Notice of Occurrence of Certain Events

The City also will provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Obligations to the MSRB in a timely manner (but not in excess of ten (10) business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or 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 Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, 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 a definitive agreement to undertake such action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional paying agent/registrant or change of name of the paying agent/registrant, if material; (15) incurrence of a "Financial Obligation" of the City (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), 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 Obligations nor the Ordinance make any provision for liquidity enhancement, credit enhancement, or require the funding of debt service reserves.

For these purposes, (a) any event described in clause (12) of 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 the state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Notice of Failure to Timely File

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

Availability of Information

All information and documentation filing required to be made by the City in accordance with its undertaking made for the Obligations will be made with the MSRB in electronic format in accordance with MSRB guidelines, by and through EMMA. Access to such filings will be provided, without charge to the general public, by the MSRB through EMMA at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds 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 the Bonds may seek a writ of mandamus to compel the City to comply with its agreement. No default by the City with respect to its continuing disclosure agreement shall constitute a breach of or default under the Ordinance for purposes of any other provision of the Ordinance. Nothing in this paragraph is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws. The City's undertakings and agreements are subject to appropriation of necessary funds and to applicable legal restrictions.

The City's continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds. If the City amends its agreement, it must 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 information and data provided.

Compliance with Prior Undertakings

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

RATINGS

The Obligations are rated “AA” by S&P Global Ratings (“S&P”). The rating of the Obligations by S&P reflects only the views of S&P at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating 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 Obligations.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City at the yields shown on page ii of this Official Statement less an underwriting discount of \$_____. The Underwriter’s obligation is subject Certificates certain conditions precedent. The Underwriter will be obligated to purchase all of the Certificates if any Certificates are purchased. The Obligations to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing the Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at the yields shown on page iii of this Official Statement less an underwriting discount of \$_____. The Underwriter’s obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing the Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

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

FINANCIAL ADVISOR

RBC Capital Markets, LLC is employed as the Financial Advisor to the City in connection with the issuance of the Obligations. The fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Obligations. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification of to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

VERIFICATION OF ARITHMETICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by RBC Capital Markets, LLC on behalf of the City relating to (a) computation of the sufficiency of the anticipated receipts from the Escrow Securities, together with the initial cash deposit, if any, to pay, when due, the principal, interest and early redemption premium requirements, if any, of the Refunded Obligations, and (b) computation of the yields on Escrow Securities and the Obligations were verified by Robert Thomas CPA, certified public accountants. Such computations were completed using certain assumptions and information provided by RBC Capital Markets, LLC on behalf of the City. Robert Thomas CPA, has restricted its procedures to recalculating the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the excludability from federal income taxation of interest on the Obligations and with respect to the defeasance of the Refunded Obligations.

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date thereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that 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.

AUTHENTICITY OF FINANCIAL INFORMATION

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

USE OF INFORMATION IN OFFICIAL STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

The Ordinance will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Obligations by the Underwriter.

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

CITY OF MORGAN’S POINT, TEXAS

/s/
Mayor
City of Morgan’s Point, Texas

ATTEST:

/s/
City Secretary
City of Morgan’s Point, Texas

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SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Par</u> <u>Amount</u>	<u>Call Date</u>	<u>Call</u> <u>Price</u>
Combination Tax and Revenue Certificates of Obligation, Series 2010	08/15/2024 ⁽¹⁾	4.000	\$85,000	09/03/2020	100.00
	08/15/2025 ⁽¹⁾	4.000	85,000	09/03/2020	100.00
	08/15/2026 ⁽¹⁾	4.000	90,000	09/03/2020	100.00
	08/15/2027 ⁽¹⁾	4.000	95,000	09/03/2020	100.00
	08/15/2028 ⁽²⁾	4.125	95,000	09/03/2020	100.00
	08/15/2029 ⁽²⁾	4.125	100,000	09/03/2020	100.00
	08/15/2030 ⁽²⁾	4.125	<u>105,000</u>	09/03/2020	100.00
			\$655,000		
Combination Tax and Revenue Certificates of Obligation, Series 2015	08/15/2025 ⁽³⁾	3.000	\$ 165,000	09/03/2020	100.00
	08/15/2026 ⁽³⁾	3.000	170,000	09/03/2020	100.00
	08/15/2027 ⁽⁴⁾	3.500	175,000	09/03/2020	100.00
	08/15/2028 ⁽⁴⁾	3.500	180,000	09/03/2020	100.00
	08/15/2029	3.500	185,000	09/03/2020	100.00
	08/15/2030	4.000	195,000	09/03/2020	100.00
	08/15/2031	4.000	200,000	09/03/2020	100.00
	08/15/2032	4.000	210,000	09/03/2020	100.00
	08/15/2033	4.000	220,000	09/03/2020	100.00
	08/15/2034	4.000	225,000	09/03/2020	100.00
	08/15/2035	4.000	<u>235,000</u>	09/03/2020	100.00
			\$2,770,000		

⁽¹⁾ Denotes Term Certificate maturing on August 15, 2027.

⁽²⁾ Denotes Term Certificate maturing on August 15, 2030.

⁽³⁾ Denotes Term Certificate maturing on August 15, 2026.

⁽⁴⁾ Denotes Term Certificate maturing on August 15, 2028.

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APPENDIX A

**FINANCIAL INFORMATION REGARDING
THE CITY OF MORGAN'S POINT, TEXAS**

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**FINANCIAL INFORMATION REGARDING
THE CITY OF MORGAN'S POINT, TEXAS**

Table 1-Valuations, Exemptions and Tax Supported Debt⁽¹⁾

2019/20 Market Valuation Established by Harris County Appraisal District	\$ <u>581,594,099</u>
Less Exemptions/Reductions at 100% Market Value:	36,977,034
2019/20 Net Taxable Assessed Valuation	\$ <u><u>544,617,065</u></u>

⁽¹⁾ The City's preliminary Net Taxable Assessed Valuation for 2020/21 is estimated at \$535,000,000.

City Funded Debt Payable from Ad Valorem Taxes (as of July 15, 2020):

General Obligation Debt	\$ 2,135,000 ⁽¹⁾
The Certificates	6,720,000 ⁽²⁾
The Bonds	<u>2,685,000</u> ⁽²⁾
Total General Obligation Debt Payable From Ad Valorem Taxes	\$ 11,540,000
Interest and Sinking Fund Balance as of September 30, 2019	\$ 766,683
Ratio Total General Obligation Debt to Net Taxable Assessed Valuation	2.12%
Estimated Population	345
Per Capita Total General Obligation Funded Debt	\$ 33,449.28
Per Capita Taxable Assessed Valuation	\$ 1,578,600

⁽¹⁾ Net of the Refunded Obligations.

⁽²⁾ Preliminary, subject to change.

Table 2 - Estimated Overlapping Debt Statement

<u>Taxing Body</u>	<u>Amount</u>	<u>As of</u>	<u>Percentage Overlapping</u>	<u>Amount Overlapping</u>
Harris County, Texas	\$ 1,885,182,125	06/30/2020	0.10%	\$ 1,885,182
Harris County Department of Education	6,320,000	06/30/2020	0.10%	6,320
Harris County Flood Control District	83,075,000	06/30/2020	0.10%	83,075
Harris County Hospital District	86,050,000	06/30/2020	0.10%	86,050
Harris County Toll Road	220,305,000	06/30/2020	0.10%	220,305
La Porte Independent School District	331,150,000	06/30/2020	3.27%	10,828,605
Port of Houston Authority	572,569,397	06/30/2020	0.10%	572,569
San Jacinto Community College District	480,440,414	06/30/2020	0.61%	<u>2,930,687</u>
Total Overlapping Debt				\$ 16,612,793
City of Morgan's Point	\$ 11,540,000 ⁽¹⁾	07/15/2020	100.00%	\$ <u><u>11,540,000</u></u>
Total Direct and Overlapping Debt				\$ <u><u>28,152,793</u></u>
Ratio Direct and Overlapping Debt to Net Taxable Assessed Valuation				5.17%
Ratio Direct and Overlapping Debt to Total Assessed Valuation				4.84%
Per Capita Direct and Overlapping Debt				\$81,602

⁽¹⁾ Net of the Refunded Obligations. Includes the Obligations. Preliminary, subject to change.

Table 3 - Taxable Assessed Valuation by Category⁽¹⁾

Taxable Appraised Value for Fiscal Year Ended September 30:						
Category	2020		2019		2018	
	Value	% of Total	Value	% of Total	Value	% of Total
Real, Residential, Single Family	\$ 53,882,070	9.26%	\$ 48,762,414	8.55%	\$ 48,197,799	8.85%
Real Residential, Multi-Family	333,491	0.06%	281,033	0.05%	281,033	0.05%
Real, Vacant Lots/Tracts	6,149,081	1.06%	4,861,463	0.85%	5,003,999	0.92%
Real, Acreage (Land Only)	-	0.00%	-	0.00%	-	0.00%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%	-	0.00%
Real, Commercial and Industrial	446,684,554	76.80%	447,269,891	78.42%	425,874,753	78.23%
Real, Minerals and Oil	-	0.00%	-	0.00%	-	0.00%
Real, Tangible Personal, Utilities	5,019,431	0.86%	4,888,771	0.86%	4,877,311	0.90%
Tangible Personal, Commercial	69,525,472	11.95%	64,264,586	11.27%	60,181,060	11.05%
Mobile Homes	-	0.00%	-	0.00%	-	0.00%
Residential Inventory	-	0.00%	-	0.00%	-	0.00%
Intangible	-	0.00%	-	0.00%	-	0.00%
Special Inventory	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 581,594,099	100.00%	\$ 570,328,158	100.00%	\$ 544,415,955	100.00%
Less: Total Exemptions/ Reductions	36,977,034		33,950,111		24,709,574	
Taxable Assessed Value	<u>\$ 544,617,065</u>		<u>\$ 536,378,047</u>		<u>\$ 519,706,381</u>	

Category	2017		2016	
	Value	% of Total	Value	% of Total
Real, Residential, Single Family	\$ 46,554,482	14.33%	\$ 47,389,078	23.67%
Real Residential, Multi-Family	249,529	0.08%	249,529	0.12%
Real, Vacant Lots/Tracts	4,372,847	1.35%	3,309,571	1.65%
Real, Acreage (Land Only)	-	0.00%	-	0.00%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%
Real, Commercial and Industrial	204,315,209	62.89%	37,390,473	18.68%
Real, Minerals and Oil	-	0.00%	-	0.00%
Real, Tangible Personal, Utilities	1,526,439	0.47%	1,494,542	0.75%
Tangible Personal, Commercial	67,852,547	20.89%	110,331,122	55.11%
Mobile Homes	-	0.00%	-	0.00%
Residential Inventory	-	0.00%	29,142	0.01%
Intangible	-	0.00%	-	0.00%
Special Inventory	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 324,871,053	100.00%	\$ 200,193,457	100.00%
Less: Total Exemptions/ Reductions	18,501,242		11,545,545	
Taxable Assessed Value	<u>\$ 306,369,811</u>		<u>\$ 188,647,912</u>	

⁽¹⁾ Obtained from property tax reports provided by the Harris County Appraisal District and the State of Texas Comptroller of Public Accounts.

Table 4 - City Sales Tax History

Fiscal Year Ending 9/30	Sales Tax Collections⁽¹⁾	% of	
		Ad Valorem Tax Levy	Equivalent Ad Valorem Tax Rate
2010	\$ 199,662	17.05%	\$ 0.10794
2011	190,871	17.15%	0.11079
2012	188,585	17.76%	0.11475
2013	178,049	15.95%	0.10304
2014	220,537	15.02%	0.09553
2015	370,844	22.38%	0.18332
2016	440,406	28.50%	0.23345
2017	309,455	11.08%	0.10101
2018	479,297	10.35%	0.09222
2019	921,093	19.33%	0.17172
2020 ⁽²⁾	561,630	11.70%	0.10312

⁽¹⁾ Includes only collections from the City's 1% sales tax. Excludes collections from the 1/2 of 1% municipal development district sales tax and 1/2 of 1% economic development district sales tax.

⁽²⁾ As of May 31, 2020. See "INFECTIOUS DISEASE OUTLOOK (COVID-19)" herein.

Table 5 - Valuation and Tax Supported Debt History

Fiscal Year Ended 9/30	Taxable Assessed Valuation	Percent Increase Over Prior Year	Tax Supported Debt at End of Year	Ratio of Debt to Assessed Valuation
2011	\$172,279,476	-6.86%	\$ 1,744,300	1.01%
2012	164,338,991	-4.61%	2,910,000	1.77%
2013	172,794,948	5.15%	2,835,000	1.64%
2014	230,856,512	33.60%	2,715,000	1.18%
2015	202,296,092	-12.37%	5,995,000	2.96%
2016	188,647,912	-6.75%	5,780,000	3.06%
2017	306,369,811	62.40%	5,510,000	1.80%
2018	519,706,381	69.63%	5,235,000	1.01%
2019	536,378,047	3.21%	4,950,000	0.92%
2020	544,617,065	1.54%	11,250,000 ⁽¹⁾	2.07%

⁽¹⁾ Net of the Refunded Obligations. Includes the Obligations. Preliminary, subject to change.

Table 6 - Tax Rate, Levy and Collection History

Fiscal Year Ending 9/30	General Fund	Interest and Sinking Fund	Total Tax Rate	Total Tax Levy	% Current Collections	% Total Collections
2010	\$ 0.60900	\$ 0.03700	\$ 0.64600	\$ 1,170,990	99.97%	105.87%
2011	0.53800	0.10800	0.64600	1,112,925	97.30%	100.60%
2012	0.53800	0.10800	0.64600	1,061,630	99.95%	100.37%
2013	0.56400	0.08200	0.64600	1,116,255	99.07%	100.23%
2014	0.56596	0.07022	0.63618	1,468,651	99.26%	100.33%
2015	0.73964	0.07948	0.81912	1,657,050	98.05%	99.49%
2016	0.63705	0.18208	0.81912	1,545,255	99.88%	99.90%
2017	0.80000	0.11177	0.91177	2,793,394	98.36%	98.46%
2018	0.80000	0.09114	0.89114	4,631,327	99.17%	99.24%
2019	0.80000	0.08828	0.88828	4,764,512	99.61%	100.01%
2020	0.79502	0.08597	0.88099	4,799,632	99.20% ⁽¹⁾	99.63% ⁽¹⁾

Source: City administration and the City's audited financial statements.

⁽¹⁾ As of March 31, 2020.

Table 7 - Other Obligations

None.

Table 8 - Ten Largest Taxpayers

<u>Name of Taxpayer</u>	<u>Nature of Property</u>	<u>2019/20 TAV</u>	<u>Percent of Total</u>
Enterprise Products	Manufacturing	\$ 403,836,301	74.15%
Duke Realty LP	Real Estate	20,567,455	3.78%
Barbours Cut Warehouse	Shipping	13,039,027	2.39%
Dal-Tile Corporation	Manufacturing	5,768,623	1.06%
Westlake Vinyls Company LP	Chemical Supplier	5,525,101	1.01%
Integrated Power Services	Industrial Services	5,184,720	0.95%
Joe Swinbank Family Ltd Ptnship	Waste Disposal	4,635,055	0.85%
SCM FLP Barbours Cut	Shipping	4,521,972	0.83%
Centerpoint Energy	Utility Provider	4,172,940	0.77%
Chevron Chemical Company	Chemical Supplier	<u>3,954,667</u>	<u>0.73%</u>
		\$ 471,205,861	86.52%

Tax Value Concentration

As shown in Table 8 above, the top ten taxpayers in the City currently account for approximately 86.52% of the City's tax base. **The top taxpayer alone accounts for over 74% of the City's tax base.** Adverse developments in economic conditions could impact these taxpayers and the tax values in the City, resulting in less local tax revenues. If any major taxpayer were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process which can only occur annually, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "ENFORCEMENT OF REMEDIES" in this Official Statement.

Table 9 - Pro-Forma Tax Secured Debt Service

Fiscal Year Ended	Outstanding General Obligation Debt Service ⁽¹⁾⁽²⁾	The Certificates ⁽²⁾		The Bonds ⁽²⁾		Total	Less: Self-Supporting Debt Service	Net Outstanding General Obligation Debt Service
		Principal	Interest	Principal	Interest			
2020	\$ 459,750						\$ 74,160	\$ 385,590
2021	349,688	\$ 260,000	\$ 165,028	\$ 425,028	\$ 72,065	\$ 72,065	72,630	774,150
2022	355,838	265,000	160,319	425,319	74,550	74,550	74,361	781,345
2023	351,538	275,000	149,719	424,719	74,550	74,550	72,622	778,184
2024	272,088	280,000	144,219	424,219	\$ 85,000	159,550	74,244	781,612
2025	109,950	285,000	138,619	423,619	250,000	322,850	73,044	783,375
2026	107,475	290,000	132,919	422,919	255,000	322,850	73,390	779,854
2027	110,000	295,000	127,119	422,119	260,000	322,750	74,533	780,336
2028	107,150	310,000	115,319	425,319	265,000	317,350	72,148	777,671
2029	109,300	320,000	102,919	422,919	275,000	316,750	73,066	775,903
2030	111,300	335,000	90,119	425,119	295,000	325,750	73,856	788,313
2031	108,150	345,000	80,069	425,069	190,000	211,900	19,359	725,760
2032	-	355,000	69,719	424,719	195,000	211,200	-	635,919
2033	-	360,000	62,619	422,619	200,000	212,300	-	634,919
2034	-	370,000	55,419	425,419	205,000	213,300	-	638,719
2035	-	375,000	48,019	423,019	210,000	214,200	-	637,219
2036	-	385,000	40,519	425,519	-	-	-	425,519
2037	-	390,000	32,819	422,819	-	-	-	422,819
2038	-	400,000	25,019	425,019	-	-	-	425,019
2039	-	410,000	17,019	427,019	-	-	-	427,019
2040	-	415,000	8,819	423,819	-	-	-	423,819
	\$ 2,552,225	\$ 6,720,000	\$ 1,766,334	\$ 8,486,334	\$ 2,685,000	\$ 3,371,915	\$ 827,414	\$ 13,583,061

⁽¹⁾ Net of the Refunded Obligations.

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

Table 10 - General Fund Revenues and Expenditures

City of Morgan's Point General Fund Revenue and Expenditure History					
	<u>FYE</u> <u>2019</u>	<u>FYE</u> <u>2018</u>	<u>FYE</u> <u>2017</u>	<u>FYE</u> <u>2016</u>	<u>FYE</u> <u>2015</u>
Revenues					
Property taxes	\$ 4,271,716	\$ 4,124,030	\$ 2,468,812	\$ 1,257,014	\$ 1,467,612
Sales taxes	921,093	479,297	309,455	440,406	370,844
Franchise taxes	283,012	284,942	284,332	285,121	286,213
Fees and Fines	53,557	102,333	69,186	68,744	72,464
Licenses and permits	87,407	30,892	24,023	89,290	44,581
Charges for Services	514,143	605,480	604,089	627,152	593,709
Intergovernmental	494,921	7,044	10,976	971	975
Investment earnings	256,282	55,140	11,678	7,714	7,463
Miscellaneous	7,015,617 ⁽¹⁾	94,140	33,377	17,820	10,428
Total Revenues	\$ 13,897,748	\$ 5,783,298	\$ 3,815,928	\$ 2,794,232	\$ 2,854,289
Expenditures					
Administration	\$ 732,050	\$ 684,534	\$ 627,017	\$ 606,033	\$ 740,294
Right of way and Property Maintenance	163,370	140,298	144,445	136,083	121,427
Public safety	839,407	828,469	742,902	716,356	657,761
Health and sanitation	155,396	133,735	138,984	122,181	120,326
Water Distribution	172,529	165,894	190,412	173,410	173,883
Wastewater collection	133,638	116,403	111,900	123,168	130,004
Capital Outlay	1,554,605 ⁽²⁾	176,651	198,167	143,917	13,900
Debt Service	-	-	-	-	55,209
Total Expenditures	\$ 3,750,995	\$ 2,245,984	\$ 2,153,827	\$ 2,021,148	\$ 2,012,804
Revenues Over (Under) Expenditures	\$ 10,146,753	\$ 3,537,314	\$ 1,662,101	\$ 773,084	\$ 841,485
Special Item	\$ (191,704)	\$ (195,000)	\$ (1,585,953)	\$ (567,025)	\$ (2,109,525)
Fund Balance - Beginning	\$ 5,083,704	\$ 1,741,390	\$ 1,665,242	\$ 1,459,183	\$ 2,727,223
Fund Balance - Ending	\$ 15,038,753 ⁽³⁾	\$ 5,083,704	\$ 1,741,390	\$ 1,665,242	\$ 1,459,183

Source: City's audited financial statements.

⁽¹⁾ Increase in Other Revenue due to Chapter 380 Agreement payment from Enterprise Products, as described under "AD VALOREM PROPERTY TAXATION - Tax Abatements" herein.

⁽²⁾ Denotes one-time capital expenditures for various public building renovations, equipment purchases and property acquisition.

⁽³⁾ The City's anticipated General Fund balance on September 30, 2020 is expected to be \$16,500,000.

Table 11 - Current Investments (as of June 30, 2020)

<u>Investment Description</u>	<u>Total Invested</u>	<u>Percent</u>
Investment Pools	\$ 16,523,264	100.00%
Total	\$ 16,523,264	100.00%

Source: City's Staff.

APPENDIX B

**GENERAL INFORMATION REGARDING THE CITY OF MORGAN'S POINT AND
HARRIS COUNTY, TEXAS**

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**GENERAL INFORMATION REGARDING THE CITY OF MORGAN’S POINT AND
HARRIS COUNTY, TEXAS**

General Description

The City of Morgan’s Point, Texas is located in Harris County, Texas and encompasses 2.3 square miles. The City is located on the shores of the Galveston Bay and is the home to the Barbour’s Cut shipping terminal.

Incorporated in 1949, the City is governed by a Mayor, elected at-large, and five council members elected by place. All are elected for two-year, staggered terms. The City Administrator is responsible for the day-to-day administration of the City and reports to the City Council. The Tax Assessor–Collector is responsible for collecting ad valorem taxes, certain State and City fees, and other taxes. The City had 2000 census population of 336, and a 2010 census population of 339.

-Labor Force Statistics-

State of Texas

	2020 ^(a)	2019	2018	2017	2016
Labor Force	13,462,785	14,045,312	13,816,690	13,574,795	13,335,578
Employed	11,752,162	13,551,791	13,285,118	12,989,682	12,720,226
Unemployed	1,710,623	493,521	531,572	585,113	615,352
Unemployed Rate	12.7%	3.5%	3.8%	4.3%	4.6%

Harris County

	2020 ^(a)	2019	2018	2017	2016
Labor Force	2,254,500	2,317,346	2,286,360	2,265,691	2,249,341
Employed	1,931,547	2,228,703	2,186,339	2,150,927	2,129,674
Unemployed	322,953	88,643	100,241	114,764	119,667
Unemployed Rate	14.3%	3.8%	4.4%	5.1%	5.3%

(a) As of May 2020.

- The Port of Houston Authority –

The Port of Houston, the world's 3rd largest port, is a 25-mile long (40-kilometer) complex of diversified public and private facilities just a few hours' sailing time from the Gulf of Mexico. The Houston's location makes it an ideal gateway between interior U.S. markets and foreign countries throughout the world. The port ranks first in the United States in foreign waterborne commerce and second in total tonnage.

The Port of Houston Authority owns and operates the public facilities along the Houston Ship Channel and is the channel's official sponsor. The Authority is an autonomous political subdivision of the State of Texas and is governed by a board of seven commissioners.

The Houston Ship Channel has long been a catalyst for the growth of Harris County. The findings of the latest economic impact study are a strong confirmation of the important and critical role the Port of Houston plays both locally and regionally. The Port Authority's staff is continuously working to attract more cargo and new services which will benefit the community. Since the 1994 study, annual tonnage figures at the Port have risen by 26 million. Such an exceptional increase in trade signifies Houston has maintained its position as a world class port and a leader in the United States maritime industry.

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APPENDIX C

**EXCERPTS FROM THE
CITY OF MORGAN'S POINT, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2019**

The information contained in this APPENDIX consists of excerpts from the City of Morgan's Point, Texas Annual Financial Report for the Year Ended September 30, 2019, and is not intended to be a complete statement of the County's financial condition. Reference is made to the complete Report for further information.

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ANNUAL FINANCIAL REPORT

of the

**CITY OF MORGAN'S POINT,
TEXAS**

For the Year Ended
September 30, 2019

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CITY OF MORGAN'S POINT, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Morgan's Point, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund of the City of Morgan's Point, Texas (the "City") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund of the City as of September 30, 2019, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other 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 schedule listed as supplementary information on the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 21, 2020

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

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CITY OF MORGAN'S POINT, TEXAS

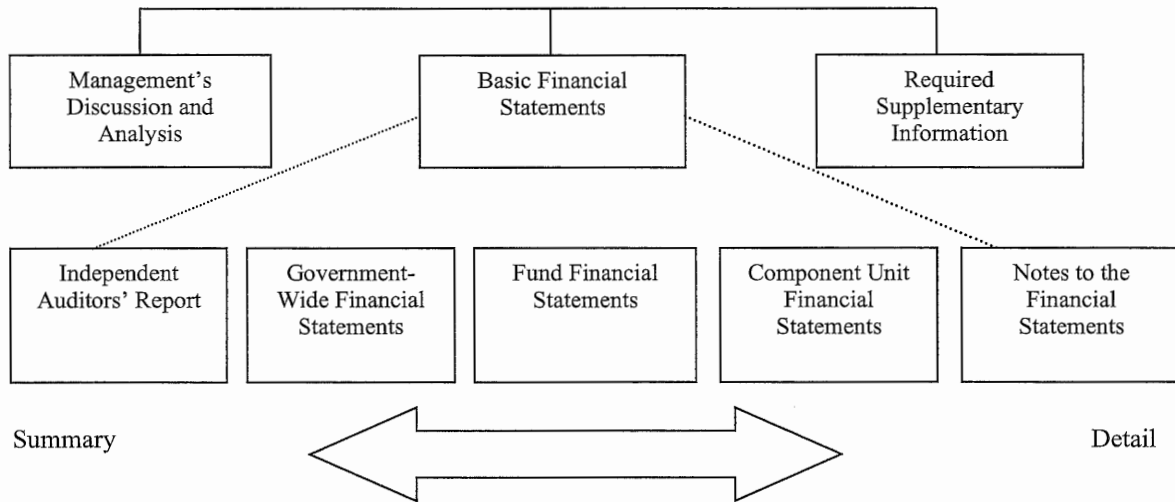
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2019

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Morgan's Point, Texas (the "City") for the year ending September 30, 2019. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



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

Government-Wide Statements

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

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

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

CITY OF MORGAN'S POINT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

occurs, regardless of the timing of related cash flows – the accrual method rather than the modified accrual method that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities present one class of activities:

1. *Governmental Activities* – The City's basic services are reported here including administration, right of way and property maintenance, public safety (police), health and sanitation, water distribution, and wastewater collection. Sales tax, property tax, franchise fees, municipal court fines, permit fees, and utility billing receipts finance most of these activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation, Morgan's Point Economic Development Corporation (EDC), for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The Morgan's Point Municipal Development District (MDD), although also legally separate, functions for all practical purposes as a department of the City and, therefore, has been included as an integral part of the primary government.

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains four governmental funds, including one blended component unit. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital projects fund, and MDD fund, which are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for all funds, except for the capital projects fund, which adopts a project length budget. A budgetary comparison schedule has been provided for each of these funds, with the exception of the capital projects fund, to demonstrate compliance with their respective budgets.

CITY OF MORGAN'S POINT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes budgetary comparison schedules for the general fund and the MDD fund and a schedule of changes in net pension liability and related ratios and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$27,820,539 as of year end in the primary government.

A portion of the City's net position (41 percent) reflects its investments in capital assets (e.g., land, City hall, streets, and equipment), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

CITY OF MORGAN'S POINT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	Governmental Activities	
	2019	2018
Current and other assets	\$ 17,306,281	\$ 6,632,627
Capital assets, net	16,204,566	14,827,422
Total Assets	33,510,847	21,460,049
Deferred outflows - pensions	330,028	78,562
Total Deferred Outflows of Resources	330,028	78,562
Long-term liabilities	5,478,038	5,304,216
Other liabilities	519,923	338,220
Total Liabilities	5,997,961	5,642,436
Deferred inflows - pensions	22,375	173,322
Total Deferred Inflows of Resources	22,375	173,322
Net Position:		
Net investment in capital assets	11,314,155	9,690,532
Restricted	1,492,767	1,049,765
Unrestricted	15,013,617	4,982,556
Total Net Position	\$ 27,820,539	\$ 15,722,853

A portion of the primary government's net position, \$1,492,767, or 5 percent, represents resources that are subject to external restriction on how they may be used. Unrestricted net position of \$15,013,617, or 54 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's net position increased by \$12,097,686 during the current fiscal year, an increase of 77 percent in comparison to the prior fiscal year. This increase is largely the result of a Chapter 380 payment in lieu of taxes, as well as increases in intergovernmental revenue and sales tax.

CITY OF MORGAN'S POINT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

Statement of Activities

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

	Governmental Activities	
	2019	2018
Revenues		
Program revenues:		
Charges for services	\$ 655,107	\$ 738,705
Operating grants and contributions	7,224	7,044
Capital grants and contributions	552,049	296,566
General revenues:		
Property taxes	4,765,003	4,596,272
Sales taxes	1,349,732	704,143
Franchise fees	283,012	284,942
Investment earnings	258,559	56,904
Other revenues	7,115,867	94,140
Total Revenues	<u>14,986,553</u>	<u>6,778,716</u>
 Expenses		
Administration	896,125	781,625
Right of way and property maintenance	176,677	149,032
Public safety	1,121,990	994,163
Health and sanitation	159,399	132,632
Water distribution	190,571	181,469
Wastewater collection	178,116	155,972
Interest on long-term debt	165,989	172,224
Total Expenses	<u>2,888,867</u>	<u>2,567,116</u>
Change in Net Position	12,097,686	4,211,600
 Beginning net position	<u>15,722,853</u>	<u>11,511,253</u>
Ending Net Position	<u>\$ 27,820,539</u>	<u>\$ 15,722,853</u>

For the year ended September 30, 2019, revenues from governmental activities totaled \$14,986,553, an increase of \$8,207,837 or 121 percent, compared to the prior year. The majority of this change can be attributed to an increase in other revenues, as well as capital grants and contributions, sales tax, and investment earnings.

As of the end of the fiscal year, expenses for governmental activities totaled \$2,888,867, which is a 13 percent increase from the prior year. The majority of this increase can be attributed to an increase in administration and public safety expenses.

CITY OF MORGAN'S POINT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$16,769,778. Of this, \$747,565 is restricted for municipal development, \$766,683 is restricted for debt service, \$216,777 is restricted for capital projects, \$3,000,000 is committed for the emergency reserve fund, and \$12,038,753 is unassigned.

There was a net increase in the combined fund balance of \$10,472,325 in comparison to the prior year, which was primarily the result of an increase in other revenue related to the Chapter 380 agreement with Enterprise Navigator Ethylene Terminal LLC.

The general fund had revenues that exceeded expenditures by \$10,146,753 and, after transfers to other funds, the net change in fund balance was an increase of \$9,955,049. This is largely due to the increase in revenue from the Chapter 380 agreement, sales taxes, and intergovernmental revenue.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$12,038,753. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 320.9 percent of total general fund expenditures, while total fund balance represents 400.9 percent of the same amount.

The debt service fund accounts for the collection of property taxes for the payment of the combination tax and revenue certificates of obligation. There was a net increase in fund balance of \$11,863, which was primarily due to an increase in revenue from property taxes.

The capital projects fund tracks the costs for construction and improvements related to the City's capital assets. Expenditures exceeded revenues by \$116,916 as a result of capital improvement expenditures. After accounting for transfers in, the fund balance of the capital projects fund increased by \$74,788.

The MDD fund had an increase in fund balance of \$430,625, bringing total fund balance to \$747,565.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were less than amended budgeted revenues by \$2,271,302 for the year ended September 30, 2019. This net negative variance is attributable to less property tax revenue and less other revenue than anticipated. General fund expenditures came in under total budgeted expenditures by \$4,520,455 due primarily to less costs in capital outlay.

CITY OF MORGAN'S POINT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2019

CAPITAL ASSETS

At the end of the year, the City's governmental activities had invested \$16,204,566, net of accumulated depreciation, in a variety of capital assets and infrastructure.

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

LONG-TERM DEBT

At the end of the current year, the City had total long-term liabilities of \$5,478,038 consisting of tax and revenue certificates of obligation series' 2010, 2012, and 2015, as well as a net pension liability and compensated absences.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2020 fiscal year budget is based on prior years' budget history and largely on the implementation of a budget projection designed to meet the following goals of City Council:

1. Maintain a fiscally responsible tax rate,
2. Provide resources sufficient to meet the City's operating and capital needs, and
3. Maintain an adequate and appropriate fund balance level.

The City's budgeted expenditures for fiscal year 2020 total \$8,488,267 in the general fund and \$462,750 in the debt service fund. For fiscal year 2020, the City Council adopted a tax rate of \$0.085969 per \$100 valuation for debt service and a tax rate of \$0.793422 per \$100 valuation to fund the maintenance and operations expenditures.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to City Hall, 510 Bayridge Road, Morgan's Point, Texas, 77571; telephone 281-471-2171.

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BASIC FINANCIAL STATEMENTS

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CITY OF MORGAN'S POINT, TEXAS

STATEMENT OF NET POSITION

September 30, 2019

	Primary Government Governmental Activities	Component Unit
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 16,776,522	\$ 664,542
Receivables, net	457,304	62,218
Due from component unit	15,023	-
Prepays	467	-
Restricted:		
Cash and cash equivalents	56,965	-
Total curent assets	17,306,281	726,760
Noncurrent assets		
Nondepreciable capital assets	7,490,307	-
Net depreciable capital assets	8,714,259	-
Total noncurrent assets	16,204,566	-
Total Assets	33,510,847	726,760
<u>Deferred Outflows of Resources</u>		
Deferred outflows-pensions	330,028	-
<u>Liabilities</u>		
Current liabilities:		
Accounts payable and accrued liabilities	519,923	835
Due to primary government	-	15,023
Total current liabilities	519,923	15,858
Noncurrent liabilities:		
Long-term liabilities due within one year	330,806	-
Long-term liabilities due in more than one year	5,147,232	-
Total noncurrent liabilities	5,478,038	-
Total Liabilities	5,997,961	15,858
<u>Deferred Inflows of Resources</u>		
Deferred inflows-pensions	22,375	-
<u>Net Position</u>		
Net investment in capital assets	11,314,155	-
Restricted for:		
Economic development	-	710,902
Municipal development	747,565	-
Debt service	745,202	-
Unrestricted	15,013,617	-
Total Net Position	\$ 27,820,539	\$ 710,902

See Notes to Financial Statements.

CITY OF MORGAN'S POINT, TEXAS

STATEMENT OF ACTIVITIES For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
Administration	\$ 896,125	\$ 53,557	\$ -	\$ -
Right of way and property maintenance	176,677	-	-	552,049
Public safety	1,121,990	87,407	7,224	-
Health and sanitation	159,399	-	-	-
Water distribution	190,571	389,707	-	-
Wastewater collection	178,116	124,436	-	-
Interest and fiscal charges	165,989	-	-	-
Total Governmental Activities	<u>2,888,867</u>	<u>655,107</u>	<u>7,224</u>	<u>552,049</u>
Total Primary Government	<u>\$ 2,888,867</u>	<u>\$ 655,107</u>	<u>\$ 7,224</u>	<u>\$ 552,049</u>

Component Unit

Morgan's Point Economic

Development Corporation	\$ 144,852	\$ -	\$ -	\$ -
Total Component Unit	<u>\$ 144,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes

Property taxes

Sales taxes

Franchise fees and local taxes

Investment earnings

Other revenues

Total General Revenues

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

**Net (Expense) Revenue and
Changes in Net Position**

Primary		
Government		
Governmental	Component	
Activities	Unit	
\$ (842,568)	\$ -	
375,372	-	
(1,027,359)	-	
(159,399)	-	
199,136	-	
(53,680)	-	
(165,989)	-	
<u>(1,674,487)</u>	<u>-</u>	
<u>(1,674,487)</u>	<u>-</u>	
-	(144,852)	
<u>-</u>	<u>(144,852)</u>	
4,765,003	-	
1,349,732	460,547	
283,012	-	
258,559	4,595	
7,115,867	-	
<u>13,772,173</u>	<u>465,142</u>	
<u>12,097,686</u>	<u>320,290</u>	
<u>15,722,853</u>	<u>390,612</u>	
<u>\$ 27,820,539</u>	<u>\$ 710,902</u>	

CITY OF MORGAN'S POINT, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2019

	General	Debt Service	Capital Projects	Municipal Development District
Assets				
Cash and cash equivalents	\$ 15,690,417	\$ 176,589	\$ 220,482	\$ 689,034
Receivables	394,828	3,945	-	58,531
Prepays	467	-	-	-
Due from other funds	-	590,100	-	-
Due from component unit	15,023	-	-	-
Restricted:				
Cash and cash equivalents	56,965	-	-	-
Total Assets	\$ 16,157,700	\$ 770,634	\$ 220,482	\$ 747,565
Liabilities				
Accounts payable and accrued liabilities	\$ 494,731	\$ 6	\$ 3,705	\$ -
Due to other funds	590,100	-	-	-
Total Liabilities	1,084,831	6	3,705	-
Deferred Inflows of Resources				
Unavailable revenue - property taxes	34,116	3,945	-	-
Fund Balances				
Restricted for:				
Municipal development	-	-	-	747,565
Debt service	-	766,683	-	-
Capital projects	-	-	216,777	-
Committed for:				
Emergency reserve fund	3,000,000	-	-	-
Unassigned	12,038,753	-	-	-
Total Fund Balances	15,038,753	766,683	216,777	747,565
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 16,157,700	\$ 770,634	\$ 220,482	\$ 747,565

Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

 Capital assets - nondepreciable

 Capital assets - net depreciable

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Long-term liabilities and deferred outflows and deferred inflows related to pensions are not reported in the governmental funds.

 Deferred outflows - pensions

 Deferred inflows - pensions

 Noncurrent liabilities due within one year

 Noncurrent liabilities due in more than one year

 Accrued interest payable

Net Position of Governmental Activities

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 16,776,522
457,304
467
590,100
15,023

56,965
\$ 17,896,381

\$ 498,442
590,100
1,088,542

38,061

747,565
766,683
216,777

3,000,000
12,038,753
16,769,778

7,490,307
8,714,259

38,061

330,028
(22,375)
(330,806)
(5,147,232)
(21,481)
\$ 27,820,539

CITY OF MORGAN'S POINT, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2019

	General	Debt Service	Capital Projects	Municipal Development District
Revenues				
Property taxes	\$ 4,271,716	\$ 474,175	\$ -	\$ -
Sales taxes	921,093	-	-	428,639
Franchise fees and local taxes	283,012	-	-	-
Licenses and permits	53,557	-	-	-
Fines and forfeitures	87,407	-	-	-
Charges for services	514,143	-	-	-
Intergovernmental	494,921	-	-	-
Investment earnings	256,282	201	90	1,986
Other revenue	7,015,617	-	100,250	-
Total Revenues	13,897,748	474,376	100,340	430,625
Expenditures				
Current:				
Administration	732,050	-	6	-
Right of way and property maintenance	163,370	-	-	-
Public safety	839,407	-	-	-
Health and sanitation	155,396	-	-	-
Water distribution	172,529	-	-	-
Wastewater collection	133,638	-	-	-
Capital outlay	1,554,605	-	217,250	-
Debt service:				
Principal	-	285,000	-	-
Interest and fiscal charges	-	177,513	-	-
Total Expenditures	3,750,995	462,513	217,256	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	10,146,753	11,863	(116,916)	430,625
Other Financing Sources (Uses)				
Transfers in	-	-	191,704	-
Transfers (out)	(191,704)	-	-	-
Total Other Financing Sources (Uses)	(191,704)	-	191,704	-
Net Change in Fund Balances	9,955,049	11,863	74,788	430,625
Beginning fund balances	5,083,704	754,820	141,989	316,940
Ending Fund Balances	\$ 15,038,753	\$ 766,683	\$ 216,777	\$ 747,565

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$	4,745,891
	1,349,732
	283,012
	53,557
	87,407
	514,143
	494,921
	258,559
	<u>7,115,867</u>
	<u>14,903,089</u>
	732,056
	163,370
	839,407
	155,396
	172,529
	133,638
	1,771,855
	285,000
	<u>177,513</u>
	<u>4,430,764</u>
	<u>10,472,325</u>
	191,704
	<u>(191,704)</u>
	<u>-</u>
	10,472,325
	<u>6,297,453</u>
\$	<u><u>16,769,778</u></u>

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CITY OF MORGAN'S POINT, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

Net changes in fund balances—total governmental funds \$ 10,472,325

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital purchases	1,759,313
Capital contributions	64,352
Depreciation expense	(446,521)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue	19,112
----------------------------	--------

Changes in pension activity do not affect the fund balance on the statement of revenues, expenditures, and changes in fund balance for the governmental funds.

These changes in pension activity that affect the City's net position are as follows:

Change in net pension liability	(470,526)
Deferred outflows - pensions	251,466
Deferred inflows - pensions	150,947

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

Repayment of principal	285,000
Compensated absences	694
Accrued interest	514
Amortization of bond premium	11,010

Change in Net Position of Governmental Activities	\$ 12,097,686
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See Notes to Financial Statements.

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CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Morgan's Point, Texas (the "City") was incorporated on July 15, 1949 and operates as a General Law City form of government.

The City provides the following services: public safety to include police services, right of way and property maintenance, health and sanitation, water distribution, wastewater collection, and administration.

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

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

Discretely Presented Component Unit

Morgan's Point Economic Development Corporation

Morgan's Point Economic Development Corporation (EDC) has been included in the reporting entity as a discretely presented component unit. The EDC was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities as described in Section 4B of Article 5190.6. The EDC is funded by a one-half of one percent sales and use tax, as approved by the voters in 2002. The EDC is governed by a seven-member board appointed by and serving at the discretion of the City Council. Separate financial statements of the EDC are not prepared.

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

Blended Component Unit

Morgan's Point Municipal Development District

Morgan's Point Municipal Development District (MDD) has been included in the reporting entity as a blended component unit. The MDD was formed under Chapter 377 of the Local Government Code for the purpose of undertaking development projects determined to be beneficial to the MDD by its Board as approved by the voters in 2004. The MDD is funded by a one-half of one percent sales and use tax within the MDD. The Board is comprised of all members of City Council who approve the MDD's annual budgets and bonded debt issuance. The operations of the MDD are presented as a governmental fund type. Separate financial statements of the MDD are not prepared.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component units. Governmental activities are normally supported by taxes and intergovernmental revenues. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component unit. Separate statements for each fund category, governmental, are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial transactions not accounted for and reported in other funds. The principal sources of revenues include local property taxes, sales taxes, franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include administration, right of way and property maintenance, public safety, health and sanitation, water distribution, wastewater collection, and capital outlay. The general fund is always considered a major fund for reporting purposes.

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The special revenue fund is the MDD fund. While the MDD fund did not technically meet the criteria to be presented as a major fund, the City has elected to present it as major due to its significance. It is presented as a blended component unit.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlay, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes. While the capital projects fund did not technically meet the criteria to be presented as a major fund, the City has elected to present it as major due to its significance.

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

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

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Cash and Cash Equivalents

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

2. Investments

Investments, except for certain investment pools and commercial paper, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and is reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

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

- Direct obligations of the U.S. government and State of Texas or their agencies or instrumentalities.
- Fully collateralized certificates of deposit or repurchase agreements
- Mutual funds of a specific type
- Bankers' acceptances or commercial paper
- Investment pools

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

4. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The City does not capitalize net interest cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of assets are not capitalized.

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	10-40 years
Water and sewer system	15-40 years
Machinery and equipment	5 years

5. Deferred Outflows/Inflows of Resources

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

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the average of the expected service lives of pension plan members, except for the net differences between the projected and actual investment earnings on the pension plan assets, which are amortized over a period of five years.
- For employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

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

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

6. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation time based on years of service with the City. An employee may accumulate and be compensated for a maximum of one and one-half times their allocated vacation time earned. Amounts accumulated may be paid to employees upon termination of employment. All eligible time is accrued when incurred in the government-wide financial statements.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount.

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

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

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

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

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

10. Fund Balance Policies

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

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

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

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

The City must maintain a minimum of 25 percent of general fund expenditures in unassigned fund balance.

11. Estimates

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

12. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS'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.

CITY OF MORGAN'S POINT, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

The City levies property taxes for the purpose of financing general operations and debt service. All property values and exempt status, if any, are determined by the Harris County Appraisal District. A tax lien attaches to taxable property January 1 of each year when property valuations for the use in levying taxes are established. Taxes are generally levied in October and are due upon receipt of the tax bill by the property owner. Penalty and interest are charged if taxes are not paid by the following January 31. There is an additional 20 percent penalty charged on accounts delinquent after July 1 of each year, which is generally payable to the City's delinquent tax attorney.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund, and MDD fund. The capital projects fund adopts a project length budget. The original budgets are adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the municipal code of general law is the object and purpose stated in the approved budgets. City Council may amend the budgets throughout the year. Appropriations lapse at the end of the year.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2019, the City and its component units had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
External investment pool	\$ 13,547,936	0.00
Total Value	<u>\$ 13,547,936</u>	
Portfolio weighted average maturity		0.00

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

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

Credit risk. The City's investment policy limits investments in public fund investment pools rated as to investment quality not less than 'AAA' or 'AAAm', or at an equivalent rating by at least one nationally recognized rating service. As of September 30, 2019, the City's investments in TexPool were rated 'AAAm' by Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. At year end, market values of the City's pledged securities and FDIC insurance exceeded bank balances.

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

TexPool

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

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

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Municipal Development District</u>	<u>Total Governmental Funds</u>
Property taxes	\$ 34,116	\$ 3,945	\$ -	\$ 38,061
Sales taxes	124,436	-	58,531	182,967
Franchise fees	21,055	-	-	21,055
Utility billings	58,978	-	-	58,978
Other	156,243	-	-	156,243
	<u>\$ 394,828</u>	<u>\$ 3,945</u>	<u>\$ 58,531</u>	<u>\$ 457,304</u>

CITY OF MORGAN'S POINT, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

C. Capital Assets

A summary of changes in capital assets at yearend is as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 5,949,359	\$ 449,795	\$ -	\$ 6,399,154
Construction in progress	2,322,897	1,192,185	(2,423,929)	1,091,153
Total capital assets not being depreciated	<u>8,272,256</u>	<u>1,641,980</u>	<u>(2,423,929)</u>	<u>7,490,307</u>
Other capital assets:				
Share of LPAWA utility plant	973,170	-	-	973,170
Buildings and improvements	6,306,013	2,142,057	-	8,448,070
Infrastructure	2,433,057	345,473	-	2,778,530
Machinery and equipment	1,094,938	118,084	(18,832)	1,194,190
Total other capital assets	<u>10,807,178</u>	<u>2,605,614</u>	<u>(18,832)</u>	<u>13,393,960</u>
Less accumulated depreciation for:				
Share of LPAWA utility plant	(569,846)	(24,329)	-	(594,175)
Buildings and improvements	(2,369,882)	(244,333)	-	(2,614,215)
Infrastructure	(393,180)	(92,606)	-	(485,786)
Machinery and equipment	(919,104)	(85,253)	18,832	(985,525)
Total accumulated depreciation	<u>(4,252,012)</u>	<u>(446,521)</u>	<u>18,832</u>	<u>(4,679,701)</u>
Other capital assets, net	6,555,166	2,159,093	-	8,714,259
Governmental Activities Capital Assets, Net	<u>\$ 14,827,422</u>	<u>\$ 3,801,073</u>	<u>\$ (2,423,929)</u>	<u>16,204,566</u>
			Less associated debt	(5,110,893)
			Plus unspent proceeds	<u>220,482</u>
			Net Investment in Capital Assets	<u>\$ 11,314,155</u>

Depreciation was charged to governmental functions as follows:

Administration	\$ 105,268
Right of way and property maintenance	9,723
Public safety	257,997
Water distribution	32,882
Wastewater collection	40,651
Total Governmental Activities Depreciation Expense	<u>\$ 446,521</u>

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

D. Long-Term Liabilities

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2019. The City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds, notes, and other payables:					
Certificates of obligation	\$ 5,235,000	\$ -	\$ 285,000	\$ 4,950,000	\$ 290,000
Less deferred amounts:					
Premium	171,903	-	11,010	160,893	-
Subtotal	5,406,903	-	296,010	5,110,893	* 290,000
Other liabilities:					
Net pension liability	(154,388)	470,526	-	316,138	-
Compensated absences	51,701	5,158	5,852	51,007	40,806
Subtotal	(102,687)	475,684	5,852	367,145	40,806
Total Governmental Activities	\$ 5,304,216	\$ 475,684	\$ 301,862	\$ 5,478,038	\$ 330,806
Long-Term Liabilities Due in More Than One Year				\$ 5,147,232	
*Debt Associated with Governmental Capital Assets				\$ 5,110,893	

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

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

Description	Interest Rates	Balance
Governmental Activities		
Certificates of Obligation		
Combination Tax and Revenue, Series 2010	3.00-5.00%	\$ 965,000
Combination Tax and Revenue, Series 2012	1.00-3.00%	1,075,000
Combination Tax and Revenue, Series 2015	2.00-4.00%	2,910,000
Total Governmental Activities Long-Term Debt		\$ 4,950,000

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

Certificates of Obligation

The City has issued tax and revenue certificates of obligation, series 2010 to provide funds for the construction of a new water tower. The City issued tax and revenue certificates of obligation, series 2012 to provide funds for the construction and improvement of the City's water and sewer lines. The City also issued certificates of obligation series, 2015 to provide funds for the purchase of 50 acres of land. Certificates of obligation are direct obligations of the City for which its full faith and credit are pledged. Repayment of certificates is from taxes levied on all taxable property located within the City. Annual debt service requirements to maturity for these obligations are as follows:

Year Ending Sept. 30	Principal	Interest	Total Debt Service Requirements
2020	\$ 290,000	\$ 169,750	\$ 459,750
2021	295,000	161,613	456,613
2022	310,000	152,763	462,763
2023	315,000	143,463	458,463
2024	330,000	134,013	464,013
2025-2029	1,810,000	501,931	2,311,931
2030-2034	1,365,000	189,981	1,554,981
2035	235,000	9,400	244,400
Total	\$ 4,950,000	\$ 1,462,914	\$ 6,412,914

Federal Arbitrage

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

E. Interfund Transactions

The composition of interfund balances as of yearend is as follows:

Receivable Fund	Payable Fund	Amount
Debt Service Fund	General Fund	\$ 590,100

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

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by 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 TMRS with a six-member Board of Trustees (the "Board"). 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 that can be obtained at www.tmrs.com.

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

Benefits Provided

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

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

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

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

	2019	2018
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	50% Repeating, Transfers	50% Repeating, Transfers
Annuity increase (to retirees)	30% of CPI	30% of CPI

Employees Covered by Benefit Terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to, but not yet receiving, benefits	4
Active employees	12
Total	34

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The 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 seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.89 percent and 9.23 percent in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019 were \$83,840 and were equal to the required contributions.

Net Pension Liability/(Asset)

The City's Net Pension Liability (NPL) was measured as of December 31, 2018 and the Total Pension Liability (TPL) used to calculate the NPL/(A) was determined by an actuarial valuation as of that date.

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

Actuarial Assumptions

The TPL in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
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, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and annuity purchase rate are based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the EAN actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

CITY OF MORGAN'S POINT, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2019

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.30%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.39%
Real Return	10.00%	3.78%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.56%
Private Equity	5.00%	7.75%
Total	100.00%	

Discount Rate

The discount rate used to measure the TPL was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the 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 TPL.

Changes in the NPL

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (A)</u>	<u>Plan Fiduciary Net Position (B)</u>	<u>Net Pension Liability/(Asset) (A) - (B)</u>
Changes for the year:			
Service cost	\$ 136,828	\$ -	\$ 136,828
Interest	288,035	-	288,035
Change in current period benefits	-	-	-
Difference between expected and actual experience	54,101	-	54,101
Contributions - employer	-	84,736	(84,736)
Contributions - employee	-	59,975	(59,975)
Net investment income	-	(133,557)	133,557
Benefit payments, including refunds of employee contributions	(210,913)	(210,913)	-
Administrative expense	-	(2,581)	2,581
Other changes	-	(135)	135
Net Changes	268,051	(202,475)	470,526
Balance at December 31, 2017	4,304,229	4,458,617	(154,388)
Balance at December 31, 2018	\$ 4,572,280	\$ 4,256,142	\$ 316,138

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

Sensitivity of the NPL/(A) to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability/(Asset)	\$ 906,665	\$ 316,138	\$ (172,975)

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.

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

For the fiscal year ended September 30, 2019, the City recognized pension expense of \$151,953.

At September 30, 2019, 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	\$ 37,657	\$ 22,375
Changes in actuarial assumptions	-	-
Net difference between projected and actual investment earnings	232,205	-
Contributions subsequent to the measurement date	60,166	-
Total	\$ 330,028	\$ 22,375

\$60,166 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase to the NPL/(A) for the fiscal year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Pension Expense Amount
2020	\$ 81,892
2021	42,765
2022	35,932
2023	86,898
Thereafter	-
Total	\$ 247,487

CITY OF MORGAN'S POINT, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019

D. Concentrations

Generally accepted accounting principles require disclosure of concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor that meet certain criteria.

The following concentrations with particular customers existed at the financial statement date:

Port of Houston Authority

Approximately 18 percent of the City's revenues for the year ended September 30, 2019 was provided by the Port of Houston Authority. Likewise, approximately 18 percent of receivables as of September 30, 2019 was due from the Port of Houston Authority.

Enterprise Products

Approximately 76 percent of the City's total taxable property value represented the value associated with Enterprise Products for tax year 2018 and fiscal year 2019. As a percentage of total revenues, Enterprise Products accounts for approximately 56 percent in fiscal year 2019.

E. Agreement with La Porte Area Water Authority

The City is participant in a Cost-Sharing Water Project Contract (the "Contract") with La Porte Area Water Authority (LPAWA), City of La Porte, and City of Shoreacres to jointly finance the construction and operation of the Southeast Water Purification Plant. The City pays monthly operating costs based on usage. The City's share of demand and pumping allocations of the Contract is 7.98 percent.

F. Tax Abatements

The City has entered into a property tax abatement agreement (the "Agreement") with Enterprise Navigator Ethylene Terminal LLC ("Enterprise") in accordance with Chapter 312 of the Texas Tax Code as of April 10, 2018. In conjunction with this Agreement, the City also entered into a Chapter 380 economic development agreement ("Economic Agreement") with Enterprise. Enterprise represents that it will construct improvements with an estimated construction costs of \$370,000,000. The City has agreed to a 100 percent property tax abatement for a period of ten years on new eligible property. As part of the consideration for the City's property tax abatement, Enterprise has agreed to make Chapter 380 payments in accordance with the Economic Agreement for the purpose of encouraging the development of primary employment and attracting major economic investments to the City. Provisions for recapture of taxes have been incorporated in the event of termination or default by Enterprise. For fiscal year 2019, Enterprise made a \$7,000,000 payment in lieu of taxes. The City has not abated any property taxes in fiscal year 2019.

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APPENDIX D

FORMS OF LEGAL OPINION OF BOND COUNSEL

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Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel,
upon the delivery of the Certificates, assuming no material changes in facts or law.*

August __, 2020

**CITY OF MORGAN'S POINT, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020
DATED AS OF JULY 15, 2020
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____**

AS BOND COUNSEL FOR THE CITY OF MORGAN'S POINT, TEXAS (the "**City**") we have examined into the legality and validity of the Certificates of Obligation described above (the "**Certificates**"), which bear interest from the dates specified in the text of the Certificates until stated maturity or prior redemption, at the rates and payable on the dates as stated in the text of the Certificates, and which mature on the dates and are subject to redemption, all in accordance with the terms and conditions stated in the text of the Certificates. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the City authorizing the issuance and sale of the Certificates (the "**Ordinance**").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Certificates including (i) the Ordinance, (ii) one of the executed Certificates (Certificate No. T-1), and (iii) the City's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized, issued and delivered in accordance with law; that except as the enforceability thereof may be limited by governmental immunity and bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the City; that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law; and that "**Surplus Revenues**" (as such term is defined and described in the Ordinance) received by the City from the ownership and operation of the City's Waterworks and Sewer System have been pledged to further secure the payment of the Certificates in the manner set forth in the Ordinance.



IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "**Code**"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates and the use of the property refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Certificates, including the amount, accrual or receipt of interest on, the Certificates. Owners of the Certificates should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Certificates.

WE EXPRESS NO OPINION as to insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, if any, nor as to any such insurance policies issued in the future.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "**Service**"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules 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 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. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.



OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City 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 exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

Respectfully,

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Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel,
upon the delivery of the Bonds, assuming no material changes in facts or law.*

August __, 2020

**CITY OF MORGAN'S POINT, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020
DATED AS OF JULY 15, 2020
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____**

AS BOND COUNSEL FOR THE CITY OF MORGAN'S POINT, TEXAS (the "**City**") we have examined into the legality and validity of the Bonds described above (the "**Bonds**"), which bear interest from the dates specified in the text of the Bonds until stated maturity or prior redemption, at the rates and payable on the dates as stated in the text of the Bonds, and which mature on the dates and are subject to redemption, all in accordance with the terms and conditions stated in the text of the Bonds. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the City authorizing the issuance and sale of the Bonds (the "**Ordinance**").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the Ordinance, (ii) the Deposit Agreement, dated as of July 15, 2020, between the City and The Bank of New York Mellon Trust Company, N.A., as Deposit Agent (the "**Deposit Agreement**"), (iii) the report and mathematical verifications of Robert Thomas CPA, with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "**Verification Report**"), (iv) one of the executed Bonds (Bond No. T-1), and (v) the City's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered in accordance with law; that except as the enforceability thereof may be limited by governmental immunity and bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and legally binding obligations of the City; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law.



IT IS FURTHER OUR OPINION that the Deposit Agreement has been duly authorized, executed and delivered by the City and constitutes a binding and enforceable agreement in accordance with its terms and that the "**Refunded Obligations**" (as defined in the Ordinance) being refunded by the Bonds are outstanding under the respective ordinances authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Deposit Agreement and the cash and investments, if any, including the income therefrom, held by the Deposit Agent pursuant to the Deposit Agreement. In rendering this opinion, we have relied upon the certifications contained in the Verification Report as to the sufficiency of the cash and securities, if any, deposited pursuant to the Deposit Agreement for the purpose of paying the principal of, redemption premium, if any, and interest on the Refunded Obligations.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "**Code**"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

WE EXPRESS NO OPINION as to insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, if any, nor as to any such insurance policies issued in the future.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "**Service**"); rather, such



opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules 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 whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

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Capital
Markets