

**OFFICIAL NOTICE OF SALE,  
OFFICIAL BID FORM,  
AND  
PRELIMINARY OFFICIAL STATEMENT**

**\$1,860,000\***

**CITY OF PORT ARANSAS, TEXAS  
(A Political Subdivision of the State of Texas located in  
Nueces County, Texas)**

**TAX NOTES, SERIES 2021**

<p><b>To be Designated by the City as “QUALIFIED TAX-EXEMPT OBLIGATIONS”</b></p>
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**Bids due  
Thursday, March 18, 2021  
at  
12:00 P.M. (Noon), Central Time**

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\*Preliminary, subject to change based on bid structures. See “THE NOTES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE NOTES” in the Official Notice of Sale.

This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Notes defined and described herein. The invitation for bids on the Notes is being made by means of this Official Notice of Sale, the Official Bid Form and the Preliminary Official Statement.

## OFFICIAL NOTICE OF SALE

**The Issuer will designate the Notes as “Qualified Tax-Exempt Obligations” for financial institutions.**

**\$1,860,000\***

**CITY OF PORT ARANSAS, TEXAS**

**(A political subdivision of the State of Texas located in Nueces County, Texas)**

**TAX NOTES, SERIES 2021**

**NOTES OFFERED FOR SALE AT COMPETITIVE BID:** The City Council (the “City Council”) of the City of Port Aransas, Texas (the “City” or the “Issuer”) is offering for sale at competitive bid its \$1,860,000\* Tax Notes, Series 2021 (the “Notes”).

**BIDS BY INTERNET:** Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 12:00 P.M. (Noon), Central Time, on Thursday, March 18, 2021. Bidders submitting a bid by internet shall not be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System (“PARITY”) and should, as a courtesy, register with PARITY by 9:00 A.M., Central Time, on Thursday, March 18, 2021 indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by email to mmcliney@samcocapital.com. If there is a malfunction of the electronic bidding process and a bidder submits a bid via email or facsimile, please call 210-832-9760 to notify the Financial Advisor (defined below) of the incoming bid. Any bid received after the scheduled time for their receipt will not be accepted.

The official time for the receipt of bids shall be the time maintained by PARITY. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, Official Bid Form and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact PARITY, c/o Ipreo Holdings LLC, 1359 Broadway, New York, New York 10018, 212-849-5021.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Notes on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed sealed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being at the sole risk of the prospective bidder.

**OPENING OF BIDS:** Bids will be opened and publicly read at 12:00 P.M. (noon), Central Time, on Thursday, March 18, 2021, following which the bids will be evaluated by SAMCO Capital Markets, Inc. (the “Financial Advisor”) and the City Council shall provide final approval of the award at a City Council meeting later that evening. The Mayor of the City or his representative shall award the Notes as described in the section entitled “AWARD AND SALE OF THE NOTES” below.

**AWARD AND SALE OF THE NOTES:** By 1:00 P.M. Central Time, on the date set for receipt of bids, the Mayor of the City or his representative shall award the Notes to the **low qualified bidder (the “Winning Bidder”)**, as described in the section entitled “CONDITIONS OF SALE – Basis of Award” herein subject to final approval of the City Council which will take action to adopt an ordinance (the “Ordinance”) authorizing the issuance and awarding sale of the Notes or will reject all bids promptly at a scheduled meeting to commence at 6:00 P.M. Central Time on Thursday, March 18, 2021. The City reserves the right to reject any or all bids and to waive any irregularities, except time of filing.

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\*Preliminary, subject to change based on bid structures. See “THE NOTES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE NOTES” herein.

## THE NOTES

**DESCRIPTION OF CERTAIN TERMS OF THE NOTES:** The Notes will be dated March 15, 2021 (the “Dated Date”) with interest to accrue from the Dated Date and be payable initially on February 1, 2022, and semiannually on each August 1 and February 1 thereafter until stated maturity. The Notes 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 (the “Securities Depository”). Book-entry interests in the Notes will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof within a stated maturity. Purchasers of the Notes (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, the principal of and interest on the Notes will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent/Registrar, to the Securities Depository, 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 Notes. (See “BOOK-ENTRY-ONLY SYSTEM” in the Preliminary Official Statement.) The Notes will be stated to mature on February 1 in each of the following years in the following amounts:

### MATURITY SCHEDULE (Due February 1)

Stated Maturity	Principal Amount*
2022	\$250,000
2023	260,000
2024	260,000
2025	265,000
2026	270,000
2027	275,000
2028	280,000

**ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE NOTES:** The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Notes, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Notes shall not exceed \$1,860,000\*. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

**NO REDEMPTION:** The Notes are not subject to redemption prior to stated maturity.

**SECURITY FOR PAYMENT:** The Notes are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the “Ordinance”) to be adopted by the City Council on March 18, 2021, and the City’s Home Rule Charter and are payable primarily from an annual ad valorem taxes levied against all taxable property therein, within the limits prescribed by law, and are further secured by a lien on and pledge of the Pledged Revenues being a limited amount of the Net Revenues derived from the operation of the Issuer’s combined utility system (the “System”) not to exceed \$1,000 during the entire period the Notes or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereafter issued by the Issuer (each as described and defined in the Ordinance). The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinances

authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance the City retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations, while the Notes are Outstanding, without limitations as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

**OTHER TERMS AND COVENANTS:** Other terms of the Ordinance and the various covenants of the City contained in the Ordinance are described in the Official Statement, to which reference is made for all purposes.

\*Preliminary, subject to change. See “THE NOTES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE NOTES” herein.

**SUCCESSOR PAYING AGENT/REGISTRAR:** The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. In the Ordinance, the City covenants to provide a Paying Agent/Registrar at all times while the Notes are outstanding, and any Paying Agent/Registrar selected by the City shall be a commercial bank or trust company organized under the laws of the United States and any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Notes. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Notes.

In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, shall be qualified as described in the Preliminary Official Statement. Upon a change in the Paying Agent/Registrar for the Notes, the City agrees to promptly cause written notice thereof to be sent to each registered owner of the Notes by United States mail, first-class, postage prepaid.

## CONDITIONS OF SALE

**TYPES OF BIDS AND INTEREST RATES:** The Notes will be sold in one block on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Notes from the Dated Date of the Notes to the date of Initial Delivery (defined herein) of the Notes. **No bid producing a cash premium on the Notes that results in a dollar price of less than 103% will be considered; provided, however, that any bid is subject to adjustment as described under the caption "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS".** Bidders are invited to name the rate(s) of interest to be borne by the Notes, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest for the Notes (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Notes of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

**BASIS OF AWARD:** The sale of the Notes will be awarded to the bidder making a bid that conforms to the specifications herein (the "Winning Bidder" or "Purchaser") and which produces the lowest True Interest Cost (defined herein) rate to the City. The "True Interest Cost" rate is that rate which, when used to compute the total present value as of the Dated Date of all debt service payments on the Notes on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Notes plus the premium bid, (but not interest accrued from the Dated Date to the date of their initial delivery to the Purchaser). In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the "Code") to the date of initial delivery of the Notes, relating to the excludability of interest on the Notes from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (on or before the date of initial delivery of the Notes) a certification as to their initial offering prices of the Notes (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Official Notice of Sale. (See "ESTABLISHMENT OF ISSUE PRICE" herein.)

### **ESTABLISHMENT OF ISSUE PRICE:**

(a) The Winning Bidder shall assist the City in establishing the issue price of the Notes and shall execute and deliver to the City by the Delivery Date an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, such issue price certificate substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Winning Bidder, the City, and Norton Rose Fulbright US LLP, the City's Bond Counsel (but not to the extent that would preclude the establishment of issue price of the Notes under applicable federal regulations). All actions to be taken by the City under this Official Notice of Sale to establish the issue price of the Notes may be taken on behalf of the City by the City's Financial Advisor and any notice or report to be provided to the City may be provided to the City's Financial Advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Notes) will apply to the initial sale of the Notes (the "competitive sale requirements") because:

- (1) the City shall disseminate this Official Notice of Sale to potential underwriters (defined below) in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Notes to the bidder who submits a firm offer to purchase the Notes at the highest price (or lowest interest cost), as set forth in this Official Notice of Sale.

Any bid submitted pursuant to this Official Notice of Sale shall be considered a firm offer for the purchase of the Notes, as specified in the bid.

(c) In the event that the competitive sale requirements are not satisfied, the City shall so advise the Winning Bidder. In such event, the City intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Notes as the issue price of that maturity (the "hold-the-offering-price rule"). The City shall promptly advise the Winning Bidder, at or before the time of award of the Notes, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-

price rule shall apply to the Notes. Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies. In the event that the competitive sale requirements are not satisfied, resulting in the application of the hold-the-price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the City.

(d) By submitting a bid, the Winning Bidder shall (i) confirm that the underwriters have offered or will offer the Notes to the public on or before the date of award at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in the bid submitted by the Winning Bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Notes, that the underwriters will neither offer nor sell unsold Notes of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Notes to the public at a price that is no higher than the initial offering price to the public.

The Winning Bidder will advise the City promptly after the close of the fifth (5th) business day after the sale date whether it has sold 10% of that maturity of the Notes to the public at a price that is no higher than the initial offering price to the public.

(e) The City acknowledges that, in making the representations set forth above, the Winning Bidder will rely on (i) the agreement of each underwriter to comply with the requirements for establishing issue price of the Notes, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Notes, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Notes to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Notes, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Notes, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a retail or other third-party distribution agreement that was employed in connection with the initial sale of the Notes to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Notes, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Notes, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price of the Notes, including, but not limited to, its agreement to comply with the hold-the-offering price rule, if applicable to the Notes, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail or other third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Notes, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Notes.

(f) By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Notes to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail or other third-party distribution agreement, as applicable, to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder and as set forth in the related pricing wires, (ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Notes to the public, together with the related pricing wires, contains or will contain language obligating each underwriter or dealer that is a party to a retail or other third-party distribution agreement to be employed in connection with the initial sale of the Notes to the public to require each broker-dealer that is a party to such third-party distribution agreement to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder or the underwriter and as set forth in the related pricing wires.

(g) Sales of any Notes to any person that is a related party (defined below) to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale. Further, for purposes of this section of the Official Notice of Sale entitled “ESTABLISHMENT OF ISSUE PRICE”:

- (1) “public” means any person other than an underwriter or a related party,
- (2) “underwriter” means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Notes to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Notes to the public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Notes to the public),
- (3) a purchaser of any of the Notes is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if

one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

- (4) "sale date" means the date that the Notes are awarded by the City to the Winning Bidder.

**ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS:** See "THE NOTES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE NOTES" for a description of the City's reservation of the right to increase or decrease the principal (maturity) amount of any maturity of the Notes, including the elimination of a maturity or maturities.

**GOOD FAITH DEPOSIT:** A bank cashier's check payable to the order of "City of Port Aransas, Texas" in the amount of \$37,200, which is 2% of the par value of the Notes (the "Good Faith Deposit"), is required. The Good Faith Deposit will be retained uncashed by the City until the Notes are delivered, and at that time it will be returned to the Purchaser uncashed on the date of delivery of the Notes; however, should the Purchaser fail or refuse to take up and pay for the Notes, said Good Faith Deposit is to be cashed by the City and the proceeds accepted as full and complete liquidated damages. The above mentioned Good Faith Deposit may accompany the bid, or it may be submitted separately; however, if submitted separately, it shall be made available to the City prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. The checks accompanying all other bids will be returned immediately after the bids are opened and the award of the sale of the Notes has been made.

**ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM:**

It is the obligation of the City to receive information from Winning Bidder if bidder is not a publicly traded business entity (a "Privately Held Bidder"). Pursuant to Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the City may not award the Notes to a Winning Bidder which is a Privately Held Bidder unless such party submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the City as prescribed by the Texas Ethics Commission ("TEC"). In the event that a Privately Held Bidder's bid for the Notes is the best bid received, the City, acting through its financial advisor, will promptly notify the winning Privately Held Bidder. That notification will serve as the City's conditional verbal acceptance of the bid, and will obligate the winning Privately Held Bidder to establish (unless such winning Privately Held Bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the City to complete the award.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (City of Port Aransas, Texas) and (b) item 3 - the identification number assigned to this contract by the City (Port Aransas TN 2021 – Bid Form) and description of the goods or services (Purchase of the City of Port Aransas, Texas Tax Notes, Series 2021). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a non-publicly traded business entity contracting with the City to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/filinginfo/1295>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the City. The executed Disclosure Form must be sent by email to the City's financial advisor at [mmcliney@samcocapital.com](mailto:mmcliney@samcocapital.com), as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Stephanie Leibe, c/o Norton Rose Fulbright US LLP, 111 West Houston Street, Suite 1800, San Antonio, Texas 78205, along with a PDF executed version sent to [stephanie.leibe@nortonrosefulbright.com](mailto:stephanie.leibe@nortonrosefulbright.com).

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder must be declared by an authorized agent of the Privately Held Winning Bidder. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made "under penalty of perjury." Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Notes until a completed Disclosure Form is received. If applicable, the City reserves the right to reject any bid that does not satisfy the requirement of a completed

Disclosure Form, as described herein. Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder's obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Notes should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the City that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at <https://www.ethics.state.tx.us/filinginfo/1295>.

**ADDITIONAL CONDITION OF AWARD - COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE:** Each bidder, through submittal of an executed Official Bid Form, represents that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, to the extent the Official Notice of Sale and Official Bid Form is a contract for goods or services, will not boycott Israel during the term of this agreement. The foregoing verification is made solely to comply with Section 2271.002, Texas Government Code, and to the extent such Section does not contravene applicable Texas or Federal law. As used in the foregoing verification, 'boycott Israel' means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes. Each bidder, through submittal of an

executed Official Bid Form, understands 'affiliate' to mean an entity that controls, is controlled by, or is under common control with our company and exists to make a profit.

Each bidder, through submittal of an executed Official Bid Form, represents that neither it nor any parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Texas Government Code, and posted on any of the following pages of such officer's internet website: <https://comptroller.texas.gov/purchasing/docs/sudan-list.pdf>; <https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>, or <https://comptroller.texas.gov/purchasing/docs/fto-list.pdf>. The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, and to the extent such Section does not contravene applicable Texas or Federal law and excludes our company and each parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization. Each bidder, through submittal of an executed Official Bid Form, understands "affiliate" to mean any entity that controls, is controlled by, or is under common control with our company and exists to make a profit.

**IMPACT OF BIDDING SYNDICATE ON AWARD:** For purposes of contracting for the sale of the Notes, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Notes. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

#### **OFFICIAL STATEMENT**

To assist the Purchaser in complying with Rule 15c2-12, as amended (the "Rule"), of the United States Securities and Exchange Commission ("SEC"), the City and the Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

**COMPLIANCE WITH RULE:** The City has approved and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Notes, but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, the City deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of the Rule, except for information relating to the offering prices, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Purchaser shall be responsible for promptly informing the City of the initial offering yields of the Notes.

The City agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The City consents to the distribution of such documents in a "designated electronic format." Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the applicable MSRB rules.

The City will complete and authorize distribution of the Official Statement identifying the Purchaser and containing information omitted from the Preliminary Official Statement. The City does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Purchaser on or after the sale date, the City intends the same to be final as of such date, within the meaning of Section 15c2-12(b)(3) of the Rule. Notwithstanding the foregoing, the City makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below. To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Notes.

**FINAL OFFICIAL STATEMENT:** In addition to delivering the Official Statement in a "designated electronic format", the City will furnish to the Purchaser, within seven (7) days after the sale date, an aggregate maximum of fifty (50) copies of the Official Statement, together with information regarding interest rates and other terms relating to the reoffering of the Notes, in accordance with Section 15c2-12(b)(3) of the Rule. The Purchaser may arrange, at its own expense, to have the Official Statement reproduced and printed if it requires more than 50 copies and may also arrange, at its own expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Notes. The Purchaser will be responsible for providing information concerning the City and the Notes to subsequent purchasers of the Notes, and the City will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The City agrees to provide, or cause to be provided, to the Purchaser the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the MSRB. The City consents to the distribution of such documents in a "designated electronic format". Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the MSRB Rule G-32. The City's obligation to supplement the Official Statement to correct key representations determined to be materially misleading, after the date of the Official Statement, shall terminate upon initial delivery of the Notes to the Purchaser, unless the Purchaser notifies, in writing, the City that less than all of the Notes have been sold to ultimate customers on or before such date, in which case the obligation will extend for an additional period of time (but not more than 90 days after the sale date) until all of the Notes have been sold to ultimate customers.

**CHANGES TO OFFICIAL STATEMENT:** If, subsequent to the date of the Official Statement, the City learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Purchaser of any adverse event which causes the Official Statement to be materially misleading, and unless the Purchaser elects to terminate its obligation to purchase the Notes, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS - CONDITIONS TO DELIVERY", the City will promptly prepare and supply to the Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Purchaser and in a "designated electronic format"; provided, however, that the obligation of the City to do so will terminate when the City delivers the Notes to the Purchaser, unless the Purchaser notifies the City on or before such date that less than all of the Notes have been sold to ultimate customers, in which case the City's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the City delivers the Notes) until all of the Notes have been sold to ultimate customers.

**CERTIFICATION OF THE OFFICIAL STATEMENT:** At the time of payment for and delivery of the hereinafter defined Initial Certificate (the "Delivery Date"), the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Notes, on the date of such Official Statement, on the date of sale of said Notes and the acceptance of the best bid therefor, and on the date of the initial delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last financial statements of the City appearing in the Official Statement. The Official Statement and Official Notice of Sale will be approved as to form and content and the use thereof in the offering of the Notes will be authorized, ratified and approved by the City Council of the City on the date of sale, and the Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Notes, a certified copy of such approval, duly executed by the proper officials of the City.

**CONTINUING DISCLOSURE AGREEMENT:** The City will agree in the Ordinance to provide certain periodic information and notices of certain events in accordance with the Rule, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Purchaser's obligation to accept and pay for the Notes is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

**COMPLIANCE WITH PRIOR UNDERTAKINGS:** During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule. In connection with the issuance of its Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "2018 Certificates"), the City erroneously indicated that it would provide annual financial and operating data of the general type included in Tables 1-17 in the official statement therefor, where Tables 12-17 did not exist. The City's continuing disclosure covenant for the 2018 Certificates should have correctly referenced Tables 1-11, which accounts for all numbered tables provided in Appendix A to the official statement for the 2018 Certificates. The City has timely provided such information in accordance with the Rule.

## **DELIVERY AND ACCOMPANYING DOCUMENTS**

**INITIAL DELIVERY OF INITIAL NOTE:** The initial delivery of the Notes to the Purchaser on the "Delivery Date", will be accomplished by the issuance of either (i) a single fully registered Note in the total principal amount of \$1,860,000 (preliminary, subject to change) payable in stated installments to the Purchaser and numbered T-1, or (ii) as one (1) fully registered Note for each year of stated maturity in the applicable principal amount and denomination, to be numbered consecutively from R-1 and upward (in either case, the "Initial Note"), signed by manual or facsimile signature of the Mayor and the City Secretary approved by the Attorney General of Texas, and registered and manually signed by an authorized representative of the Comptroller of Public Accounts of the State of Texas. Initial Delivery (defined below) of the Notes will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Note, they shall be immediately canceled and one Note for each stated maturity will be registered in the name of Cede & Co. and deposited with DTC in connection with DTC's Book-Entry-Only System. Payment for the Initial Note must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six (6) business days' notice of the time fixed for delivery of the Notes. It is anticipated that Initial Delivery of the Initial Note can be made on or about April 14, 2021, but if for any reason the City is unable to make delivery by April 14, 2021, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional thirty (30) days its obligation to take up and pay for the Notes. If the Purchaser does not so elect within six (6) business days thereafter, then the Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Notes, provided such failure is due to circumstances beyond the City's reasonable control.

**EXCHANGE OF INITIAL NOTES FOR DEFINITIVE NOTES:** Upon payment for the Initial Note at the time of such delivery, the Initial Note to be canceled by the Paying Agent/Registrar and registered definitive Notes delivered in lieu thereof, in multiples of \$5,000 for each stated maturity, in accordance with written instructions received from the Purchaser and/or members of the Purchaser's syndicate. Such Notes shall be registered by the Paying Agent/Registrar. It shall be the duty of the Purchaser and/or members of the Purchaser's syndicate to furnish to the Paying Agent/Registrar, at least five days prior to the delivery of the Initial Note, final written instructions identifying the names and addresses of the registered owners, the stated maturities, interest rates, and denominations. The Paying Agent/Registrar will not be required to accept changes in such written instructions after the five day period, and if such written instructions are not received by the



Paying Agent/Registrar five days prior to the delivery, the cancellation of the Initial Note and delivery of registered definitive Notes may be delayed until the fifth day next following the receipt of such written instructions by the Paying Agent/Registrar.

**CUSIP NUMBERS:** It is anticipated that CUSIP identification numbers will be printed on the Notes, but neither the failure to print such number on any Note nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Notes in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Notes shall be paid by the City; however, the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Purchaser.

**CONDITIONS TO DELIVERY:** The obligation to take up and pay for the Notes is subject to the following conditions: the issuance of an approving opinion of the Attorney General of Texas, the Purchaser's acknowledgment of the receipt of the Initial Note, the Purchaser's receipt of the legal opinions of Bond Counsel and the no-litigation certificate, and the non-occurrence of the events described below under the caption "NO MATERIAL ADVERSE CHANGE", all as described below. In addition, if the City fails to comply with its obligations described under "OFFICIAL STATEMENT - FINAL OFFICIAL STATEMENT" above, the Purchaser may terminate its contract to purchase the Notes by delivering written notice to the City within five (5) days thereafter.

**NO MATERIAL ADVERSE CHANGE:** The obligation of the Purchaser to take up and pay for the Notes, and of the City to deliver the Initial Note, are subject to the condition that, up to the time of delivery of and receipt of payment for the Initial Note, there shall have been no material adverse change in the affairs of the City subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of delivery.

**LEGAL OPINIONS:** The Notes are offered when, as and if issued, subject to the approval of certain legal matters by the Attorney General of the State of Texas and Bond Counsel (see discussion "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" in the Preliminary Official Statement).

**CHANGE IN TAX-EXEMPT STATUS:** At any time before the Notes are tendered for initial delivery to the Purchaser, the Purchaser may withdraw its bid if the interest on obligations such as the Notes shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by U.S. Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

**QUALIFIED TAX-EXEMPT OBLIGATIONS:** The City will designate the Notes as "Qualified Tax-Exempt Obligations" for financial institutions (see discussion under "TAX MATTERS – Qualified Tax-Exempt Obligations" in the Preliminary Official Statement).

## GENERAL CONSIDERATIONS

**FUTURE REGISTRATION:** The Notes may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof 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. A Note may be assigned by the execution of an assignment form on the Notes or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Notes will be delivered by the Paying Agent/Registrar in lieu of the Notes being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. To the extent possible, new Notes issued in an exchange or transfer of Notes will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Notes to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or its duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Notes registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and interest rate as the Notes surrendered for exchange or transfer.

**RECORD DATE:** The record date ("Record Date") for determining the party to whom the semiannual interest on the Notes is payable on any interest payment date is the fifteenth day of the month next preceding such interest payment date.

**RATINGS:** A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available to the Purchaser as soon as possible. (See "OTHER PERTINENT INFORMATION - Ratings" in the Preliminary Official Statement). An explanation of the significance of such a rating may be obtained from S&P. The rating of the Notes by S&P reflects only the view 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 such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Notes.

**SALE OF ADDITIONAL NOTES:** Other than the potential issuance of refunding bonds for debt service savings, the City currently has no plans to issue additional ad valorem tax supported debt in 2021.

**REGISTRATION AND QUALIFICATION OF NOTES FOR SALE:** No registration statement relating to the Notes has been filed with the SEC under the Securities Act of 1933, as amended (the "Act"), in reliance upon exemptions provided in such Act. The Notes have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. Any representation to the contrary is a criminal offense. The Notes have not been registered or qualified under the Securities Act of Texas in reliance upon exemptions

contained therein, nor have the Notes been registered or qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Notes under the securities laws of any jurisdiction in which the Notes may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Notes shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Notes under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Purchaser's written request and expense and within reasonable limits, in registering or qualifying the Notes, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but will in no instance execute a general consent to service of process in any state that the Notes are offered for sale.

**ADDITIONAL COPIES:** Subject to the limitations described herein, an electronic copy of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from [www.samco.postos.com](http://www.samco.postos.com).

The City Council has approved the form and content of the Official Notice of Sale, the Official Bid Form, and the Official Statement and authorized the use thereof in its initial offering of the Notes. On the date of the sale, the Notes will, in the Ordinance authorizing the issuance of the Notes, reconfirm its approval of the form and content of the Official Statement, and any addenda, supplement, or amendment thereto, and authorize its further use in the reoffering of the Notes by the Purchaser.

/s/ Charles R. Bujan  
\_\_\_\_\_  
Mayor,  
City of Port Aransas

ATTEST:

/s/ Francisca Nixon  
\_\_\_\_\_  
City Secretary,  
City of Port Aransas

March 9, 2021

**OFFICIAL BID FORM**

Honorable Mayor and City Council  
 City of Port Aransas  
 710 West Avenue A  
 Port Aransas, Texas 78373

March 18, 2021

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Preliminary Official Statement dated March 9, 2021 which terms are incorporated by reference to this proposal (and which are hereto agreed as evidenced by on submission of this bid), we hereby submit the following bid for \$1,860,000 (preliminary, subject to change) City of Port Aransas, Texas Tax Notes, Series 2021, dated March 15, 2021 (the "Notes").

For said legally issued Notes, we will pay you \$ \_\_\_\_\_ (being a price of no less than 103% of par value) plus accrued interest from their date to the date of delivery to us for Notes maturing February 1 and bearing interest per annum as follows:

Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %
2022	\$250,000	
2023	260,000	
2024	260,000	
2025	265,000	
2026	270,000	
2027	275,000	
2028	280,000	

Our calculation (which is not part of this bid) of the True Interest Cost from the above is: \_\_\_\_\_%

**NO REDEMPTION:** The Notes will not be subject to redemption prior to stated maturity.

**ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS:** As a condition to our submittal of this bid for the Notes, we acknowledge the following: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Notes, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Notes shall not exceed \$1,860,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Official Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

The Initial Note shall be registered in the name of \_\_\_\_\_, which will, upon payment for the Notes, be cancelled by the Paying Agent/Registrar. The Notes will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the Book-Entry-Only System.

Cashier's Check of the \_\_\_\_\_ Bank, \_\_\_\_\_, Texas, in the amount of \$37,200, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this Bid), and is submitted in accordance with the terms as set forth in the Official Notice of Sale, said check is to be returned to the Purchaser.

We agree to accept delivery of the Notes utilizing the Book-Entry-Only System through DTC and make payment for the Initial Note in immediately available funds at the Corporate Trust Division, UMB Bank, N.A., Austin, Texas, not later than 10:00 A.M., Central Time, on Wednesday, April 14, 2021, or thereafter on the date the Notes are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale. It will be the obligation of the Purchaser of the Notes to complete and file the DTC Eligibility Questionnaire. The undersigned agrees to the provisions of the Official Notice of Sale under the heading "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" and, as evidence thereof, agrees to complete, execute, and deliver to the City, by the Delivery Date, a certificate relating to the "issue price" of the Notes in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to Bond Counsel for the City. (See "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" in the Official Notice of Sale.)

Through submittal of this executed Official Bid Form, the undersigned verifies that, except to the extent otherwise required by applicable Texas or Federal law, it does not and will not "boycott Israel" and is not a company on the Texas Comptroller's list concerning "foreign terrorist organizations" prepared and maintained thereby under applicable Texas law, all as more fully provided in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD - COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE".

For purposes of contracting for the sale of the Notes, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Notes. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

Upon notification of conditional verbal acceptance, the undersigned will, if required by applicable Texas law as described in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD – DISCLOSURE OF INTERESTED PARTY FORM", complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed, and sent by email to the City's financial advisor at mmcliney@samcocapital.com and Bond Counsel at stephanie.leibe@nortonrosefulbright.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the City from providing final written award of the enclosed bid.

Bidder: \_\_\_\_\_

By: \_\_\_\_\_

Authorized Representative

\_\_\_\_\_  
Telephone Number

\_\_\_\_\_  
E-mail Address

#### ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Port Aransas, Texas, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 18<sup>th</sup> day of March 2021.

\_\_\_\_\_  
Mayor,  
City of Port Aransas, Texas

ATTEST:

\_\_\_\_\_  
City Secretary,  
City of Port Aransas

**\$1,860,000\***  
**CITY OF PORT ARANSAS, TEXAS**  
**TAX NOTES, SERIES 2021**

**ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ (the "Purchaser"), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the "Obligations") of the City of Port Aransas, Texas (the "Issuer").

**1. Reasonably Expected Initial Offering Price.**

(a) As of the Sale Date, the reasonably expected initial offering prices of the Obligations to the Public by the Purchaser are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Obligations used by the Purchaser in formulating its bid to purchase the Obligations. Attached as Schedule B is a true and correct copy of the bid provided by the Purchaser to purchase the Obligations.

(b) The Purchaser was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by the Purchaser constituted a firm offer to purchase the Obligations.

**2. Defined Terms.**

(a) *Maturity* means Obligations with the same credit and payment terms. Obligations with different maturity dates, or Obligations with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Obligations. The Sale Date of the Obligations is March 18, 2021.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Obligations to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Obligations to the Public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Obligations to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Purchaser's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate with respect to the Obligations and with respect to compliance with the federal income tax rules affecting the Obligations, and by Norton Rose Fulbright US LLP in connection with rendering its opinion that the interest on the Obligations is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Obligations.

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Dated: April 14, 2021

\* \_\_\_\_\_  
Preliminary, subject to change.

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**SCHEDULE A**  
**EXPECTED OFFERING PRICES**

(this page intentionally left blank)



**SCHEDULE B**  
**COPY OF UNDERWRITER'S BID**

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This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

NEW ISSUE BOOK-ENTRY-ONLY

Rating: S&P "Applied for"  
(See "OTHER PERTINENT INFORMATION – Ratings" herein)

**PRELIMINARY OFFICIAL STATEMENT**  
**Dated: March 9, 2021**

*In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer (defined below) after the date of initial delivery of the Notes (defined below) with certain covenants contained in the Ordinance (defined below) and subject to the matters described under "TAX MATTERS" herein, interest on the Notes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code, as amended to the date of initial delivery of the Notes and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" herein.)*

**\$1,860,000\***

**CITY OF PORT ARANSAS, TEXAS**  
**(A political subdivision of the State of Texas located in Nueces County, Texas)**  
**TAX NOTES, SERIES 2021**

**Dated Date: March 15, 2021**

**Due: February 1, as shown on page 2**

The \$1,860,000\* City of Port Aransas, Texas Tax Notes, Series 2021 (the "Notes" or "Obligations") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1431, Texas Government Code, as amended, and an ordinance (the "Ordinance") to be adopted by the City Council of the City of Port Aransas, Texas (the "City" or "Issuer") on March 18, 2021. (See "THE NOTES - Authority for Issuance" herein.)

The Notes constitute direct and general obligations of the Issuer payable from levy and collection of a direct ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Ordinance. (See "THE NOTES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)

Interest on the Notes will accrue from March 15, 2021 (the "Dated Date") as shown above and will be payable on February 1 and August 1 of each year, commencing February 1, 2022, until stated maturity, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Notes 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 Notes will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Notes ("Beneficial Owners") will not receive physical delivery of Notes representing their interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, the principal of and interest on the Notes will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent Registrar to the securities depository, 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 Notes. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Notes will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (i) purchasing vehicles, fire trucks, ambulances, materials, supplies, equipment, machinery, and other personal property for the public safety departments and public works department; and (ii) the payment of professional services therewith including legal, fiscal, engineering and the costs of issuing the Notes. (See "THE NOTES – Use of Note proceeds" herein.)

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SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,  
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE NOTES

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*The Notes are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Notes. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" as "APPENDIX C – Form of Legal Opinion of Bond Counsel" herein). It is expected that the Notes will be available for initial delivery through DTC on or about April 14, 2021.*

**BIDS DUE THURSDAY, MARCH 18, 2021 BY 12:00 P.M. (NOON) CENTRAL TIME**

\*Preliminary, subject to change.

**\$1,860,000\***  
**CITY OF PORT ARANSAS**  
**TAX NOTES, SERIES 2021**

**STATED MATURITY SCHEDULE\***

**CUSIP No. Prefix 733454<sup>(1)</sup>**

<b>Stated Maturity</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP No. Suffix <sup>(1)</sup></b>
2022	\$ 250,000			
2023	260,000			
2024	260,000			
2025	265,000			
2026	270,000			
2027	275,000			
2028	280,000			

(Interest to accrue from the Dated Date)

The Notes are not subject to redemption prior to stated maturity. (see "THE NOTES – No Redemption Provisions" herein)

\* Preliminary, subject to change.

<sup>(1)</sup> CUSIP numbers are included solely for the convenience of the owner of the Notes. CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, or the Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**CITY OF PORT ARANSAS, TEXAS**

710 W Avenue A  
 Port Aransas, Texas 78737  
 Telephone: (361) 749-4111

**ELECTED OFFICIALS**

Name	Years Served	Term Expires (May)	Occupation
Charles R. Bujan Mayor	4	2022	Retired
Wendy Moore Mayor Pro-Tem, Place #1	5	2021	Bank Officer
Shannon Solimine Councilmember, Place #2	1	2022	U.S. Postal Carrier
Beth Owens Councilmember, Place #3	5	2021	Restaurant/Bar, Fishing Charter
Bruce Clark Councilmember, Place #4	4	2022	Retail Owner/Manager
Charles Crawford Councilmember, Place #5	3	2021	Property Management, Vice President CCMS
Joan Holt Councilmember, Place #6	4	2022	Retired

**ADMINISTRATION**

Name	Position	Years with The City
David Parsons	City Manager	15
Darla Honea	Director of Finance	12
Francisca Nixon	City Secretary	6

**CONSULTANTS AND ADVISORS**

Bond Counsel ..... Norton Rose Fulbright US LLP  
 Austin and San Antonio, Texas

Financial Advisor ..... SAMCO Capital Markets, Inc.  
 San Antonio, Texas

Auditor ..... Beyer & Company  
 Pleasanton, Texas

**For Additional Information Please Contact:**

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 City Manager  
 Ms. Darla Honea  
 Director of Finance  
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**USE OF INFORMATION IN THE OFFICIAL STATEMENT**

*For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule"), this Preliminary Official Statement constitutes an "official statement" of the Issuer with respect to the Obligations that has been "deemed final" by the Issuer as of its date except for the omission of no more than the information permitted by the Rule.*

No dealer, broker, salesman, or other person has been authorized to give any 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 as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the 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 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 or solicitation. Any information or expression of opinion herein contained is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

*The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Issuer's undertaking to provide certain information on a continuing basis.*

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

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

NEITHER THE CITY NOR ITS FINANCIAL ADVISOR MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC AND THE INSURER (IF ANY) RESPECTIVELY.

The agreements of the Issuer and others related to the Notes are contained solely in the contracts described herein. Neither this Official Statement or any other statement made in connection with the offer or sale of the Notes is to be construed as constituting an agreement with the purchasers of the Notes. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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*The cover page, subsequent pages hereof, and appendices attached hereto, are part of this Official Statement.*

## 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 Notes 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.*

<b>The Issuer</b>	The City of Port Aransas, Texas (the "Issuer" or "City"), is located on the northern end of Mustang Island, approximately 30 miles east of the City of Corpus Christi. The City is a popular tourist resort and sports fishing center located on the northern end of Mustang Island. The 2017 estimated population is 3,955. The City owns and operates the Port Aransas Harbor. The City connects to Aransas Pass via a free ferry service, and to the City of Corpus Christi, via a causeway. The City was incorporated as a general law city in November 1955. In August 1978, the City adopted the Mayor-Council-Manager form of government pursuant to the adoption of its Home Rule Charter which was last amended on April 21, 2016. (See "APPENDIX B - General Information Regarding the City of Port Aransas and Nueces County, Texas" herein.)
<b>The Notes</b>	The Notes are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1431, Texas Government Code, as amended, and an ordinance (the "Ordinance") to be adopted on March 18, 2021 by the City Council, and the City's Home Rule Charter. (see "THE NOTES – Authority for Issuance").
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar for the Notes is UMB Bank, N.A., Austin, Texas.
<b>Security for the Notes</b>	The Notes payable from the levy and collection of a direct and continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Ordinance. (See "THE NOTES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)
<b>No Redemption</b>	The Notes are not subject to redemption prior to stated maturity.
<b>Tax Matters</b>	In the opinion of Bond Counsel, the interest on the Notes will be excludable from gross income for federal tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof. (See "TAX MATTERS" for a discussion of the Opinion of Bond Counsel and "APPENDIX C - FORM OF LEGAL OPINION OF BOND COUNSEL" herein.)
<b>Use of Proceeds of the Notes</b>	Proceeds from the sale of the Notes will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements, to-wit: (i) purchasing vehicles, fire trucks, ambulances, materials, supplies, equipment, machinery, and other personal property for the public safety departments and public works department; and (ii) the payment of professional services therewith including legal, fiscal, engineering and the costs of issuing the Notes.
<b>Book-Entry-Only System</b>	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York described herein. No physical delivery of the Notes will be made to the beneficial owners of the Notes. Such Book-Entry-Only System may affect the method and timing of payments on the Notes and the manner the Notes may be transferred. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
<b>Ratings</b>	A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available as soon as possible. (See "OTHER PERTINENT INFORMATION - Ratings" herein.)
<b>Other Debt Issues</b>	The City expects to issue its "Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021" (the "Certificates") on March 17, 2021. The Certificates were publicly offered under a separate offering document. This Official Statement relates only to the sale of the Notes and not to the sale of the Certificates.
<b>Payment Record</b>	The City has never defaulted on the payment of its ad valorem tax backed indebtedness.
<b>Delivery</b>	When issued, anticipated on or about April 14, 2021.
<b>Legality</b>	Delivery of the Notes is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Bond Counsel, Austin and San Antonio, Texas.

\*Preliminary, subject to change.

**PRELIMINARY OFFICIAL STATEMENT**  
**Relating to**  
**\$1,860,000\***  
**CITY OF PORT ARANSAS, TEXAS**  
**(A political subdivision of the State of Texas located in Nueces County)**  
**TAX NOTES, SERIES 2021**

**INTRODUCTORY STATEMENT**

This Official Statement provides certain information in connection with the issuance by the City of Port Aransas, Texas (the "City" or "Issuer") of its \$1,860,000\* Tax Notes, Series 2021 (the "Notes" or "Obligations") identified on the cover page hereof.

The Issuer is a political subdivision of the State of Texas (the "State") and a municipal corporation organized and existing under the Constitution and laws of the State of Texas and its Home Rule Charter. Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Notes and certain information about the Issuer and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** Copies of such documents may be obtained upon request from the Issuer or its Financial Advisor, SAMCO Capital Markets, Inc., 1020 Northeast Loop 410, Suite 640, San Antonio, Texas 78209, via electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

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

**2021 Weather Event**

**General.** From February 14, 2021 through February 19, 2021, the continental United States experienced a severe winter storm (the "2021 Event"). As a result of the 2021 Event, areas throughout Texas experienced widespread, record breaking cold.

Beginning February 12, 2021 and continuing over the next several days, the natural gas and real-time wholesale power markets experienced extreme price volatility. With multiple natural gas pipelines restricting gas flows and significant power demand increases, next day delivery natural gas spot prices at various delivery hubs skyrocketed from an average of less than \$3.00 per million British thermal unit (mBtu) to \$1,250 per mBtu at their peak. The price per megawatt hour (MWh) of electricity exceeded \$9,000, when it had settled at only \$30 on February 10, 2021.

Due to effects of the 2021 Event and a reduction in available gas supply, approximately 185 generating units in the Electric Reliability Council of Texas ("ERCOT") grid tripped offline, and the grid lost roughly 46,000 MW of generation. In order to limit demand and protect the integrity of the grid, ERCOT implemented widespread and prolonged blackouts. As a result, approximately 4 million Texas residents were without power for significant stretches of the week.

Extended subfreezing temperatures caused water pipes to freeze and burst, and combined with the lack of power, eventually led to multiple water system failures across the State that impacted water availability generally and, in some instances, required the issuance of water boil notices. Initial reports indicated that roughly 14 million Texans were under boil water notices as of February 19, 2021.

On February 19, 2021, the President of the United States issued a Major Disaster Declaration for 77 counties in Texas, which was subsequently expanded to cover an addition 31 counties. The Texas Governor, on February 18, 2021, declared a new emergency item for the current Texas legislative session (in session until May 31, 2021) in which he requested the Legislature to mandate the winterization of Texas' power system and to ensure the necessary funding for winterization.

**Impact on the City.** Currently, the City does not anticipate that the 2021 Event will have a material financial impact on the City, including its municipal gas utility system.

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\*Preliminary, subject to change.



## INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) by the World Health Organization and is currently affecting many parts of the world, including the United States and the State of Texas (the “State”). On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President’s Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

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 which has been subsequently extended and is still in effect. In addition, certain local officials, including the City and Moore County, have also declared a local state of disaster. 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 issued a number of executive orders relating to COVID-19 preparedness and mitigation. However, on March 2, 2021, the Governor issued Executive Order GA-34, which supersedes most of the executive orders relating to COVID-19 and provides, generally, for the reopening of the State to 100%, ends the COVID-19 mask mandate, and supersedes any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 takes effect on March 10, 2021. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the City. These negative impacts may reduce or otherwise negatively affect ad valorem tax revenues which are pledged as security for the Notes. The City, however, cannot predict the effect of the continued spread of COVID-19 will have on the finances or operations and maintenance of the City.

The City collects a sales and use tax on all taxable transactions within the City’s boundaries, franchise fees based on private utility sales, and other excise taxes and fees that depend on business activity. Actions taken to slow the Pandemic are expected to continue to reduce economic activity within the City on which the City collects taxes, charges, and fees. A reduction in the collection of sales or other excise taxes, utility system revenue, and utility franchise and other fees and charges may negatively impact the City’s operating budget and overall financial condition. In addition, the Pandemic has resulted in volatility of the value of investments in pension funds. Any prolonged continuation of the Pandemic could further weaken asset values or slow or prevent their recovery, which could require increased City contributions to fund or pay retirement and other post-employment benefits in the future.

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 current financial condition or future prospects of the City.

The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic 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, and the effect could be material.

### THE NOTES

#### General Description of the Notes

The Notes will be dated March 15, 2021 (the “Dated Date”), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Notes will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Notes will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2022, until stated maturity. Principal of and interest on the Notes are payable in the manner described herein under “BOOK-ENTRY-ONLY SYSTEM”. In the event the Book-Entry-Only System is discontinued, the interest on the Notes payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by UMB Bank, N.A., Austin, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Notes will be payable at stated maturity upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Notes is a Saturday, Sunday, a legal holiday or a day when 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 will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

**Authority for Issuance**

The Notes are being issued pursuant to the Constitution and general laws of the State, particularly Chapter 1431, Texas Government Code, as amended, and an ordinance (the "Ordinance") adopted by the City Council of the City, and the City's Home Rule Charter.

**Security for Payment**

The Notes payable from the levy and collection of a direct and continuing ad valorem tax levied on all taxable property within the City, within the limits are prescribed by law, as provided in the Ordinance.

**Use of Note proceeds**

Proceeds from the sale of the Notes will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements, to-wit: (i) purchasing vehicles, fire trucks, ambulances, materials, supplies, equipment, machinery, and other personal property for the public safety departments and public works department; and (ii) the payment of professional services therewith including legal, fiscal, engineering and the costs of issuing the Notes.

**No Redemption**

The Notes are not subject to redemption prior to stated maturity.

**SOURCES AND USES OF FUNDS**

<u>Sources of Funds</u>		
Par Amount		\$ _____
Accrued Interest		_____
Net Reoffering Premium		_____
	<b>Total Sources of Funds</b>	<b>\$ _____</b>
<u>Uses of Funds</u>		
Deposit to Project Fund		\$ _____
Costs of Issuance		_____
Purchaser's Discount		_____
Deposit to Note Fund		_____
	<b>Total Uses of Funds</b>	<b>\$ _____</b>

**Payment Record**

The City has never defaulted on the payment of its ad valorem tax backed indebtedness.

**Legality**

The Notes are offered when, as and if issued, subject to the approvals of legality by the Attorney General of the State of Texas and Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, Bond Counsel. A form of the legal opinion of Bond Counsel appears in Appendix C attached hereto.

**Defeasance**

The Ordinance provides for the defeasance of the Notes when the payment of the principal of and premium, if any, on the Notes, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with the Paying Agent/Registrar or authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to insure 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 Notes, 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 Notes, 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 foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other 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. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Notes. Current State law permits defeasance with the following types of securities: (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, on the date the City authorizes the defeasance of the Notes,

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, on the date the City authorizes the defeasance of the Notes, have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any obligations hereafter authorized by law to be eligible to effect the defeasance of the Notes. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Notes. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Notes shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of Notes have been made as described above, all rights of the City to initiate proceedings to take any other action amending the terms of such Notes are extinguished.

#### **Default and Remedies**

If the City defaults in the payment of principal, interest, or redemption price on the Notes when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Notes, if there is no other available remedy at law to compel performance of the Notes or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ 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 Notes in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. 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.

Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality.

In *Wasson Interests, Ltd., v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson*") the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between government and proprietary functions is not clear, the *Wasson* opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed *Wasson* again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

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

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the 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 Notes. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). 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, 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 court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Notes are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Notes is UMB Bank, N.A., Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a bank, trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Notes, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Notes by United States mail, first-class, postage prepaid.

The Notes will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity upon presentation to the Paying Agent/Registrar; provided however, that so long as DTC's Book-Entry-Only System is used, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. If the date for the payment of the principal or interest on the Notes shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

### **Record Date**

The record date ("Record Date") for interest payable to the registered owner of a Note on any Interest Payment Date means the fifteenth (15th) day of the month next preceding such Interest Payment Date.

In the event of a non-payment of interest on an Interest 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 Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

### **Future Registration**

The Notes are initially to be issued utilizing the Book-Entry-Only System of DTC. In the event such Book-Entry-Only System should be discontinued, printed certificates will be issued to the owners of the Notes and thereafter, the Notes may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates 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. A Note may be assigned by the execution of an assignment form on the Note or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Note or Notes will be delivered by the Paying Agent/Registrar in lieu of the Notes 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 registered owner's request, risk and expense. New Notes issued in an exchange or transfer of Notes will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Notes to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Notes registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Note or Notes surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be initially utilized in regard to ownership and transferability of the Notes.)

## Limitation on Transfer or Exchange of Notes

The Paying Agent/Registrar shall not be required to transfer or exchange any Notes or any portion thereof 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.

## Replacement Notes

In the Ordinance, provision is made for the replacement of mutilated, destroyed, lost, or stolen Notes upon surrender of the mutilated Notes to the Paying Agent/Registrar, or the receipt of satisfactory evidence of destruction, loss, or theft, and the receipt by the Issuer and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

## BOOK-ENTRY-ONLY SYSTEM

*This section describes how ownership of the Notes is to be transferred and how the principal of, premium, if any, and interest on the Notes are to be paid to and credited by DTC while the Notes 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 and the Financial Advisor 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 Notes, 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 Notes), 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 (the "SEC"), 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 Notes. The Notes will be issued as fully-registered Notes 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 Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as

redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes 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 for the Notes shall be sent to DTC. If less than all of the Notes within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 Notes are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

All payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Notes 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, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment on the Notes 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 the Participants.

DTC may discontinue providing its services as depository with respect to the Notes 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, Notes are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Notes will be printed and delivered.

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

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

In reading this Official Statement it should be understood that while the Notes 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 Notes, 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.

### **INVESTMENT POLICIES**

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

#### **Legal Investment**

Under Texas law and subject to certain limitations, the Issuer is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The Issuer may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the Issuer may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the Issuer may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the Issuer is not required to liquidate the investment unless it no longer carries a required rating, in which case the Issuer is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

**Investment Policies**

Under State law, the Issuer is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for Issuer funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All Issuer 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 State law, the Issuer's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the Issuer must submit an investment report to the City Council detailing: (1) the investment position of the Issuer, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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) the investment strategy expressed in the Issuer's investment policy, and (b) the Public Funds Investment Act. No person may invest Issuer funds without express written authority from the City Council.

**Current Investments <sup>(1)</sup>**

**TABLE 1**

As of November 30, 2020 the City held investments as follows:

<u>Type of Security</u>	<u>Market Value</u>	<u>Percentage</u>
Certificates of Deposit	\$ 1,297,702	4.85%
TexPool	25,360,940	94.72%
American Bank	<u>116,779</u>	<u>0.44%</u>
	\$ 26,775,421	100.00%

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

<sup>(1)</sup> Unaudited.

**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 Nueces County Appraisal District (the "Appraisal District") is primarily responsible for appraising property within the City generally as of January 1 of each year. 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 "AD VALOREM PROPERTY TAXATION – City 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 appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

### **Local Option Freeze for the Elderly and Disabled**

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

### **Personal Property**

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

### **Freeport and Goods-In-Transit Exemptions**

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

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

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



## **Other Exempt Property**

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

## **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 "CITY'S APPLICATION OF THE PROPERTY TAX CODE" herein.

## **City and Taxpayer Remedies**

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

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

## **Levy and Collection of Taxes**

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

## **City's Rights in the Event of Tax Delinquencies**

Taxes levied by the City are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered

by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 of taxable assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

#### **CITY'S APPLICATION OF THE PROPERTY TAX CODE**

See Table 1 in APPENDIX A for a listing of the amounts of the exemptions described below.

The City grants a local option exemption to the appraised value of the residence homestead of persons 65 years of age or older of \$20,000.00.

The City has elected to grant a local option exemption to the appraised value of the residence homesteads of \$20,000.

The City has adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

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

The City does not tax nonbusiness personal property; and Nueces County Tax Assessor/Collector does collect taxes for the City.

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

The City does not tax Goods-in-Transit.

The City does tax Freeport Property.

The City does collect an additional ½ of one percent sales tax for economic development.

#### **TAX MATTERS**

##### **Tax Exemption**

The delivery of the Notes is subject to the opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that interest on the Notes for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions,

and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is reproduced as APPENDIX C.

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the Issuer made in a certificate of even date with the initial delivery of the Notes pertaining to the use, expenditure, and investment of the proceeds of the Notes and will assume continuing compliance with the provisions of the Ordinance by the Issuer subsequent to the issuance of the Notes. The Ordinance contains covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Notes and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Notes are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Notes to be includable in the gross income of the owners thereof from the date of the issuance of the Notes.

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

### **Tax Changes**

Existing law may change to reduce or eliminate the benefit to Note holders of the exclusion of interest on the Notes from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Notes. Prospective purchasers of the Notes should consult with their own tax advisors with respect to any proposed or future changes in tax law.

### **Ancillary Tax Consequences**

Prospective purchasers of the Notes should be aware that the ownership of tax-exempt obligations such as the Notes may result in collateral federal tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax Exempt Obligations" herein), property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust ("FASIT"), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

### **Tax Accounting Treatment of Discount Notes**

The initial public offering price to be paid for certain Notes may be less than the amount payable on such Notes at maturity (the "Discount Notes"). An amount equal to the difference between the initial public offering price of a Discount Note (assuming that a substantial amount of the Discount Notes of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Notes. A portion of such original issue discount, allocable to the holding period of a Discount Note by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Notes. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Note, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Note and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax Exempt Obligations" herein), life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Note by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Note in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Note was held) is includable in gross income.

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

## **Tax Accounting Treatment of Premium Notes**

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

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

## **Qualified Tax Exempt Obligations**

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for financial institutions, stating that such disallowance does not apply to interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are properly designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain current refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The City will designate the Notes as "qualified tax-exempt obligations" and will certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Notes will not be subject to the 100% disallowance of interest expense allocable to interest on the Notes under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Notes will be reduced by 20% pursuant to section 291 of the Code.

## **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 Notes. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Notes. Under these agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal market Access ("EMMA") system through an internet website accessible at [www.emma.msrb.org](http://www.emma.msrb.org) as described below under "Availability of Information".

## **Annual Reports**

Under State law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must maintain each audit report within 180 days after the close of the City's fiscal year. The City's fiscal records and audit reports are available for public inspection during the regular business hours, and the City is required to provide a copy of the City's audit reports to any bondholder or other member of the public within a reasonable time on request to City Secretary, 710 West Avenue A, Port Aransas, Texas 78373 and upon payment of charges prescribed by the Texas General Services Commission.

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general obligation type included in Table 1 of the Official Statement and in Tables 1 through 10 of APPENDIX A to this Official Statement, and in APPENDIX D. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2020. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time, and will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of March in each year following the end of its fiscal year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of such change with the MSRB through EMMA.

#### **Notice of Certain Events**

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Notes to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes, as the case may be; (7) modifications to rights of holders of the Notes, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Notes, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such 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 any such Financial Obligation of the City, any of which reflect financial difficulties. In the Ordinance, the City will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Notes nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, 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.

#### **Availability of Information**

All information and documentation filing required to be made by the City in accordance with its undertaking made for the Notes will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

#### **Limitations and Amendments**

The City has agreed to update information and to provide notices of certain specified 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 Notes 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 agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Notes may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell Notes in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Notes consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders or beneficial owners of the Notes. 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. The City may also amend or repeal the provisions of this 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 any Purchasers from lawfully purchasing or selling Notes, respectively, in the primary offering of the Notes.

## **Compliance with Prior Undertakings**

During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule. In connection with the issuance of its Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "2018 Certificates"), the City erroneously indicated that it would provide annual financial and operating data of the general type included in Tables 1-17 in the official statement therefor, where Tables 12-17 did not exist. The City's continuing disclosure covenant for the 2018 Certificates should have correctly referenced Tables 1-11, which accounts for all numbered tables provided in Appendix A to the official statement for the 2018 Certificates. The City has timely provided such information in accordance with the Rule.

## **LEGAL MATTERS**

### **Legal Opinions and No-Litigation Certificate**

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Notes, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Note is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Notes, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Notes is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Notes, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Notes. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, Austin and San Antonio, Texas has reviewed (except for numerical, statistical or technical data) the information under the captions "THE NOTES" (except under the subcaptions "Use of Note Proceeds", "Sources and Uses" "Payment Record", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Notes for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Notes and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are 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 Notes or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Notes will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Notes are contingent on the sale and initial delivery of the Notes. The legal opinion of Bond Counsel will accompany the Notes deposited with DTC or will be printed on the definitive Notes in the event of the discontinuance of the Book-Entry-Only System.

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

### **Litigation**

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

At the time of the initial delivery of the Notes, the City will provide the Purchaser with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Notes or that affects the payment and security of the Notes or in any other manner questioning the issuance, sale, or delivery of the Notes.

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

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) and Section 271.051, as amended, Texas Local Government Code, each, provide that the Notes are negotiable instruments governed by Chapter 8, as amended, 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. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, as amended, Texas Government Code, the Notes must have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See "OTHER PERTINENT INFORMATION – Rating" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Notes are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

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

## 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 hereof, 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 will prove to be accurate.

## OTHER PERTINENT INFORMATION

### Registration and Qualification of Notes for Sale

The sale of the Notes has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Notes have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Notes been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Notes 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 Notes shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Notes under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Purchaser's written request and sole expense, in registering or qualifying the Notes or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the City shall not be required to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction.

### Rating

A municipal bond rating application for the Notes has been made to S&P Global Ratings ("S&P"). The outcome of the result will be made available as soon as possible. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Notes by S&P reflects only the view of S&P at the time the rating is given, and the Issuer 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 Notes.

### Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. 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. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

### Financial Advisor

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Notes. In this capacity, the Financial Advisor has compiled certain data relating to the Notes and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and initial delivery of the Notes.

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



**Winning Bidder**

After requesting competitive bids for the Notes, the City accepted the bid of \_\_\_\_\_ (the "Purchaser" or the "Initial Purchaser") to purchase the Notes at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a [net] reoffering premium of \$ \_\_\_\_\_, less a Purchaser's discount of \$ \_\_\_\_\_, plus accrued interest on the Notes from their Dated Date to their date of initial delivery. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Notes are subsequently sold and the initial yield at which the Notes will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

**Certification of the Official Statement**

At the time of payment for and delivery of the Initial Notes, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Notes, on the date of such Official Statement, on the date of sale of said Notes and the acceptance of the best bid therefor, and on the date of the delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect, and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2019, the date of the last financial statements of the City appearing in the Official Statement.

**Information from External Sources**

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

**Concluding 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 information set forth herein has been obtained from the City's records, audited financial statements and other sources which the City considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Ordinance. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

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

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

**CITY OF PORT ARANSAS, TEXAS**

/s/ \_\_\_\_\_  
Mayor  
City of Port Aransas, Texas

ATTEST:

/s/ \_\_\_\_\_  
City Secretary  
City of Port Aransas, Texas

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**APPENDIX A**  
**FINANCIAL INFORMATION**  
**THE CITY OF PORT ARANSAS, TEXAS**

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**FINANCIAL INFORMATION OF THE ISSUER**

**ASSESSED VALUATION**

**TABLE 1**

2020 Actual Certified Market Value of Taxable Property (100% of Market Value).....	\$ 2,567,671,987
Less Exemptions:	
Optional Over-65 or Disabled Homestead.....	\$ 10,497,379
Local Option.....	74,051,878
Veterans Exemptions.....	5,468,240
Productivity Loss Value.....	27,094,581
Loss to 10% HO Cap.....	28,885,055
<b>TOTAL EXEMPTIONS</b> .....	<u>145,997,133</u>
2020 Certified Assessed Value of Taxable Property.....	\$ 2,421,674,854
Less: Freeze Taxable.....	<u>148,754,129</u>
2020 Freeze Adjusted Taxable Value.....	<u>\$ 2,272,920,725</u>

Source: Nueces County Appraisal District.

**GENERAL OBLIGATION BONDED DEBT <sup>(1)</sup>**

(as of March 1, 2021)

**General Obligation Debt Principal Outstanding**

General Obligation Bonds, Series 2007	\$ 235,000
General Obligation Bonds, Series 2012	3,030,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014	980,000
General Obligation Bonds, Series 2017	3,470,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018	5,810,000
General Obligation Refunding Bonds, Series 2019	1,245,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021	2,695,000 <sup>(2)</sup>
The Notes	<u>1,860,000 *</u>
Total Gross General Obligation Debt	<u>\$ 19,325,000</u>

**Less: Self Supporting Debt**

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (100% HOT)	\$ 5,810,000
Total Self-Supporting Debt	<u>\$ 5,810,000</u>
Total Net General Obligation Debt Outstanding	<u>\$ 13,515,000 *</u>

2020 Net Assessed Valuation	\$ 2,421,674,854
Ratio of Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	0.80% *
Ratio of Net General Obligation Debt to Certified Net Taxable Assessed Valuation	0.56% *

Population: 2000 -3,370; 2010 - 3,480; est. 2020 - 4,167\*  
Per Capita Certified Net Taxable Assessed Valuation - \$581,155.47 \*  
Per Capita Gross General Obligation Debt Principal - \$4,637.63\*

\* Preliminary, subject to change.

<sup>(1)</sup> Unaudited.

<sup>(2)</sup> Obligations are expected to close on March 17, 2021.

**CITY DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE**

**TABLE 2**

(As of September 30, 2019)

Operating Leases

The government leases equipment under noncancelable operating leases. Total costs for these leases were \$82,690 for the year ended September 30, 2019. The future minimum lease payments for these leases are as follows:

FYE (9/30)	Amount
2020	\$ 14,655
2021	12,968
2022	12,395
2023	2,066
Total	<u>\$ 42,084</u>

The City applied for and received a \$4,347,745 FEMA Community Disaster Loan. The Community Disaster Loan (CDL) Program provides operational funding to help local governments that have incurred a significant loss in revenue, due to a major disaster, that has or will adversely affect their ability to provide essential municipal services. The principal and interest less such as may be canceled pursuant to Section 417 of the Stafford Disaster Relief and Emergency Assistance Act, Public Law 93-288, as amended. The standard loan is for five years. However, it may be extended to 10 years depending on circumstances. FEMA may, at its discretion, cancel all or part of the loan.

Source: The City's Annual Financial Report for Fiscal Year Ended September 30, 2019.

**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending (9/30)	Current Total Outstanding Debt <sup>(1)</sup>	The Notes*			Total Combined Debt Service*	Less: Self Supporting Debt Service	Total Net Debt Service *
		Principal	Interest	Total			
2021	\$ 2,252,027				\$ 2,252,027	\$ 575,225	\$ 1,676,802
2022	2,377,053	\$ 250,000	\$ 39,394	\$ 289,394	2,666,448	578,150	2,088,298
2023	2,260,840	260,000	25,700	285,700	2,546,540	575,700	1,970,840
2024	2,273,087	260,000	23,100	283,100	2,556,187	577,875	1,978,312
2025	1,854,759	265,000	19,150	284,150	2,138,909	574,675	1,564,234
2026	1,861,725	270,000	13,800	283,800	2,145,525	576,100	1,569,425
2027	1,867,007	275,000	8,350	283,350	2,150,357	577,075	1,573,282
2028	1,311,660	280,000	2,800	282,800	1,594,460	577,600	1,016,860
2029	1,311,036	-	-	-	1,311,036	577,675	733,361
2030	1,176,498	-	-	-	1,176,498	577,300	599,198
2031	1,175,173	-	-	-	1,175,173	576,475	598,698
2032	1,175,028	-	-	-	1,175,028	575,200	599,828
2033	804,125	-	-	-	804,125	573,475	230,650
2034	231,300	-	-	-	231,300	-	231,300
2035	231,850	-	-	-	231,850	-	231,850
2036	232,300	-	-	-	232,300	-	232,300
<b>Total</b>	<b>\$ 22,395,465</b>	<b>\$1,860,000</b>	<b>\$ 132,294</b>	<b>\$1,992,294</b>	<b>\$24,387,760</b>	<b>\$ 7,492,525</b>	<b>\$ 16,895,235</b>

<sup>(1)</sup> Includes self-supporting debt and Certificates of Obligation, Series 2021 which are expected to close on March 17, 2021.

\* Preliminary, subject to change. Interest calculations based on an assumed rate.

**TAX ADEQUACY (Includes Self-Supporting Debt)**

2020 Certified Freeze Adjusted Net Taxable Assessed Valuation	\$ 2,421,674,854
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2263436.76)	2,666,448 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.11235 *

\* Preliminary, subject to change. Includes the Notes.

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

**TAX ADEQUACY (Excludes Self-Supporting Debt)**

2020 Certified Freeze Adjusted Net Taxable Assessed Valuation	\$ 2,421,674,854
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2263436.76)	2,088,298 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.08799 *

\* Preliminary, subject to change. Includes the Notes.

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

**INTEREST AND SINKING FUND MANAGEMENT INDEX**

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2020	\$ 27,684
2020 Anticipated Interest and Sinking Fund Tax Levy at 99% Collections Produce <sup>(1)</sup>	1,328,935
Transfer from HOT Taxes	575,225
Other Available Funds	442,207
Total Available for General Obligation Debt	<u>\$ 2,374,051</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/21	<u>2,252,027</u>
Estimated Surplus at Fiscal Year Ending 9/30/2021 <sup>(1)</sup>	<u>\$ 122,024</u>

<sup>(1)</sup> Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment earnings.

**GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**

(As of March 1, 2021)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year*	Percent of Principal Retired (%)*
	Currently Outstanding <sup>(a)</sup>	The Certificates*	Total*		
2021	\$ -	\$ -	\$ -	\$ 19,325,000	0.00%
2022	1,880,000	250,000	2,130,000	17,195,000	11.02%
2023	1,850,000	260,000	2,110,000	15,085,000	21.94%
2024	1,915,000	260,000	2,175,000	12,910,000	33.20%
2025	1,545,000	265,000	1,810,000	11,100,000	42.56%
2026	1,595,000	270,000	1,865,000	9,235,000	52.21%
2027	1,645,000	275,000	1,920,000	7,315,000	62.15%
2028	1,130,000	280,000	1,410,000	5,905,000	69.44%
2029	1,165,000	-	1,165,000	4,740,000	75.47%
2030	1,065,000	-	1,065,000	3,675,000	80.98%
2031	1,095,000	-	1,095,000	2,580,000	86.65%
2032	1,125,000	-	1,125,000	1,455,000	92.47%
2033	780,000	-	780,000	675,000	96.51%
2034	220,000	-	220,000	455,000	97.65%
2035	225,000	-	225,000	230,000	98.81%
2036	230,000	-	230,000	-	100.00%
Total	<u>\$ 17,465,000</u>	<u>\$ 1,860,000</u>	<u>\$ 19,325,000</u>		

<sup>(a)</sup> Includes self-supporting debt and Certificates of Obligation, Series 2021 which are expected to close on March 17, 2021.

\* Preliminary, subject to change.

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2011-2020**

**TABLE 3**

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2011-12	\$ 1,289,764,252	---	---
2012-13	1,294,255,565	4,491,313	0.35%
2013-14	1,493,492,566	199,237,001	15.39%
2014-15	1,997,737,022	504,244,456	33.76%
2015-16	2,240,932,860	243,195,838	12.17%
2016-17	2,421,674,854	180,741,994	8.07%
2017-18	2,288,255,622	(133,419,232)	-5.51%
2018-19	1,997,737,022	(290,518,600)	-12.70%
2019-20	2,240,932,860	243,195,838	12.17%
2020-21	2,421,674,854	180,741,994	8.07%

Source: Nueces County Appraisal District.

**CLASSIFICATION OF ASSESSED VALUATION**

**TABLE 4**

	<b>2020</b>	<b>% of Total</b>	<b>2019</b>	<b>% of Total</b>	<b>2018</b>	<b>% of Total</b>
Real, Residential, Single-Family	\$ 1,961,484,818	76.39%	\$ 1,838,843,161	76.76%	\$ 1,649,611,425	77.55%
Real, Residential, Multi-Family	22,970,923	0.89%	23,498,862	0.98%	20,194,640	0.95%
Real, Vacant Lots/Tracts	169,825,750	6.61%	169,011,806	7.05%	160,228,593	7.53%
Qualified Agricultural Land	27,194,837	1.06%	27,165,543	1.13%	19,627,257	0.92%
Non-Qualified Agricultural Land	10,610,198	0.41%	15,027,966	0.63%	15,493,606	0.73%
Real, Commercial	232,124,913	9.04%	206,666,553	8.63%	156,385,106	7.35%
Real, Industrial	10,534,211	0.41%	10,534,211	0.44%	10,509,867	0.49%
Real & Tangible, Personal Utilities	17,480,786	0.68%	18,755,289	0.78%	18,518,835	0.87%
Tangible Personal, Commercial	67,128,060	2.61%	44,929,767	1.88%	34,421,563	1.62%
Tangible Personal, Industrial	1,816,039	0.07%	1,694,910	0.07%	1,576,719	0.07%
Tangible Personal, Mobile Homes	1,319,648	0.05%	1,361,834	0.06%	309,797	0.01%
Real Property, Inventory	45,148,442	1.76%	38,096,352	1.59%	40,318,156	1.90%
Special Inventory	33,362	0.00%	72,972	0.00%	7,175	0.00%
<b>Total Appraised Value</b>	<b>\$ 2,567,671,987</b>	<b>100.00%</b>	<b>\$2,395,659,226</b>	<b>100.00%</b>	<b>\$2,127,202,739</b>	<b>100.00%</b>
<b>Less:</b>						
Optional Over-65 or Disabled Homestead	\$ 10,497,379		\$ 10,345,072		\$ 10,803,266	
Local Option	74,051,878		73,383,343		71,364,950	
Veterans Exemptions	5,468,240		5,471,536		5,142,256	
Productivity Value Loss	27,094,581		27,084,975		19,546,689	
Loss to 10% HO Cap	28,885,055		38,441,440		22,608,556	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 2,421,674,854</b>		<b>\$ 2,240,932,860</b>		<b>\$ 1,997,737,022</b>	

Source: Nueces County Appraisal District

**PRINCIPAL TAXPAYERS**

**TABLE 5**

<b>Name</b>	<b>Type of Business/Property</b>	<b>2020 Net Taxable Assessed Valuation</b>	<b>% of 2020 Assessed Valuation</b>
ERF Port Aransas Inc.	Real Estate	\$ 20,213,253	0.83%
KM Beach LLC	Raw Land	20,068,105	0.83%
TCRG Opportunity X LLC	Real Estate	15,808,112	0.65%
Mustang Island Development Inc	Real Estate	14,700,579	0.61%
Innogy Renewables US LLC	Utility	14,179,752	0.59%
The Shops at Port A LP	Commercial	13,074,558	0.54%
Siemens Gamesa Renewable Energy Inc	Utility	12,598,991	0.52%
Tmine Ltd.	Commercial	11,411,497	0.47%
Electric Transmission of Texas	Utility	8,968,900	0.37%
Sunflower Beach Development LTD	Residential Development	7,950,659	0.33%
		<b>\$ 138,974,406</b>	<b>5.41%</b>

Source: Nueces County Appraisal District



**TAX RATE DISTRIBUTION****TABLE 6**

	2020	2019	2018	2017	2016
General Fund	\$ 0.221915	\$ 0.224784	\$ 0.236918	\$ 0.218613	\$ 0.213789
I&S Fund	0.055431	0.058328	0.073988	0.062293	0.058402
Total Tax Rate	\$ 0.277346	\$ 0.283112	\$ 0.310906	\$ 0.280906	\$ 0.272191

Source: Nueces Central Appraisal District

**TAX DATA****TABLE 7**

Taxes are due October 1 and become delinquent after January 31. Discounts are allowed: 3% October, 2% November, and 1% if paid in December. Current collections are those taxes collected through August 31, applicable to the current year's tax levy. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage of collections set forth below exclude penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2011	\$ 1,289,764,252	0.332000	\$ 4,282,017	96.19	102.65	9/30/2012
2012	1,294,255,565	0.350944	4,542,112	97.63	98.64	9/30/2013
2013	1,493,492,566	0.322615	4,818,231	98.42	99.24	9/30/2014
2014	1,997,737,022	0.299118	5,975,591	81.05	81.61	9/30/2015
2015	2,240,932,860	0.275666	6,177,490	97.74	98.41	9/30/2016
2016	2,421,674,854	0.272191	6,591,581	97.11	97.90	9/30/2017
2017	2,288,255,622	0.280906	6,427,847	98.28	100.50	9/30/2018
2018	1,997,737,022	0.310906	6,211,084	99.49	100.51	9/30/2019
2019	2,240,932,860	0.283112	6,344,350	99.14	99.37	9/30/2020
2020	2,421,674,854	0.277346	6,716,418	(In Process of Collection)		9/30/2021

Source: Nueces Central Appraisal District

**MUNICIPAL SALES TAX COLLECTIONS**

**TABLE 8**

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development tax. The City's total sales tax rate is 1.5%. 1% of the tax is for the General Fund, ½ percent for economic development. Net collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy <sup>(1)</sup>	Equivalent of Ad Valorem Tax Rate
2011	\$ 1,499,871	35.03%	\$ 0.1163
2012	1,654,774	36.43%	0.1279
2013	1,747,363	36.27%	0.1170
2014	1,914,414	32.04%	0.0958
2015	1,992,046	32.25%	0.0889
2016	2,031,897	30.83%	0.0839
2017	1,973,779	30.71%	0.0863
2018	2,343,788	37.74%	0.1173
2019	2,705,869	42.65%	0.1207
2020	2,687,502	40.01%	0.1110
2021	364,307	(As of March, 2021)	

Source: State Comptroller's Office of the State of Texas.

**OVERLAPPING DEBT INFORMATION**

(As of March 1, 2021)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	Gross Debt (As of 3/1/2021)	% Overlapping	Amount Overlapping
Nueces County	\$ 142,866,080	7.03%	\$ 10,043,485
Port Aransas ISD	5,662,000	84.16%	4,765,139
Total Gross Overlapping Debt			\$ 14,808,625
Port Aransas, City of			\$ 19,325,000 *
Total Gross Direct and Overlapping Debt			\$ 34,133,625 *
Ratio of Gross Direct Debt and Overlapping Debt			1.41% *
Per Capita Gross Direct Debt and Overlapping Debt			\$8,191.41 *

Note: The above figures show Gross General Obligation Debt for the City of Port Aransas, Texas. The Issuer's Net General Obligation Debt is \$13,515,000\*. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Net Direct and Overlapping Debt	\$ 28,323,625 *
Ratio of Net Direct and Overlapping Debt to 2016 Net Assessed Valuation	1.17% *
Per Capita Net Direct and Overlapping Debt	\$6,797.13 *

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas

\* Includes the Notes. Preliminary, subject to change.

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES**

**TABLE 9**

The following statements set forth in condensed form reflect the historical operations of the Issuer. Such summary has been prepared for inclusion herein based upon information obtained from the Issuer's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended				
	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Fund Balance - Beginning of Year	\$ 5,466,522	\$ 4,320,684	\$ 4,442,478	\$ 4,391,675	\$ 5,111,947
Revenues	11,914,272	10,425,593	9,712,763	9,175,825	9,363,563
Expenditures	10,383,820	9,472,175	9,842,557	8,925,022	10,325,886
Excess (Deficit) of Revenues Over Expenditures	\$ 1,530,452	\$ 953,418	\$ (129,794)	\$ 250,803	\$ (962,323)
Other Financing Sources (Uses):					
Community Disaster Loan Proceeds	\$ 4,347,745	\$ -	\$ -	\$ -	\$ -
Capital Lease	-	192,420	-	-	539,051
Operating Transfers In	2,224	-	8,000	-	8,000
Operating Transfers Out	(700,000)	-	-	(200,000)	(305,000)
Total Other Financing Sources (Uses):	\$ 3,649,969	\$ 192,420	\$ 8,000	\$ (200,000)	\$ 242,051
Fund Balance - End of Year	\$ 10,646,943	\$ 5,466,522	\$ 4,320,684	\$ 4,442,478	\$ 4,391,675

Source: The Issuer's Comprehensive Annual Financial Reports and information provided by the Issuer. The City confirms that the unaudited General Fund balance for Fiscal Year ended September 30, 2020 was \$11,247,745. This amount includes Community Disaster Loan Proceeds (FEMA) which have not been spent to this point. See "Table 2 - CITY DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE" herein.

**ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS**

Governmental Subdivision	2020 Assessed Valuation	% of Actual	2020 Tax Rate
Nueces County	\$ 33,552,170,612	100%	\$ 0.308000
Nueces County Hospital District	33,694,860,135	100%	\$ 0.112000
Nueces County WC&ID #4	1,631,850,947	100%	\$ 0.088000
Port Aransas ISD	2,603,983,045	100%	\$ 0.995000
Port of Corpus Christi Authority	13,770,870,220	100%	\$ 0.002000

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIVISIONS**

Issuer	Date of Authorization	Purpose	Amount Authorized	Amount Issued to Date	Amount Unissued
Nueces County	None				
Nueces County Hospital District	None				
Nueces County WC&ID #4	None				
Port Aransas ISD	11/3/2020	School Building	\$ 4,224,000	\$ -	\$ 4,224,000
	11/3/2020	Athletic Imp.	241,000	-	241,000
	11/3/2020	Housing Facility	360,000	-	360,000
	11/3/2020	Technology	175,000	-	175,000
	5/6/2017	School Building	6,000,000	5,640,000	360,000
		Total	\$ 11,000,000	\$ 5,640,000	\$ 5,360,000
City of Port Aransas	None				
Port of Corpus Christi Authority	None				

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

**EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS**

**TABLE 10**

Information regarding the City's Pension Plan can be found within the audit under "Note F: Defined Benefit Pension Plans".

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**APPENDIX B**

**GENERAL INFORMATION REGARDING THE CITY OF PORT ARANSAS, TEXAS AND  
NUECES COUNTY, TEXAS**

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## General Information Regarding the City of Port Aransas and Nueces County, Texas

### General

The City of Aransas Pass, Texas (the "City" or "Issuer") was incorporated as a general law city in November 1955. In August 1978, the City adopted the Mayor-Council-Manager form of government through the adoption of its Home Rule Charter. The principal services accounted for as general governmental functions include public safety, streets, sanitation, park and recreation, planning, zoning and general administrative services. The City is a popular tourist resort and sports fishing center located on the northern end of Mustang Island, about thirty minutes from the City of Corpus Christi and three hours south of the City of San Antonio.

### Education

The Port Aransas Independent School District (the "District") is a political subdivision located primarily in the City of Port Aransas, Texas on Mustang Island. The District is comprised of Mustang and Harbor Island and the northern tip of Padre Island which lies off the coast of Corpus Christi. The City offers a variety of options for higher education. Campuses in the area include The University of Texas Marine Science Institute, Corpus Christi Junior College (Del Mar College) and Texas A&M Corpus Christi.

### Bird Watching

One of the Country's top bird watching sites is in Port Aransas and the surrounding area. The Port Aransas Birding Center, with a variety of botanical planting is a hub on the Great Texas Birding Trail, and home to hundreds of permanent and visiting birds.

Of the nearly 800 species of birds in North America, almost 500 are here in the Coastal Bend. Spring birds over 200 species a day. Summer hosts 100 nesting species. Falls invites spectacular raptor flights and a tremendous number of hummingbirds. Winter lures the are whooping cranes to nearby areas and over 100 other species a day.

### Nueces County

Nueces County (the "County") has an area of 847 square miles. The County was created and organized in 1846 from San Patricio County. The economy is diversified by petroleum, agriculture, tourism, coastal shipping, manufacturing and a military complex. Principal sources of agricultural income include beef, swine, sheep, horses, wheat, grain and corn.

Minerals produced in Nueces County include oil, gas, cement, lime, sand and gravel. The Corpus Christi Ship Channel (the "Channel") handled 82 million tons of cargo in 2010. In 2010 crude oil and gasoline were the leading inbound and outbound commodities. This made it the largest port in the State of Texas and the fifth largest port in the nation.

### Labor Force Statistics <sup>(1)</sup>

	<u>2020</u> <sup>(2)</sup>	<u>2019</u> <sup>(3)</sup>	<u>2018</u> <sup>(3)</sup>	<u>2017</u> <sup>(3)</sup>
Civilian Labor Force	163,950	167,411	167,850	167,983
Total Employed	147,965	160,536	160,082	158,897
Total Unemployed	15,985	6,875	7,768	9,086
% Unemployment	9.7%	4.1%	4.6%	5.4%
Texas Unemployment	8.0%	3.5%	3.8%	4.3%

(1) Source: Texas Workforce Commission.

(2) As of November 2020.

(3) Average Annual Statistics.

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**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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San Antonio, Texas 78205-3792  
United States

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Fax +1 210 270 7205  
nortonrosefulbright.com

**DRAFT**

IN REGARD to the authorization and issuance of the “City of Port Aransas, Texas Tax Notes, Series 2021” (the *Obligations*), dated March 15, 2021 in the aggregate principal amount of \$\_\_\_\_\_, we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Port Aransas, Texas (the *Issuer*). The *Obligations* are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The *Obligations* have Stated Maturities of February 1 in each of the years 2022 through 2028. The *Obligations* are not subject to redemption prior to Stated Maturity. Interest on the *Obligations* accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the *Obligations*. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the *Obligations* under the laws of the State of Texas and with respect to the exclusion of the interest on the *Obligations* from the gross income of the owners thereof for federal income tax purposes and for no other purpose. 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 Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the *Obligations*. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the *Obligations*. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the *Obligations* has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the Issuer in connection with the issuance of the *Obligations*, including the Ordinance; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the *Obligations* and certain other funds of the Issuer and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the *Obligation* executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the *Obligations* have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at [nortonrosefulbright.com](http://nortonrosefulbright.com).

**Legal Opinion of Norton Rose Fulbright US LLP in connection with the authorization and issuance of CITY OF PORT ARANSAS, TEXAS TAX NOTES, SERIES 2021**

Obligations are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Obligations are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the Issuer.

IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Ordinance and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Obligations, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Obligations will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Obligations will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Obligations. Ownership of tax-exempt obligations such as the Obligations may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

**APPENDIX D**

**FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements – not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.)

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**BEYER & Co.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

Wayne R. Beyer, C.P.A.

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111 North Odem  
Sinton, Texas 78387

***Please reply to Pleasanton address***

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council  
City of Port Aransas, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Aransas, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Port Aransas, Texas' 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.

***Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 entity'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 entity'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 business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Aransas, Texas, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Beach Cleaning Fund, and the Hotel-Motel/Facility Fund 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, the Employees Retirement System Information, and the OPEB information on pages 3–12, 84-85, and 86 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.

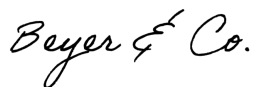
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The City of Port Aransas, Texas' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the budgetary comparison information, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements, the budgetary comparison information, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2020, on our consideration of the City of Port Aransas, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Port Aransas, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Port Aransas, Texas' internal control over financial reporting and compliance.



BEYER & COMPANY  
Certified Public Accountants  
November 18, 2020



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Port Aransas' (the City) annual financial report presents an overview, through management's discussion and analysis (MD&A), of the City's financial activities and performance during the fiscal year ended September 30, 2019. Please read it in conjunction with the independent auditors' report and the City's financial statements and disclosures, which follow this section.

### FINANCIAL HIGHLIGHTS

- The assets of the City of Port Aransas exceeded its liabilities at the close of the most recent fiscal year by \$43,067,680 (net position). Of this amount, \$10,502,699 (unrestricted net position) may be used to meet the government's ongoing obligation to citizens and creditors.
- Total net position for the City of Port Aransas increased by \$10,664,611 during the fiscal year.
- As of the close of the current fiscal year, the City of Port Aransas governmental funds reported combined ending fund balances of \$21,591,413. Approximately 51% of this amount, \$10,905,938 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was 6,229,844 or 57% of General Fund expenditures.
- The City of Port Aransas' total bonded debt had a decrease of \$1,510,000 during the current fiscal year due to principal payments made. Debt was increased due to the issuance of a \$4,347,745 for a FEMA Community Disaster Loan.

### Overview of the Financial Statements

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

**Government-wide financial statements.** The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements are designed to provide readers with a broad overview of the City of Port Aransas finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, including capital assets and long-term obligations. The difference between the two is 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 indicators of the City's financial position should also be taken into consideration, such as the change in the City's property tax base and condition of the City's infrastructure (i.e. roads and drainage systems), in order to more accurately assess the overall financial condition of the City.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this

statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Port Aransas include general administration, legal, financial administration, public facilities, public safety, public transportation, culture and recreation, and interest and fiscal charges. The business-type activities include gas, sanitation, and harbor.

**Fund financial statements.** The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Port Aransas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance, related legal requirements.

- Some funds are required by State law and by covenants of bonds/certificates of obligation.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes, fees and grants.

**Governmental funds** – Except for the operations of the Harbor, Gas, and Sanitation funds, the City’s services are included in governmental funds. These funds focus on how cash and other financial assets can readily be converted to available resources and on the available balances left at year-end. This information may be useful in determining what financial resources are available in the near future to finance the City’s programs. Other funds are referred to as non-major funds and are presented as summary data.

Because the focus of governmental fund level statements 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. In addition to the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level statements.

Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Beach Cleaning Fund, Hotel Motel/Facility Fund, Hurricane Recovery Fund, and the Construction Fund all of which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**Proprietary funds** – The City accounts for the harbor, gas and sanitation operations in the Proprietary Funds.

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

## Government-wide Financial Analysis

The following table reflects a summary of Net Position compared to prior year:

**TABLE A-1**  
**SUMMARY STATEMENT OF NET POSITION**  
**SEPTEMBER 30,**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and Other Assets	\$23,900,196	\$18,623,404	\$1,637,985	\$1,494,165	\$25,538,181	\$20,117,569
Restricted Assets:	65,799	65,756	0	0	65,799	65,756
Capital Assets:	34,454,178	30,553,580	11,283,929	6,445,061	45,738,107	36,998,641
Total Deferred Outflows of Resources	1,654,485	755,322	153,555	72,610		0
Total Assets	60,074,658	49,998,062	13,075,469	8,011,836	71,342,087	57,181,966
Long-Term Liabilities	26,966,691	23,513,931	387,942	283,009	27,354,633	23,796,940
Other Liabilities (Payable from Restricted Assets)	0	0	170,731	160,486	170,731	160,486
Other Liabilities	2,082,787	1,208,998	162,916	164,470	2,245,703	1,373,468
Total Liabilities	29,049,478	24,722,929	721,589	607,965	29,771,067	25,330,894
Total Deferred Inflows of Resources Invested in Capital Assets,	37,787	558,516	3,593	53,690		
Net of Related Debt	16,352,097	16,468,245	11,283,929	6,445,061	27,636,026	22,913,306
Restricted	4,928,955	4,859,003	0	0	4,928,955	4,859,003
Unrestricted	9,436,341	3,389,369	1,066,358	905,120	10,502,699	4,294,489
Total Net Assets	\$30,717,393	\$24,716,617	\$12,350,287	\$7,350,181	\$43,067,680	\$32,066,798

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Port Aransas, assets exceeded liabilities by \$30,717,393 at the close of the most recent fiscal year for governmental activities and \$12,350,287 for business-type activities.

A large portion of the City's net assets (53.2 percent in governmental activities and 91.4 percent in business type activities) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related 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 capital assets themselves cannot be used to liquidate these liabilities.

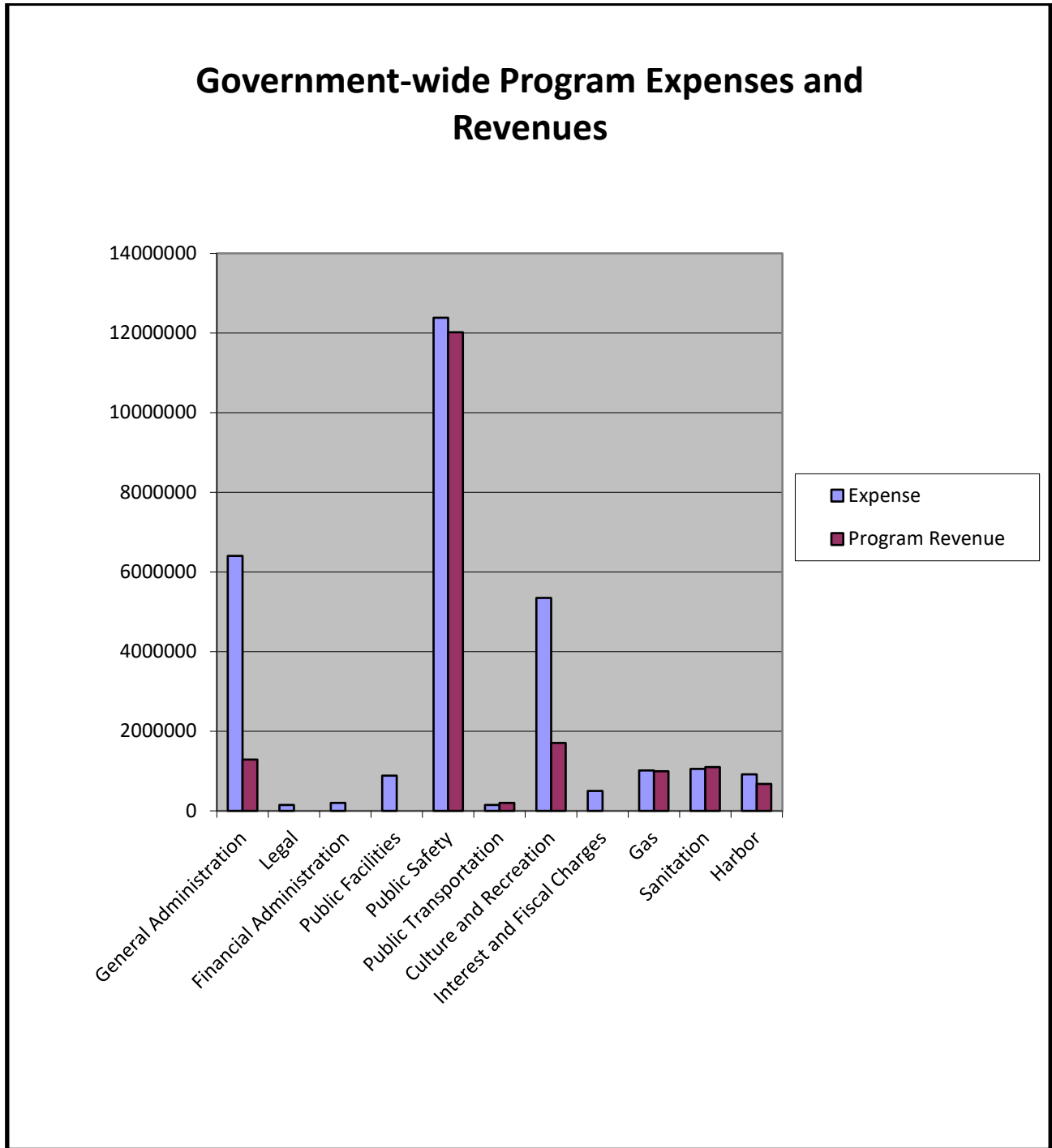
At the end of the current fiscal year, the City of Port Aransas is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

**Changes in Net Position.** Governmental activities increased the City’s net assets by \$5,664,505 and Business-type activities increased the City’s net assets by \$5,000,106 for an increase of \$10,664,611.

**TABLE A-2  
CHANGES IN NET POSITION**

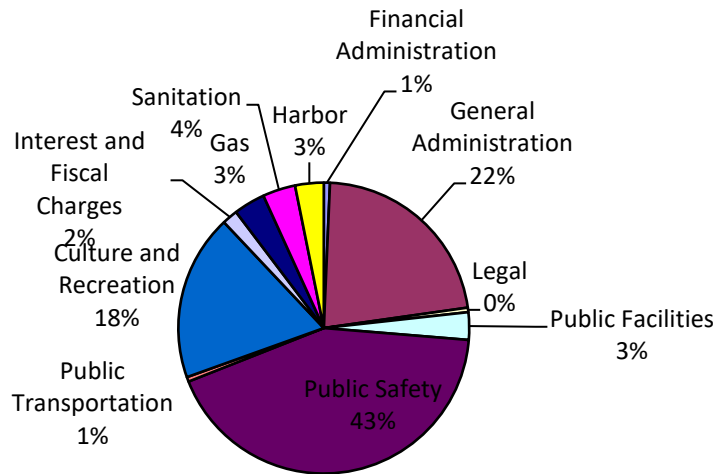
	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues:						
Charges for Services	\$2,248,188	\$1,673,777	\$2,770,781	\$2,055,449	\$5,018,969	\$3,729,226
Operating Grants and Contributions	654,106	2,678,221	81	100	654,187	2,678,321
Capital Grants and Contributions	12,312,289	210,288	0	0	12,312,289	210,288
General Revenues:						
Property Taxes, Levies for General Purposes	6,085,486	6,365,345			6,085,486	6,365,345
Sales Taxes	2,888,696	2,049,104			2,888,696	2,049,104
Franchise Taxes	483,197	396,933			483,197	396,933
Hotel/Motel Taxes	6,130,983	4,159,085			6,130,983	4,159,085
Licenses and Permits	2,618,423	2,279,518			2,618,423	2,279,518
Unrestricted Investment Earnings	443,036	349,399	35,788	25,112	478,824	374,511
Insurance Recover - Hurricane Harvey	2,757,682	6,640,551			2,757,682	
Grants and Contributions not Restricted to Specific Programs	165,169	135,554	0	0	165,169	135,554
Miscellaneous	69,717	563,160	0	100,120	69,717	663,280
Total Revenue	36,856,972	27,500,935	2,806,650	2,180,781	39,663,622	23,041,165
Expenses:						
General Administration	6,400,740	5,369,334			6,400,740	5,369,334
Legal	145,356	245,553			145,356	245,553
Financial Administration	197,746	250,735			197,746	250,735
Public Facilities	884,596	3,814,331			884,596	3,814,331
Public Safety	12,382,506	13,493,350			12,382,506	13,493,350
Public Transportation	149,166	170,802			149,166	170,802
Culture and Recreation	5,348,467	4,789,574			5,348,467	4,789,574
Interest and Fiscal Charges	501,642	671,538			501,642	671,538
Gas			1,013,800	858,699	1,013,800	858,699
Sanitation			1,055,414	1,129,387	1,055,414	1,129,387
Harbor			919,578	838,213	919,578	838,213
Total Expenses	26,010,219	28,805,217	2,988,792	2,826,299	28,999,011	31,631,516
Increase in Net Assets Before Transfers and Special Items	10,846,753	(1,304,282)	(182,142)	(645,518)	10,664,611	(8,590,351)
Transfers	(5,182,248)	(2,031,642)	5,182,248	2,031,642	0	0
Increase in Net Assets	5,664,505	(3,335,924)	5,000,106	1,386,124	10,664,611	(1,949,800)
Net Assets at 09/30/2018	25,052,888	28,052,541	7,350,181	5,964,057	32,403,069	34,016,598
Net Assets at 09/30/2019	\$30,717,393	\$24,716,617	\$12,350,287	\$7,350,181	\$43,067,680	\$32,066,798

The chart below illustrates the City’s expense and revenues by function: general administration, legal, financial administration, public facilities, public safety, public transportation, culture and recreation, interest and fiscal charges, gas, and harbor.

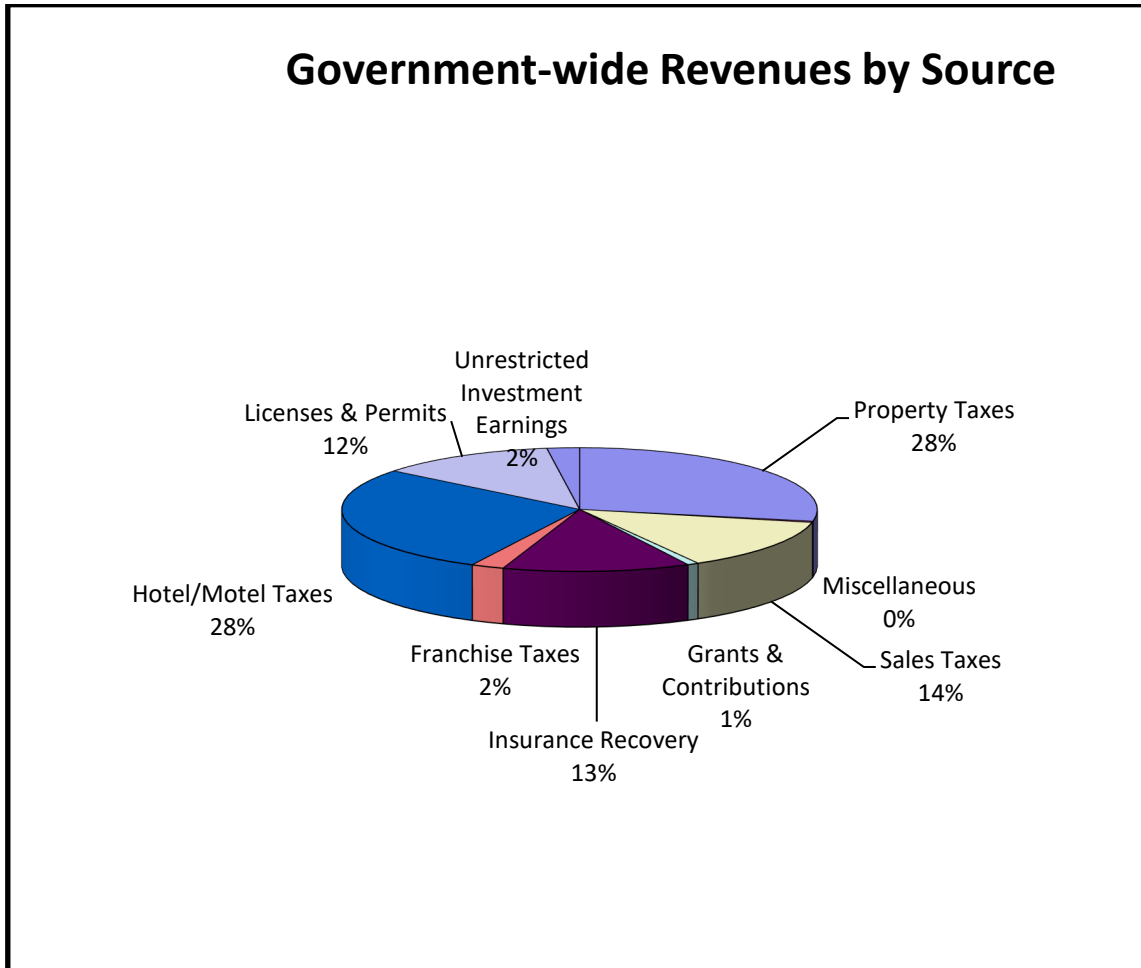


Expenses are broken down by governmental function and are presented below.

## Functional Expenses



General revenues such as property taxes, sales taxes and franchise fees are not shown by program, but are used to support all governmental activities. Insurance Recovery funds and Property Taxes are the largest source of general governmental revenues, followed by hotel/motel tax and sales tax.



### Financial Analysis of the Government’s Funds

In comparison to the government-wide statements, the fund level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the City of Port Aransas’ 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, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Port Aransas’ governmental funds reported combined ending fund balances of \$21,591,413, an increase of \$4,469,869 in comparison with the prior year. Approximately 50.5%, or \$10,905,938, constitutes unassigned fund balance, which is available for spending at the government’s discretion. The remainder of the fund balance is restricted or committed and is not available for new spending because it has already been committed/restricted to pay for construction (\$1,285,585), debt service (\$158,377), reserved for culture & recreation (\$1,905,245), inventories (\$15,249), community disaster

loan proceeds (\$4,347,745), public safety (\$80,133), Economic Development (\$2,545,613), and public transportation (\$343,973) and prepaid items (\$3,555).

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 \$6,229,844, while total fund balance reached \$10,646,943. 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 60% of total general fund expenditures, while total fund balance represents 100.2% of that same amount.

The fund balance of the City General Fund increased by \$5,180,421 during the current fiscal year. The key factor for this increase is the increase on sales tax and the issuance of the Community Disaster Loan.

### **Budgetary Highlights**

The City's budget was amended one time. The Construction Fund and Gas Fund had a net change of \$0 (amounts were either shifted between departments or had excess revenue to cover expenses). The General Fund had a net change of \$316,300. This change was due to several revenue categories performing better than anticipated for a total of \$1,060,900. The revenue increase was offset by an increase to expenditures totaling \$316,300. The two largest increase line items were due to the additional dollars needed for contracted building inspectors of \$535,000 and an increase to the transfer for street maintenance of 300,000. There were also multiple departments that had savings in expenditures mainly due to personal savings. The Court Security Fund had added expenditures of \$2,900 for a security door to be placed in the temporary court clerk office. The Nature Preserve Fund had an increase to Number 6 Trailhead Grant Expenditures for Grant Revenues received in prior year and expended this year. The Hotel Motel Fund had a net change of \$599,600 due to an increase in revenues of \$1,288,000 with added transfers to the Hotel Motel Special Fund, and Facility Fund and additional Chamber of Commerce support of \$599,600. The Hotel Motel Special Fund and Facility Fund both had increases for the same proportionate amount of allocation from the Hotel Motel Fund due to increased tax revenues. The Facility Fund also had an increase to insurance premiums for the year. The Airport Fund had increased expenses due to an increase in insurance premiums. The Harbor Fund had a net change of (\$58,000) due to decrease in revenues of \$150,000 due to a decrease in slip rentals as slips weren't available during construction and a corresponding decrease in expenditures for salaries and capital projects not needed. The Street Maintenance fund had an increase in revenues due to the transfer from the General Fund and a transfer to the Construction Fund was made to complete the 2017 bond project. The Sanitation Fund had an increase in revenues for residential billing and an increase in expenses for residential pickup.

Budget variances are "Favorable" if actual revenues exceed budgeted amounts and if actual expenditures are under budgeted amounts. Variances are "Unfavorable" if actual revenues are under budgeted amounts and if actual expenditures are over budgeted amounts. Favorable variances are indicated by showing amounts without brackets and unfavorable variances are indicated by bracketed amounts.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for all activities as of September 30, 2019 amount to \$45,468,107 (net of accumulated depreciation). This investment in capital assets includes both governmental activities and business type activities such as land, construction in progress, buildings, equipment, fleet, streets, and other infrastructure. Additional information on capital assets can be found in Note IV C. Capital asset balances are as follows:



**Capital Assets, Net of Accumulated Depreciation  
30-Sep**

	<b>Total Activities 2019</b>	<b>Total Activities 2018</b>
<i>Governmental Activities:</i>		
Land	\$6,779,238	\$5,669,307
Construction in Progress	6,585,427	2,999,160
Infrastructure	14,364,194	15,695,178
Buildings	1,620,040	1,156,534
Machinery & Equipment	2,799,353	2,096,080
Vehicles	2,035,926	2,937,321
Total Governmental Activities	<u>34,184,178</u>	<u>30,553,580</u>
<i>Business-type Activities:</i>		
Construction in Progress	784,886	2,031,642
Infrastructure	9,547,435	3,731,341
Buildings	221,101	222,590
Machinery & Equipment	705,033	443,608
Vehicles	25,474	15,880
Total Business-type Activities	<u>11,283,929</u>	<u>6,445,061</u>
Total net assets	<u>\$45,468,107</u>	<u>\$36,998,641</u>

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt and capital leases outstanding of \$20,677,614. The table below reflects the outstanding debt at September 30. Additional information can be found in Note F.

**Outstanding Debt  
30-Sep**

	<b>Total Governmental Activities 2019</b>	<b>Total Governmental Activities 2018</b>
General Obligation Bonds	\$17,960,000	\$19,440,000
Bond Premium - Series 2009 & 2012	485,160	530,454
Capital Leases	227,239	707,160
Total Bonds Payable	<u>\$18,672,399</u>	<u>\$20,677,614</u>

The City's total bonded debt and capital leases decreased by \$2,005,215 during the current fiscal year. The key factor in this decrease was the pay-off of a capital lease for a Fire ladder truck that was damaged during Hurricane Harvey.

**Economic Factors and Next Year's Budgets and Rates**

All of these factors were considered in preparing the City's budget for the 2019-2020 fiscal year. At the end of the fiscal year, the economic impact of the Hurricane is still not completely known. The City will rely on insurance proceeds and Grant assistance to assist in the recovery efforts. The State is assisting the City with

the required FEMA 10% match. The State has committed to paying 75% of that 10% match which will greatly assist the City on the road to recovery.

The tax rate for the year has increased to 28.3112 cents per hundred. The tax rate has been split with .224784 for maintenance and operations and .058328 for interest and sinking for the retirement of the bonds. Even though this a decrease to the tax rate, it was actually a flat tax levy as this rate is equal to the effective rate (the tax rate that would produce the same amount of tax revenue as prior year plus new construction demands).

Overall, the General Fund is budgeted to end the fiscal year 2019-2020 with an estimated fund balance of \$6,252,950. This is approximately 61% of General Fund operating expenditures.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 710 W. Avenue A., Port Aransas, TX 78373 or call 361-749-4111. Information is also available on the City's website at [www.cityofportaransas.org](http://www.cityofportaransas.org).

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF PORT ARANSAS, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	22,251,107	1,535,209	23,786,316
Receivables (Net of Allowance for Uncollectibles)	1,630,285	101,771	1,732,056
Inventories	15,249		15,249
Prepaid Items	3,555	1,005	4,560
Restricted Assets:			
Cash and Cash Equivalents	65,799		65,799
Capital Assets Not Being Depreciated:			
Land	6,779,238		6,779,238
Construction in Progress	6,585,427	784,886	7,370,313
Total Capital Assets Being Depreciated, Net			
Infrastructure	14,364,194	9,547,435	23,911,629
Buildings	1,620,040	221,101	1,841,141
Machinery and Equipment	2,799,353	705,033	3,504,386
Vehicles	2,035,926	25,474	2,061,400
Total Assets	58,150,173	12,921,914	71,072,087
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>GASB 68</b>			
Deferred Outflow of Resources-Contributions (after 12/31/18)	719,608	68,021	787,629
Difference in projected and actual earnings	904,877	85,534	990,411
Loss on Bond Refunding	30,000	0	30,000
Total Deferred Outflows of Resources	1,654,485	153,555	1,808,040
<b>LIABILITIES:</b>			
Accounts Payable	1,887,474	157,335	2,044,809
Accrued Wages Payable	71,153	5,486	76,639
Accrued Interest Payable	74,661		74,661
Unearned Revenues	49,499	95	49,594
Consumer Meter Deposits		170,731	170,731
Noncurrent Liabilities:			
Due Within One Year	1,790,117	14,589	1,804,706
Due in More Than One Year	25,176,574	373,353	25,549,927
Total Liabilities	29,049,478	721,589	29,771,067
<b>DEFERRED INFLOWS OF RESOURCES</b>			
<b>GASB 68</b>			
Difference in expected and actual experience	14,195	1,362	15,557
<b>GASB 75</b>			
Difference in assumption changes	13,850	1,310	15,160
Difference in expected and actual experience	9,742	921	10,663
Total Deferred Inflows of Resources	37,787	3,593	41,380
<b>LIABILITIES:</b>			
<b>Net Position</b>			
Invested in Capital Assets, Net of Related Debt	16,352,097	11,283,929	27,636,026
Restricted for:			
Construction - Gas System	615,423		615,423
Culture and Recreation	1,595,208		1,595,208
Debt Service	158,377		158,377
Economic Development	2,545,613		2,545,613
Public Safety	14,334		14,334
Unrestricted	9,436,341	1,066,358	10,502,699
Total Net Position	30,717,393	12,350,287	43,067,680

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Primary Government</b>							
Government Activities:							
General Administration	6,400,740	359,689	42,200	886,165	(5,112,686)		(5,112,686)
Legal	145,356				(145,356)		(145,356)
Financial Administration	197,746				(197,746)		(197,746)
Public Facilities	884,596				(884,596)		(884,596)
Public Safety	12,382,506	588,739	16,416	11,416,587	(360,764)		(360,764)
Public Transportation	149,166		189,167	9,537	49,538		49,538
Culture and Recreation	5,348,467	1,299,760	406,323		(3,642,384)		(3,642,384)
Interest and Fiscal Charges	501,642				(501,642)		(501,642)
Total Government Activities	26,010,219	2,248,188	654,106	12,312,289	(10,795,636)	0	(10,795,636)
Business-Type Activities:							
Gas	1,013,800	994,379	81			(19,340)	(19,340)
Sanitation	1,055,414	1,098,992				43,578	43,578
Harbor	919,578	677,410				(242,168)	(242,168)
Total Business-Type Activities	2,988,792	2,770,781	81	0		(217,930)	(217,930)
Total Primary Government	28,999,011	5,018,969	654,187	12,312,289	(10,795,636)	(217,930)	(11,013,566)
General Revenues							
Property Taxes, Levies for General Purposes					6,085,486		6,085,486
Sales Taxes					2,888,696		2,888,696
Franchise Taxes					483,197		483,197
Hotel/Motel Taxes					6,130,983		6,130,983
Licenses and Permits					2,618,423		2,618,423
Unrestricted Investment Earnings					443,036	35,788	478,824
Insurance Recovery - Hurricane Harvey					2,757,682		2,757,682
Grants and Contributions Not Restricted to Specific Programs					165,169		165,169
Miscellaneous					69,717	0	69,717
Transfers					(5,182,248)	5,182,248	0
Total General Revenues and Transfers					16,460,141	5,218,036	21,678,177
Change in Net Position					5,664,505	5,000,106	10,664,611
Net Position - Beginning - Restated					25,052,888	7,350,181	32,403,069
Net Position - Ending					30,717,393	12,350,287	43,067,680

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF PORT ARANSAS, TEXAS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2019

	General Fund	Beach Cleaning Funds	Hotel-Motel/ Facility Fund	Hurricane Recovery Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<i>ASSETS</i>							
Cash and Cash Equivalents	9,921,360	2,541,522	6,770,945		255,050	2,968,915	22,457,792
Receivables (Net of Allowance for Uncollectibles)	1,151,675	28,459			74,203	132,837	1,387,174
Restricted Assets:							
Cash and Cash Equivalents	65,799						65,799
Inventories						15,249	15,249
Prepaid Expenses	3,555						3,555
<b>Total Assets</b>	<b>11,142,389</b>	<b>2,569,981</b>	<b>6,770,945</b>	<b>0</b>	<b>329,253</b>	<b>3,117,001</b>	<b>23,929,569</b>
<i>LIABILITIES AND FUND BALANCES:</i>							
Accounts Payable	291,526	44,079	18,483	1,153,377	4,095	375,914	1,887,474
Bank Overdraft				206,685		5,677	212,362
Accrued Wages Payable	56,256	8,385	835				
Deferred Revenue	49,451		48				49,499
<b>Total Liabilities</b>	<b>397,233</b>	<b>52,464</b>	<b>19,366</b>	<b>1,360,062</b>	<b>4,095</b>	<b>381,591</b>	<b>2,214,811</b>
<i>DEFERRED INFLOWS OF RESOURCES</i>							
Deferred Property Taxes	98,213					25,132	123,345
<i>Fund Balances:</i>							
Non-Spendable							
Prepaid Items	3,555						3,555
Inventories						15,249	15,249
Restricted							
Community Disaster Loan Proceeds	4,347,745						4,347,745
Construction					325,158		325,158
Construction - Gas System				615,423			615,423
Culture and Recreation			100,000			1,495,208	1,595,208
Debt Service						158,377	158,377
Economic Development		2,517,517				28,096	2,545,613
Public Safety						14,334	14,334
Committed							
Construction						345,004	345,004
Culture and Recreation						310,037	310,037
Public Safety	65,799						65,799
Public Transportation						343,973	343,973
Unassigned	6,229,844		6,651,579	(1,975,485)			10,905,938
<b>Total Fund Balance</b>	<b>10,646,943</b>	<b>2,517,517</b>	<b>6,751,579</b>	<b>(1,360,062)</b>	<b>325,158</b>	<b>2,710,278</b>	<b>21,591,413</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>11,142,389</b>	<b>2,569,981</b>	<b>6,770,945</b>	<b>0</b>	<b>329,253</b>	<b>3,117,001</b>	<b>23,929,569</b>

The accompanying notes are an integral part of this statement.



CITY OF PORT ARANSAS, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2019

Total Fund Balances - Governmental Funds Balance Sheet	21,591,413
Amounts reported for governmental activities in the statement of net position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	34,184,178
Some expenses are not expensed in the current period but rather are deferred in the funds (Loss on Bond Refinancing).	30,000
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles).	123,345
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,829,809
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(27,041,352)
Net Position of Governmental Activities - Statement of Net Position	<u>30,717,393</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Beach Cleaning Funds	Hotel-Motel/Facility Fund	Hurricane Recovery Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<i>REVENUES</i>							
Taxes							
Property	4,639,591					1,458,096	6,097,687
Sales	1,925,798					962,898	2,888,696
Franchise	483,197						483,197
Hotel/Motel		1,236,132	2,272,609			2,622,242	6,130,983
Intergovernmental	1,349,086	320,754		11,416,587		45,137	13,131,564
Licenses and Permits	1,625,645	992,778					2,618,423
Charges for Services	1,313,993					583,423	1,897,416
Fines and Forfeitures	339,375					19,025	358,400
Interest	199,491	51,567	34,759		87,627	69,592	443,036
Insurance Recovery - Hurricane Harvey				2,757,682			2,757,682
Miscellaneous	38,096					31,621	69,717
Total Revenues	11,914,272	2,601,231	2,307,368	14,174,269	87,627	5,792,034	36,876,801
<i>EXPENDITURES</i>							
Current:							
General Administration	3,090,881					2,272,610	5,363,491
Legal	145,356						145,356
Financial Administration	201,284						201,284
Public Facilities	854,518						854,518
Public Safety	5,147,017			10,166,064		10,335	15,323,416
Public Transportation	151,628					3,416	155,044
Culture and Recreation	635,891	2,526,609	286,301			1,886,908	5,335,709
Capital Projects -							
Capital Outlay and Other					1,970,660		1,970,660
Debt Service							
Bond Issuance Costs							0
Principal Retirement	143,650		200,000			1,310,000	1,653,650
Interest and Fiscal Charges	13,595		1,490			554,216	569,301
Total Expenditures	10,383,820	2,526,609	487,791	10,166,064	1,970,660	6,037,485	31,572,429
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,530,452	74,622	1,819,577	4,008,205	(1,883,033)	(245,451)	5,304,372
<i>OTHER FINANCING SOURCES (USES):</i>							
Community Disaster Loan Proceeds	4,347,745						4,347,745
Operating Transfers In	2,224		349,632	520,000	435,000	864,442	2,171,298
Operating Transfers Out	(700,000)		(203,292)	(1,081,988)	(4,288,634)	(1,079,632)	(7,353,546)
Total Other Financing Sources (Uses)	3,649,969	0	146,340	(561,988)	(3,853,634)	(215,190)	(834,503)
Net Changes in Fund Balances	5,180,421	74,622	1,965,917	3,446,217	(5,736,667)	(460,641)	4,469,869
Fund Balances - Beginning	5,466,522	2,442,895	4,785,662	(4,806,279)	6,061,825	3,170,919	17,121,544
Fund Balances - Ending	10,646,943	2,517,517	6,751,579	(1,360,062)	325,158	2,710,278	21,591,413

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 SEPTEMBER 30, 2019

Net Changes in Fund Balances - Total Governmental Funds	4,469,869
Amounts reported for governmental activities in the statement of net position ("SNP") 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. This is the amount by which capital outlays exceeded depreciation in the current period.	3,630,598
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	(7,628)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(12,201)
Community Disaster Loan Proceeds	(4,347,745)
<b>GASB 68</b>	
Deferred Inflow of Resources-Contribution. This is the change in these amounts this year.	(18,983)
Deferred Outflow-Difference in projected and actual earnings. This is the change in these amounts this year.	1,463,393
Deferred Inflow-Difference in expected and actual experience. This is the change in these amounts this year.	(15,302)
<b>GASB 75</b>	
Deferred Inflow-Difference in assumption changes. This is the change in these amounts this year.	(29,474)
Deferred Inflow-Difference in expected and actual experience. This is the change in these amounts this year.	(9,742)
(Increase) Decrease in prepaid insurance from beginning of period to end of period.	(69,359)
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	1,653,650
(Decrease) increase in accrued interest payable from beginning of period to end of period.	22,365
(Decrease) increase (Decrease) increase in compensated absences payable from beginning of period to end of period.	6,722
(Decrease) increase in bond premium payable from beginning of period to end of period.	45,294
(Decrease) increase in net pension liability from beginning of period to end of period.	(1,120,271)
(Decrease) increase in OPEB Liability.	3,319
Change in Net Position of Governmental Activities - Statement of Activities	<u>5,664,505</u>

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - (CASH BASIS) - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Budgetary Basis	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Taxes				
Property	\$4,668,000	\$4,668,000	\$4,639,591	(\$28,409)
Sales	1,333,350	1,899,350	1,925,798	26,448
Franchise	441,000	441,000	483,197	42,197
Intergovernmental	447,125	497,025	1,349,086	852,061
Licenses and Permits	1,078,000	1,463,000	1,625,645	162,645
Charges for Services	1,509,925	1,509,925	1,313,993	(195,932)
Fines and Forfeitures	328,000	328,000	339,375	11,375
Interest	60,000	120,000	199,491	79,491
Miscellaneous	95,500	95,500	38,096	(57,404)
Total Revenues	<u>9,960,900</u>	<u>11,021,800</u>	<u>11,914,272</u>	<u>892,472</u>
<b>EXPENDITURES</b>				
Current:				
General Administration				
Administration	246,775	246,775	228,876	17,899
Central Operating	1,124,575	1,138,975	1,049,225	89,750
City Secretary	180,625	193,625	163,722	29,903
Information Technology	268,950	275,150	224,561	50,589
Mayor and Council	340,100	340,100	290,291	49,809
Planning	237,050	247,050	248,041	(991)
Legal				
City Attorney	150,500	150,500	145,356	5,144
Financial Administration				
Finance Department	232,125	217,125	201,284	15,841
Public Facilities				
Public Buildings	265,400	265,400	244,784	20,616
Public Works	770,350	720,350	609,734	110,616
Public Safety				
EMS	1,368,935	1,383,935	1,294,503	89,432
Fire Department	407,825	407,825	174,154	233,671
Inspection	272,050	829,050	830,062	(1,012)
Municipal Court	134,750	134,750	115,580	19,170
Police	3,277,325	3,277,325	2,732,718	544,607
Public Transportation				
Regional Transit	214,625	214,625	151,628	62,997
Culture and Recreation				
Library	282,400	228,400	161,560	66,840
Parks and Recreation	562,650	510,650	474,331	36,319
Debt Service				
Principal Retirement	60,000	60,000	107,006	(47,006)
Interest Retirement			9,870	(9,870)
Total Expenditures	<u>10,397,010</u>	<u>10,841,610</u>	<u>9,457,286</u>	<u>1,384,324</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(436,110)</u>	<u>180,190</u>	<u>2,456,986</u>	<u>2,276,796</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In			2,224	2,224
Operating Transfers Out	0	(300,000)	(700,000)	(400,000)
Total Other Financing Sources (Uses)	<u>0</u>	<u>(300,000)</u>	<u>(697,776)</u>	<u>(397,776)</u>
Net Changes in Fund Balances - Budgetary Basis	<u>(\$436,110)</u>	<u>(\$119,810)</u>	<u>1,759,210</u>	<u>\$1,879,020</u>
Reconciliation from cash basis to modified accrual basis:				
Community Disaster Loan Proceeds			4,347,745	
Land Purchase			(886,165)	
Capital Lease Payment - Ambulance			(40,369)	
Net Changes in Fund Balances - Modified Accrual Basis			<u>5,180,421</u>	
Fund Balances - Beginning			<u>5,466,522</u>	
Fund Balances - Ending			<u>\$10,646,943</u>	

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS  
 BEACH CLEANING FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Hotel/Motel	994,300	994,300	1,236,132	241,832
Intergovernmental	309,000	309,000	320,754	11,754
Licenses and Permits	912,000	912,000	992,778	80,778
Interest	25,000	25,000	51,567	26,567
Total Revenues	<u>2,240,300</u>	<u>2,240,300</u>	<u>2,601,231</u>	<u>360,931</u>
<b>EXPENDITURES</b>				
Culture and Recreation				
Beach	3,715,335	3,715,335	2,526,609	1,188,726
Total Expenditures	<u>3,715,335</u>	<u>3,715,335</u>	<u>2,526,609</u>	<u>1,188,726</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(1,475,035)	(1,475,035)	74,622	1,549,657
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers Out				0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Changes in Fund Balances	(1,475,035)	(1,475,035)	74,622	1,549,657
Fund Balances - Beginning	<u>2,442,895</u>	<u>2,442,895</u>	<u>2,442,895</u>	
Fund Balances - Ending	<u>967,860</u>	<u>967,860</u>	<u>2,517,517</u>	<u>1,549,657</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS  
HOTEL-MOTEL/FACILITY FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Hotel/Motel	1,864,285	2,552,685	2,622,242	69,557
Interest	14,500	14,500	34,758	20,258
Total Revenues	<u>1,878,785</u>	<u>2,567,185</u>	<u>2,657,000</u>	<u>89,815</u>
<b>EXPENDITURES</b>				
Culture and Recreation				
Culture and Recreation	827,200	855,200	271,881	583,319
Capital Outlay			14,420	(14,420)
Debt Service				
Principal Retirement	200,000	200,000	200,000	0
Interest Retirement	1,500	1,500	1,490	10
Total Expenditures	<u>1,028,700</u>	<u>1,056,700</u>	<u>487,791</u>	<u>568,909</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	850,085	1,510,485	2,169,209	658,724
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers Out	(369,265)	(369,265)	(203,292)	165,973
Total Other Financing Sources (Uses)	<u>(369,265)</u>	<u>(369,265)</u>	<u>(203,292)</u>	<u>165,973</u>
Net Changes in Fund Balances	480,820	1,141,220	1,965,917	824,697
Fund Balances - Beginning	4,785,662	4,785,662	4,785,662	
Fund Balances - Ending	<u>5,266,482</u>	<u>5,926,882</u>	<u>6,751,579</u>	<u>824,697</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2019

Business-Type Activities  
Enterprise Funds

	Gas	Gas	Sanitation	Sanitation	Harbor	Harbor	Totals
	Current	Prior	Current	Prior	Current	Prior	Totals
	Year	Year	Year	Year	Year	Year	Current
							Year
<b>ASSETS</b>							
Current Assets							
Cash and Cash Equivalents	702,100	647,777	(61,767)	(44,829)	894,876	785,105	1,535,209
Accounts Receivables (Net of Allowance for Uncollectibles)	2,262	2,985	99,156	99,867	353	2,309	101,771
Prepaid Items	1,005	951					1,005
Total Current Assets	705,367	651,713	37,389	55,038	895,229	787,414	1,637,985
Noncurrent Assets							
Capital Assets							
Construction in Progress	784,886					2,031,642	784,886
Infrastructure	1,094,894	1,094,894	22,614	22,614	14,409,672	8,064,575	15,527,180
Buildings	56,777	56,777	35,786	35,788	208,248	196,448	300,811
Machinery and Equipment	361,327	352,450	285,612		420,199	414,414	1,067,138
Vehicles	114,908	202,023			64,165	64,165	179,073
Total Capital Assets	2,412,792	1,706,144	344,012	58,402	15,102,284	10,771,244	17,859,088
Less Accumulated Depreciation	(1,072,435)	(1,118,257)	(52,893)	(30,278)	(5,449,831)	(4,942,194)	(6,575,159)
Total Capital Assets (Net of Accumulated Depreciation)	1,340,357	587,887	291,119	28,124	9,652,453	5,829,050	11,283,929
Total Noncurrent Assets	1,340,357	587,887	291,119	28,124	9,652,453	5,829,050	11,283,929
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
<b>GASB 68</b>							
Deferred Outflow of Resources-Contributions (after 12/31/17)		44,447		5,062		21,492	0
Deferred Outflow of Resources-Contributions (after 12/31/18)	41,700		5,348		20,973		68,021
Difference in projected and actual earnings	52,436		6,725		26,373		85,534
Difference in expected and actual experience		67		8		32	0
<b>GASB 75</b>							
Difference in assumption changes		940		107		455	0
Total Deferred Outflow of Resources	94,136	45,454	12,073	5,177	47,346	21,979	153,555
<b>TOTAL ASSETS</b>	2,139,860	1,285,054	340,581	88,339	10,595,028	6,638,443	13,075,469

(continued)

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	Business-Type Activities						Totals
	Enterprise Funds						
	Gas	Gas	Sanitation	Sanitation	Harbor	Harbor	
Current	Prior	Current	Prior	Current	Prior	Current	
Year	Year	Year	Year	Year	Year	Year	
<b>LIABILITIES, FUND EQUITY</b>							
<b>AND OTHER CREDITS</b>							
Liabilities							
Current Liabilities (Payable from Current Assets)							
Accounts Payable	37,938	44,580	8,061	41,883	111,336	74,280	157,335
Accrued Wages	3,906	2,123	526	311	1,054	1,198	5,486
Compensated Absences	10,307	8,762	1,079	292	3,203	5,794	14,589
Deferred Revenue	95	95		0			95
Total Current Liabilities (Payable from Current Assets)	52,246	55,560	9,666	42,486	115,593	81,272	177,505
Current Liabilities (Payable from Restricted Assets)							
Consumer Meter Deposits	149,611	141,986			21,120	18,500	170,731
Total Current Liabilities							
Payable from Restricted Assets	149,611	141,986	0	0	21,120	18,500	170,731
Total Current Liabilities	201,857	197,546	9,666	42,486	136,713	99,772	348,236
Noncurrent Liabilities							
OPEB Payable	14,119	14,856	1,810	1,692	7,101	7,184	23,030
Net Pension Liability	214,518	149,600	23,786	15,461	112,019	79,368	350,323
Total Noncurrent Liabilities	228,637	164,456	25,596	17,153	119,120	86,552	373,353
Total Liabilities	430,494	362,002	35,262	59,639	255,833	186,324	721,589
<b>DEFERRED INFLOWS OF RESOURCES</b>							
<b>GASB 68</b>							
Difference in projected and actual earnings		33,610		3,828		16,252	0
Difference in expected and actual experience	835		107		420		1,362
<b>GASB 75</b>							
Difference in assumption changes	803		103		404		1,310
Difference in expected and actual experience	565		72		284		921
Total Deferred Inflow of Resources	2,203	33,610	282	3,828	1,108	16,252	3,593
Invested in Capital Assets, Net of Related Debt	1,340,357	587,887	291,119	28,124	9,652,453	5,829,050	11,283,929
Unrestricted	366,806	301,555	13,918	(3,252)	685,634	606,817	1,066,358
Total Net Position	1,707,163	889,442	305,037	24,872	10,338,087	6,435,867	12,350,287

The notes to the financial statements are an integral part of this statement.



CITY OF PORT ARANSAS, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Business-Type Activities  
Enterprise Funds

	Gas		Sanitation		Harbor		Totals
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Prior Year	Current Year
<b>OPERATING REVENUES:</b>							
Charges for Services	994,379	603,634	1,098,992	1,047,578	677,410	404,237	2,770,781
<b>Total Operating Revenues</b>	<b>994,379</b>	<b>603,634</b>	<b>1,098,992</b>	<b>1,047,578</b>	<b>677,410</b>	<b>404,237</b>	<b>2,770,781</b>
<b>OPERATING EXPENSES:</b>							
Personal Services	443,599	493,121	60,755	60,366	228,470	246,324	732,824
Supplies and Other Services and Charges	504,833	302,747	972,043	1,060,405	180,754	181,734	1,657,630
Depreciation	65,368	62,831	22,616	8,616	510,354	410,155	598,338
<b>Total Operating Expenses</b>	<b>1,013,800</b>	<b>858,699</b>	<b>1,055,414</b>	<b>1,129,387</b>	<b>919,578</b>	<b>838,213</b>	<b>2,988,792</b>
Operating Income (Loss)	(19,421)	(255,065)	43,578	(81,809)	(242,168)	(433,976)	(218,011)
<b>NON-OPERATING REVENUES (EXPENSES):</b>							
Interest Income	14,271	10,878	2,210	1,434	19,307	12,800	35,788
Donated Assets		100,120					0
Federal and State Grants	81	100					81
<b>Total Non-Operating Revenues (Expenses)</b>	<b>14,352</b>	<b>111,098</b>	<b>2,210</b>	<b>1,434</b>	<b>19,307</b>	<b>12,800</b>	<b>35,869</b>
Income Before Transfers	(5,069)	(143,967)	45,788	(80,375)	(222,861)	(421,176)	(182,142)
Transfers In (Out) - Net	822,790	0	234,377	0	4,125,081	2,031,642	5,182,248
Change in Net Position	817,721	(143,967)	280,165	(80,375)	3,902,220	1,610,466	5,000,106
Total Net Position - Beginning	889,442	1,033,409	24,872	105,247	6,435,867	4,825,401	7,350,181
<b>Total Net Position - Ending</b>	<b>1,707,163</b>	<b>889,442</b>	<b>305,037</b>	<b>24,872</b>	<b>10,338,087</b>	<b>6,435,867</b>	<b>12,350,287</b>

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Business-Type Activities  
Enterprise Funds

	Gas	Gas	Sanitation	Sanitation	Harbor	Harbor	Totals
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Prior Year	Current Year
Cash Flows from Operating Activities							
Receipts from Customers and Users	\$1,002,727	\$617,991	\$1,099,703	\$1,055,108	\$681,986	\$406,481	\$2,784,416
Payments to Suppliers	(512,266)	(299,827)	(1,005,747)	(1,026,463)	(143,781)	(182,591)	(1,661,794)
Payments to Employees	(455,442)	(495,884)	(61,870)	(61,593)	(239,065)	(247,068)	(756,377)
Net Cash Provided (Used) by Operating Activities	35,019	(177,720)	32,086	(32,948)	299,140	(23,178)	366,245
Cash Flows from Non-Capital and Related Financing Activities							
Federal Grants and Contributions	81	100	0	0	0	0	81
Sale of Fixed Assets	0	100,120	0	0	0	0	0
Transfers In/Out	822,790	0	234,377	0	4,125,081	2,031,642	5,182,248
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	822,871	100,220	234,377	0	4,125,081	2,031,642	5,182,329
Cash Flows from Capital and Related Financing Activities							
Purchases of Capital Assets	(817,838)	(100,120)	(285,611)	0	(4,333,757)	(2,101,187)	(5,437,206)
Net Cash Provided (Used) by Capital and Related Financing Activities	(817,838)	(100,120)	(285,611)	0	(4,333,757)	(2,101,187)	(5,437,206)
Cash Flows from Investing Activities							
Interest Received	14,271	10,878	2,210	1,434	19,307	12,800	35,788
Net Cash Provided (Used) by Investment Activities	14,271	10,878	2,210	1,434	19,307	12,800	35,788
Net Increase (Decrease) in Cash Equivalents	54,323	(166,742)	(16,938)	(31,514)	109,771	(79,923)	147,156
Cash and Cash Equivalents at Beginning of Year	647,777	814,519	(44,829)	(13,315)	785,105	865,028	1,388,053
Cash and Cash Equivalents at End of Year	702,100	647,777	(61,767)	(44,829)	894,876	785,105	1,535,209

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Business-Type Activities  
Enterprise Funds

	Gas Current Year	Gas Prior Year	Sanitation Current Year	Sanitation Prior Year	Harbor Current Year	Harbor Prior Year	Totals Current Year
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:							
Operating Income (Loss)	(\$19,421)	(\$255,065)	\$43,578	(\$81,809)	(\$242,168)	(\$433,976)	(\$218,011)
Adjustments to Reconcile to Net Cash Flow							
Non-Cash Items Included in Net Income							
Depreciation	65,368	62,831	22,616	8,616	510,354	410,155	598,338
Changes in Current Items							
Decrease (Increase) in Accounts Receivable	723	15,915	711	7,530	1,956	(1,956)	3,390
<b>GASB 68</b>							
Decrease (Increase) Deferred Outflow of Resources-Contributions	2,747	4,299	(286)	157	519	2,912	2,980
Decrease (Increase) Difference in projected and actual earnings	(86,046)	33,583	(10,553)	3,825	(42,625)	16,239	(139,224)
Decrease (Increase) Difference in expected and actual experience	902	1,788	115	191	452	897	1,469
<b>GASB 75</b>							
Decrease (Increase) Difference in assumption changes	1,743	(940)	210	(107)	859	(455)	2,812
Decrease (Increase) Difference in expected and actual experience	565		72		284		921
Decrease (Increase) in Prepaid Items	(54)	0	0	0	0	0	(54)
Increase (Decrease) in Accounts Payable	(6,642)	399	(33,822)	33,655	37,056	(2,076)	(3,408)
Increase (Decrease) Compensated Absences	1,545	(3,355)	787	(1,018)	(2,591)	(2,067)	(259)
Increase (Decrease) Accrued Wages Payable	1,783	2,123	215	311	(144)	1,198	1,854
Increase (Decrease) Deferred Revenue	0	0	0	0	0	0	0
Increase (Decrease) in Consumer Meter Deposits	7,625	(1,558)	0	0	2,620	4,200	10,245
Increase (Decrease) in Net pension Liability	64,918	(40,261)	8,325	(4,586)	32,651	(19,468)	105,894
Increase (Decrease) in OPEB Payable	(737)	2,521	118	287	(83)	1,219	(702)
Net Cash Provided (Used) by Operating Activities	35,019	(177,720)	32,086	(32,948)	299,140	(23,178)	366,245
Noncash Investing, Capital, and Financing Activities:							
Donated Assets	\$0	\$100,120	\$0	\$0	\$0	\$0	\$0
Federal and State Grants	81	100	0	0	0	0	81
Total Noncash Investing, Capital, and Financing Activities	\$81	\$100,220	\$0	\$0	\$0	\$0	\$81

Note: The above funds are all Enterprise Funds.

**City of Port Aransas, Texas**  
Notes to the Financial Statements  
September 30, 2019

**I. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The City of Port Aransas, Texas (the “City”) was incorporated as a general law city in November 1955. In August 1978 the City adopted the Mayor-Council-Manager form of government. The principal services accounted for as general governmental functions include public safety, health, streets, sanitation, park and recreation, planning, zoning, and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United State of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting principles and practices are discussed in subsequent sections of these Notes.

***Blended Component Unit***

***The Port Aransas Recreational Development Corporation*** (PARDC) was chartered on November 27, 1995. The public purposes for which the Corporation is organized and for which it may issue bonds are as follows: construction, development, expansion, maintenance, operation and promotion of recreational and sports fields and stadiums, swimming pool, sports complexes, and related facilities and improvements. The Board of Directors consisting of seven members is appointed by the City Council. PARDC’s main source of revenue is the additional one-half cent sales tax approved by voters.

Although they are legally separate from the City, the Port Aransas Recreational Development Corporation (PARDC) is reported as if they are a part of the primary government because their primary purpose is to provide services to the citizens of the City. The general fund of this entity is reported as a special revenue fund of the City. Separate financial statements are not prepared for the blended component unit.

## **B. Government-Wide and Fund Financial Statements**

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, those transactions between governmental and business-type activities have not been eliminated. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The City's deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when

received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, hotel/motel taxes, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The government reports the following major governmental funds:

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

The Beach Cleaning Fund accounts for the portion of sales taxes required to provide beach cleaning and safety.

The Hotel-Motel / Facility Funds account for the portion of sales taxes and hotel/motel taxes that the Council requires to be set aside for recreational development.

The Hurricane Recovery fund is used to administer FEMA monies for reconstruction and cleanup within the City of Port Aransas.

The Construction fund is used to administer bond monies for various construction projects.

### **C. Proprietary Fund Financial Statements**

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility Fund (Gas, Sanitations, and Harbor Rental) are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major proprietary funds: The Gas Fund accounts for the activities of the gas distribution system. The Sanitation Fund accounts for the garbage collection activities of the City. The Harbor Fund accounts for activities associated with harbor rental and maintenance.

## **D. Assets, Liabilities, and Net Position or Equity**

### ***1. Deposits and Investments***

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

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as fair value of the pool shares.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

## ***2. Receivables and Payables***

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from” other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding trade accounts receivable at September 30, 2019, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at September 30, 2019, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding trade accounts receivable at September 30, 2019, and the trade accounts receivable allowance in excess of 120 days is equal to 50 percent of outstanding trade accounts receivable at September 30, 2019. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes on September 30, 2019, and 10 percent of delinquent outstanding property taxes on September 30, 2019. Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

## ***3. Inventories and Prepaid Items***

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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



#### 4. *Restricted Assets*

Certain proceeds are set aside in the general fund for future projects and are maintained in a separate bank account. The restricted assets are as follows:

Type	Governmental Activities
Public Service	\$65,799
	<u>\$65,799</u>

#### 5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life more than two years. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year was \$466,171. Of this amount, \$-0- was included as part of the cost of capital assets. Significant construction activity during the year was various street, ramp, and dock construction and paving projects.

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Improvements other than	
Buildings	20
Gas Pipelines	30
Infrastructure	50
Runways and Related	
Improvements	50
Vehicles	5
Machinery and Equipment	5
Office Furniture	5

### ***6. Compensated Absences***

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, governmental funds and proprietary financial statements.

### ***7. Long-Term Obligations***

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether withheld from the actual debt proceeds received, are reported as debt service expenditures.

## 8. Fund Balances – Governmental Funds

As of September 30, 2019, fund balances of the governmental funds are classified as follows:

**Non-Spendable** – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** — amounts that can be used only for specific purposes determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.

**Unassigned** — all other spendable amounts.

As of September 30, 2019, fund balances are composed of the following:

Fund Balances:	
Non-Spendable	
Prepaid Items	\$3,555
Inventories	15,249
Restricted	
Community Disaster Loan Proceeds	4,347,745
Construction	325,158
Construction - Gas System	615,423
Culture and Recreation	1,595,208
Debt Service	158,377
Economic Development	2,545,613
Public Safety	14,334
Committed	
Construction	345,004
Culture and Recreation	310,037
Public Safety	65,799
Public Transportation	343,973
Unassigned	10,905,938
Total Fund Balance	<u>\$21,591,413</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance committee has provided otherwise in its commitment or assignment actions.

In fiscal year 2011, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year-end to be at least equal to 25 to 50 percent of the subsequent year's budgeted General Fund expenditures.

### ***9. Comparative Data/Reclassifications***

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current year's presentation.

### ***10. 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. The government has the following that qualifies for reporting in this category. Amounts deferred under GASB 68 and GASB 75 and a loss on bond refunding.

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. The government has the following that qualifies for reporting in this category. Amounts deferred under GASB 68 and GASB 75.

The City reports unearned revenue on its fund financial statements. Unearned revenues arise when potential revenue does not meet both the “measureable” and “available” criteria for recognition in the current period (fund financial statements). Unearned revenues also arise when resources are unearned by the City and received before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures (fund financial statements and government-wide financial statements). In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized. Pursuant to GASB 65 we have included deferred ad valorem taxes as deferred inflows in the fund financial statements.

***11. Net Position Flow Assumption***

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

**II. Reconciliation of Government-Wide and Fund Financial Statements**

**A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position**

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this \$27,041,352 difference are as follows:

Capital Lease	\$227,239
Bonds Payable	17,960,000
Bond Premium	485,160
OPEB Liability	243,549
Community Disaster Loan Proceeds	4,347,745
Net Pension Liability	3,437,255
Accrued Interest Payable	74,661
Compensated Absences	265,743
	<u>\$27,041,352</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this \$34,184,178 difference are as follows:

Capital assets not being depreciated	\$13,364,665
Capital assets being depreciated	49,173,867
Depreciation expense	(28,354,354)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in Net Position of governmental activities	<u>\$34,184,178</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.)" The details of this \$123,345 difference are as follows:

Property Taxes Receivable	\$129,837
Allowance for Doubtful Accounts	<u>(6,492)</u>
Net	<u>\$123,345</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "Other long-term assets are unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.") The details of this \$1,829,809 difference are as follows:

Fines and Fees Receivable	\$494,199
Allowance for Doubtful Accounts	(251,088)
<b>GASB 68</b>	
Deferred Outflow of Resources-Contributions (after 12/31/18)	719,608
Deferred Inflow-Difference in expected and actual experience	(14,195)
Deferred Outflow-Difference in projected and actual earnings	904,877
<b>GASB 75</b>	
Difference in assumption changes	(13,850)
Deferred Inflow-Difference in expected and actual experience	<u>(9,742)</u>
Net	<u><u>\$1,829,809</u></u>

**B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that 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. The details of this \$3,630,598 difference are as follows:

Capital Outlay - Additions - Not Being Depreciated	\$4,696,198
Capital Outlay - Additions - Being Depreciated	2,929,842
Capital Outlay - Deletions	(1,415,130)
Depreciation Expense	(2,580,312)
Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities	<u><u>\$3,630,598</u></u>

### **III. Stewardship, Compliance, and Accountability**

#### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except for the Library fund and the Hurricane Recovery fund. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the city council. The legal level of budgetary control is the fund; whereby budgeted expenditures may not exceed budgeted revenues plus beginning unrestricted equity. The supplemental budgetary appropriations made in the general fund were not material.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

#### **B. Excess of Expenditures over Appropriations**

For the year ended September 30, 2019, expenditures did not exceed appropriations in any funds except for the Hotel/Motel fund whereby actual expenditures were more than budgeted by \$56,295.

#### **C. Deficit Fund Equity**

There were no deficit fund balances for any fund on September 30, 2019 except in the Hurricane Recovery fund which had a negative fund balance of \$1,360,062. This deficit is expected to be liquidated with future resources of the fund.



## **IV. Detailed Notes on All Funds**

### **A. Deposits and investments**

#### Legal and Contractual Provisions Governing Deposits and Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

#### ***Deposits:***

*Custodial credit risk - deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government has a deposit policy for custodial credit risk. As of September 30, 2019, the government's bank balance of \$439,436 in the City depository (Value Bank) was not exposed to custodial credit risk because it was fully insured and collateralized with securities held by the pledging financial institution's trust department or agent, in the government's name. The fair market value of the securities pledged is \$255,310 and the FDIC coverage is \$250,000. The City also had a bank balance of \$1,226,241 in American Bank on September 30, 2019 and was fully insured and collateralized with securities held by the pledging financial institution's trust department or agent, in the government's name. The fair market value of the securities pledged is \$3,278,451 and the FDIC coverage is \$250,000. The City also has monies \$1,282,241 with Financial Northeastern Securities, Inc. (a Brokerage) which is a third-party holder of secured certificates of deposit. The book balance of the City's bank balances on September 30, 2019 is \$2,448,505.

***Investments:***

The Interlocal Cooperation Act, chapter 791 of the Texas Government Code, and the Public Funds Investment Act, chapter 2256 of the Texas Government Code, provide for the creation of public funds investment pools, such as TexPool and Texas Class, through which political subdivisions and other entities may invest public funds.

TexPool, and Texas Class use amortized cost to value portfolio assets and follows the criteria for GASB Statement No. 79 for use of amortized cost. TexPool and Texas Class does not place any limitations or restrictions such as notice periods or maximum transaction amounts, on withdrawals.

All funds participate in a pooling of cash and investment income to maximize investment opportunities. Each fund may liquidate its equity in the pool on demand.

The City’s investments are authorized by City resolutions, bond ordinances, and State statutes. The City is authorized to invest in obligations of the U.S. Government and its agencies or instrumentalities; direct obligations of Texas and its agencies and instrumentalities; 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 rating; insured or collateralized certificates of deposit; fully collateralized repurchase agreements; and government pools.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City’s investments by fair value level are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices. The City has no Level 1 investments (investments valued using prices quoted in active markets for identical securities) or Level 3 investments (investments valued using significant unobservable inputs). As of September 30, 2019, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>	<u>Weighted Average</u>
TexPool Funds	\$16,103,724	Less than 1 year	Less than 1 year
Texas Class Funds	\$ 5,299,885	Less than 1 year	Less than 1 year

*Interest Rate Risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

*Concentration of credit risk:* The City places no limit on the amount the City may invest in any one issuer. Texpool (75% of portfolio and Texas Class (25% of portfolio).

## B. Receivables

Receivables at year end for the government's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Beach Cleaning	Construc- tion	Hotel/ Motel Fund	Airport	Recreational Develop- ment	Debt Service	Gas	Sani- tation	Harbor	Total
<u>Receivables</u>											
Taxes - Ad Valorem	\$103,461						\$26,376				\$129,837
Taxes - Sales	154,775					94,139					248,914
Intergovernmental	886,165		74,203								960,368
Accounts					11,066			6,826	179,204		197,096
Municipal Court Fines	312,527										312,527
EMS Fees	181,672										181,672
Other	12,522	28,459		2,500						353	43,834
Gross Receivables	1,651,122	28,459	74,203	2,500	11,066	94,139	26,376	6,826	179,204	353	2,074,248
Less: Allowance for Uncollectibles	256,336						1,244	4,564	80,048		342,192
Net Total Receivables	<u>\$1,394,786</u>	<u>\$28,459</u>	<u>\$74,203</u>	<u>\$2,500</u>	<u>\$11,066</u>	<u>\$94,139</u>	<u>\$25,132</u>	<u>\$2,262</u>	<u>\$99,156</u>	<u>\$353</u>	<u>\$1,732,056</u>

The receivables are expected to be collected within one year.

## C. Capital Assets

Capital asset activity for the year ended September 30, 2019 was as follows:

Governmental Activities:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital Assets Not Being Depreciated:				
Land	\$5,669,307	\$1,109,931		\$6,779,238
Construction in Progress	2,999,160	3,586,267		6,585,427
<b>Total Capital Assets Not Being Depreciated</b>	<b>8,668,467</b>	<b>4,696,198</b>	<b>0</b>	<b>13,364,665</b>
Capital assets being depreciated:				
Infrastructure	32,999,348	86,425		33,085,773
Buildings	5,723,419	667,907	158,277	6,233,049
Machinery and Equipment	6,675,804	1,670,218	1,842,105	6,503,917
Vehicles	5,583,208	505,292	2,737,372	3,351,128
<b>Total Capital Assets Being Depreciated</b>	<b>50,981,779</b>	<b>2,929,842</b>	<b>4,737,754</b>	<b>49,173,867</b>
Less Accumulated Depreciation for:				
Infrastructure	17,304,170	1,417,409		18,721,579
Buildings	4,566,885	181,442	135,318	4,613,009
Machinery and Equipment	4,579,724	542,738	1,417,898	3,704,564
Vehicles	2,645,887	438,723	1,769,408	1,315,202
<b>Total Accumulated Depreciation</b>	<b>29,096,666</b>	<b>2,580,312</b>	<b>3,322,624</b>	<b>28,354,354</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>21,885,113</b>	<b>349,530</b>	<b>1,415,130</b>	<b>20,819,513</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$30,553,580</b>	<b>\$5,045,728</b>	<b>\$1,415,130</b>	<b>\$34,184,178</b>

Business-Type Activities:	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital Assets Not Being Depreciated:				
Construction in Progress	\$2,031,642	\$784,886	\$2,031,642	\$784,886
<b>Total Capital Assets Not Being Depreciated</b>	<b>2,031,642</b>	<b>784,886</b>	<b>2,031,642</b>	<b>784,886</b>
Capital Assets Being Depreciated:				
Infrastructure	9,182,084	6,345,097	0	15,527,181
Buildings	312,931	11,800	0	324,731
Machinery and Equipment	742,272	302,989	2,715	1,042,546
Vehicles	207,726	37,904	125,019	120,611
<b>Total Capital Assets Being Depreciated</b>	<b>10,445,013</b>	<b>6,697,790</b>	<b>127,734</b>	<b>17,015,069</b>
Less Accumulated Depreciation for:				
Infrastructure	5,450,743	529,003	0	5,979,746
Buildings	90,341	13,289	0	103,630
Machinery and Equipment	298,664	41,565	2,716	337,513
Vehicles	191,846	14,481	111,190	95,137
<b>Total Accumulated Depreciation</b>	<b>6,031,594</b>	<b>598,338</b>	<b>113,906</b>	<b>6,516,026</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>4,413,419</b>	<b>6,099,452</b>	<b>13,828</b>	<b>10,499,043</b>
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$6,445,061</b>	<b>\$6,884,338</b>	<b>\$2,045,470</b>	<b>\$11,283,929</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General Administration	\$1,646,228
Public Facilities	59,832
Public Safety	431,965
Public Transportation	459
Culture and Recreation	441,828
<b>Total Depreciation Expense - Governmental Activities</b>	<b><u>\$2,580,312</u></b>
Business-Type Activities	
Gas	\$65,368
Sanitation	22,616
Harbor	510,354
<b>Total Depreciation Expense - Business-Type Activities</b>	<b><u>\$598,338</u></b>

## Construction Commitments

Significant construction activity during the year was for various street, ramp, harbor, and dock construction and paving projects.

## D. Interfund Receivables, Payables, and Transfers

There were no interfund balances as of September 30, 2019.

Inter-fund transfers:

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

In the year ended September 30, 2019, the government made the following one-time transfers:

### INTER-GOVERNMENTAL

FUNDS	HOTEL/		HURRI-		RECREA-	STREET		IMPACT	TOTAL
	GENERAL	MOTEL FACILITY	MOTEL	CANE RECOVERY	TIONAL DEVELOP- MENT	CONST- RUCTION	MAINTEN- ANCE	FEE ZONE 1	
STREET MAINTENANCE FUND	\$300,000								\$300,000
HURRICANE RECOVERY FUND	400,000				120,000				520,000
NATURE PRESERVE FUND		203,292							203,292
GAS FUND				822,790					822,790
SANITATION FUND				234,377					234,377
HARBOR FUND				24,821		4,288,634			4,313,455
HOTEL/MOTEL FACILITY FUND			349,632						349,632
DEBT SERVICE FUND								175,000	175,000
CONSTRUCTION FUND							435,000		435,000
TOTALS	\$700,000	\$203,292	\$349,632	\$1,081,988	\$120,000	\$4,288,634	\$435,000	\$175,000	\$7,353,546

The above transfers were for operating capital except for the debt service fund which was for debt service.

## **E. Leases**

### Operating Leases

The government leases equipment under noncancelable operating leases. Total costs for these leases were \$82,690 for the year ended September 30, 2019. The future minimum lease payments for these leases are as follows:

<u>Year Ending Sept. 30</u>	<u>Amount</u>
2020	\$ 14,655
2021	12,968
2022	12,395
2023	<u>2,066</u>
Total	<u>\$42,084</u>

Rent expenditures were \$289,624 for the year ended September 30, 2019. Rental income was \$58,681 for the year ended September 30, 2019. Sublease rental income was \$0 for the year ended September 30, 2019.

## F. Long-Term Debt

### General Obligation Bonds and Revenue Bonds

The government issues Certificates of Obligation and General Obligation Bonds to provide funds for the acquisition and construction of major capital facilities. Certificates of Obligation and General Obligation bonds have been issued for governmental activities. The Certificates of Obligation bonds are direct obligations and pledge the full faith and credit of the government. The original amount of the Certificates of Obligation and General Obligation Bonds issued was \$27,210,000.

Certificates of Obligation and General Obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Governmental activities – Series 2018	2.70-4.00	\$6,205,000
Governmental activities – Series 2017	2.70-4.00	\$3,970,000
Governmental activities – Series 2014	2.49	\$1,195,000
Governmental activities – Series 2007	4.00	\$ 685,000
Governmental activities – Series 2019	2.56	\$2,020,000 Refunding
Governmental activities – Series 2012	1.75-2.125	\$3,885,000

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

Year Ending September 30,	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2020	\$1,375,000	\$483,098
2021	1,815,000	437,027
2022	1,880,000	383,437
2023	1,700,000	332,889
2024	1,760,000	285,487
2025-2029	6,195,000	864,588
2030-2033	3,235,000	176,123
TOTALS	<u>\$17,960,000</u>	<u>\$2,962,649</u>

The pledged security for the above bonds is as follows:

Governmental activities – Series 2018	Ad Valorem Taxes
Governmental activities – Series 2017	Ad Valorem Taxes
Governmental activities – Series 2014	Ad Valorem Taxes
Governmental activities – Series 2007	Ad Valorem Taxes
Governmental activities – Series 2019	Ad Valorem Taxes
Governmental activities – Series 2012	Ad Valorem Taxes



## Capital Leases

Capital Leases: The government has entered several capital lease agreements as lessee for financing the acquisition of machinery and equipment; as set forth below. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The security pledged for the capital leases is the equipment financed.

ASSET	Governmental Activities		TOTAL
	Fire Ladder Truck	Ambulance	
COST	\$924,357	\$192,919	\$1,117,276
ACCUMULATED DEPRECIATION	(924,357)	(55,120)	(979,477)
NET ASSET	\$0	\$137,799	\$137,799

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2019, were as follows:

YEAR	Governmental Activities		Total
	Truck Amount	Ambulance Amount	Amount
2020	\$116,876	\$40,369	\$157,245
2021		40,369	40,369
2022		40,369	40,369
Total Minimum Lease Payments	116,876	121,107	237,983
Less: Amount Representing Interest	5,044	5,700	10,744
Present Value of Net Minimum Lease Payments	\$111,832	\$115,407	\$227,239

## FEMA Community Disaster Loan

The City applied for and received a \$4,347,745 FEMA Community Disaster Loan. The Community Disaster Loan (CDL) Program provides operational funding to help local governments that have incurred a significant loss in revenue, due to a major disaster, that has or will adversely affect their ability to provide essential municipal services. The principal and Interest less such as may be canceled pursuant to Section 417 of the Stafford Disaster Relief and Emergency Assistance Act, Public Law 93-288, as amended. The standard loan is for five years. However, it may be extended to 10 years depending on circumstances. FEMA may, at its discretion, cancel all or part of the loan.

## Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	REFUNDING		Ending Balance	Due Within One Year	Due After One Year
				Additions	Reductions			
<u>Governmental Activities:</u>								
General Obligation Bonds	\$19,440,000		\$1,510,000	\$2,020,000	\$1,990,000	\$17,960,000	\$1,375,000	\$16,585,000
Bond Premiums	530,454		45,294			485,160		485,160
Total Bonds Payable	19,970,454	0	1,555,294	2,020,000	1,990,000	18,445,160	1,375,000	17,070,160
Capital Lease Purchases	370,889		143,650			227,239	149,374	77,865
Community Disaster Loan Proceeds		4,347,745				4,347,745		4,347,745
OPEB Liability	246,868	243,549	246,868			243,549		243,549
Net Pension Liability	2,316,984	1,120,271			0	3,437,255		3,437,255
Compensated Absences	272,465	265,743	272,465			265,743	265,743	0
Total Other	3,207,206	5,977,308	662,983	0	0	8,521,531	415,117	8,106,414
Total Governmental Activities	23,177,660	5,977,308	2,218,277	2,020,000	1,990,000	26,966,691	1,790,117	25,176,574
<u>Business-Type Activities:</u>								
OPEB Liability	23,732	23,030	23,732			23,030		23,030
Net Pension Liability	244,429	105,894			0	350,323		350,323
Compensated Absences	14,848	14,589	14,848			14,589	14,589	0
Total Business-Type Activities	283,009	143,513	38,580	0	0	387,942	14,589	373,353
Grand Total	\$23,460,669	\$6,120,821	\$2,256,857	\$2,020,000	\$1,990,000	\$27,354,633	\$1,804,706	\$25,549,927

The government-wide statement of net position includes \$1,804,706 as "noncurrent liabilities, due within one year". There was no interest capitalized in the Capital assets but rather was expended in the financial statements. Note: Compensated absences are short term liabilities. The governmental activities bonds Series 2007, 2019 Refunded, 2012, 2014, 2017, and 2018 are serviced by the Debt Service Fund, the capital leases are serviced by the General Fund and the Beach fund, and the compensated absences are serviced by the General Fund. The Business-type activities compensated absences are serviced by the Gas Fund, the Sanitation Fund, and the Harbor Fund.

For a discussion of other post employee benefits please see part V F in these notes.

### **G. Segment information**

Because the gas fund, the sanitation fund, and the harbor fund are reported as major funds in the fund financial statements, separate segment disclosures for them are not required.

## V. Other Information

### A. Risk management

The government 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 government carries commercial insurance. Liabilities of the fund are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and number of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claim's liability estimate.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year ended <u>09/30/18</u>	Year ended <u>09/30/19</u>
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments	<u>-0-</u>	<u>-0-</u>
Unpaid claims, end of fiscal year	<u>\$ -0-</u>	<u>\$ -0-</u>

#### ***General Liability Insurance***

The City is insured for general, police officers and automobile liability. Expenditures for self-insured liabilities are accounted for in the General Fund, which will pay any liabilities incurred.

The City has joined with other governments in the Texas Municipal League Intergovernmental Risk Pool (TML). The City pays an annual premium to TML for auto vehicle insurance coverage. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims more than \$500,000 to \$1,000,000 for each insurance event. The City anticipates no contingent losses.

TML has published its own financial report that can be obtained from the Texas Municipal League Intergovernmental Risk Pool, Austin, Texas.

The City carries commercial fidelity bonds for elected officials and for management.

***Property and Casualty Insurance***

Property, casualty, mobile equipment, boiler, and machinery insurance is provided by TML.

***Workers' Compensation Insurance***

The City insures against workers' compensation claims through TML.

***Group Health and Life Insurance***

The City maintains a group health insurance plan for active employees and their eligible dependents. Costs are recorded in the fund from which the employees' compensation is paid.

***Unemployment Compensation Insurance***

The City self-insures for unemployment compensation claims through an agreement with the Texas Workforce Commission (TWC). Under the agreement, TWC administers all claims and is reimbursed by the City for claims incurred plus administrative charges.

## **B. Subsequent Events**

In the October 17, 2019 meeting, Council approved RFP for City Hall/Civic Center repair to Argio Roofing and Construction LLC in the amount of \$871,075.00, and approved Professional Service Task Order Agreement with Urban Engineering Inc Task Order #25 in the amount of \$279,139.00 for the design of the City of Port Aransas Roadway Damages. The Council also authorized the purchase of (3) 2019 Ford F150 Extended Cab 4X4 Trucks for the Police Department from Silsbee Ford thru Goodbuy Cooperative in the amount of \$112,032.75.

In the November 21, 2019 Council Meeting, Council approved RFP for the Community Pool Improvements and Repairs to the lowest responsible bidder, Atlantis Pool Plastering, Inc in the amount of \$101,250.00; authorizing bid alternates in the amount of \$67,957.00 with funds in the total amount of \$169,207.00. Council awarded RFP for the Jerry McDonald Ball Field to Gourley Contracting in the total amount of \$956,400.00.

Council also approved the following Professional Services – Task/Change Order Agreement:

- **Urban Engineering** - approving Task Order #1, in the amount of \$222,705.00, for enhancements to the Municipal Marina and Roberts Point Park – improvements to dock 10.
- **Urban Engineering** - approving Task Order #26, in the amount of \$851,200.00, for the City of Port Aransas Hazard Mitigation Drainage Improvements.

In the January 16, 2020 Council Meeting, Council approved to authorize the purchase of Splashpad Equipment for the Parks and Recreation Department from Kraftsman Commercial Playgrounds & Water Parks through Buy Board in the amount of \$350,903.14.

Council also authorized the purchase of (1) one 2019 F-450 Medix Ambulance for the EMS Department form Southwest Ambulance Sales through HGAC for a total of \$227,022.00. This will be a 5-year tax-exempt lease purchase financing proposal with Government Finance Corporation for a purchase price of \$227,022.00 at 2.45% interest and annual payments of \$47,628.56, for a total cost of \$238,142.80.

Council also approved the following Professional Services – Task/Change Order Agreement:

- **Gignac Architects**-approving Amendment #2 of Task order #4, in the amount of \$238,287.00, for architectural design services for the fire station facility.
- **Urban Engineering**-approving Task Order #2, in the amount of \$120,282.00, for enhancements to Municipal Marina & Roberts Point Park-Enhanced Parking, and Task Order #3, in the amount of \$78,969.00, for enhancements to Municipal Marina & Roberts Point Park-Enhanced Mobility.

In July 2020 meeting, Council approved the Professional Services-Task Order #29 agreement with **Urban Engineering**, in the amount of \$113,584.00, for Charlie's Pasture Temporary Bulkhead.

### C. Contingent Liabilities

Amounts received or receivable from grant 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, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The City is participating in the following causes of action:

Cause No. 2017CCV-61369-1; *City of Port Aransas, Texas; Charles R. Bujan, Mayor; and David Parsons, City Manager vs. Julie Smith Shodrok*; In the County Court at Law No. 1 of Nueces County, Texas. The trial court entered judgment against the City for \$50,000.00. The case is on appeal. The 13<sup>th</sup> Court of Appeals recently ruled in favor of the City, the Mayor and City Manager.

Cause No. 2018DCV-2277-A; *Julie Smith Shodrok vs. Charles R. Bujan*; In the 28<sup>th</sup> Judicial District Court of Nueces County, Texas. Texas Municipal League Intergovernmental Risk Pool is providing a defense under Reservation of Rights for this suit filed against Mayor Bujan, in his individual capacity, for statements he made that Ms. Shodrok violated the law. Statements made by the Mayor were made on social media and commented on in the community. There has not been any attempt to assert liability against the City of Pott Aransas for this case. The case is pending.

Cause No. 2019CCV-61513-3; *Port of Corpus Christi Authority of Nueces County, Texas vs. City of Port Aransas*; In the County Court at Law No. 3 of Nueces County, Texas. The City filed a plea to the jurisdiction. The Court ruled in favor of the City and that ruling is on appeal.

Cause No. 2019DCV-6221-B, *The City of Port Aransas, Texas vs. The Port of Corpus Christi Authority of Nueces County, Texas*; In the 117<sup>th</sup> Judicial District Court of Nueces County, Texas. The Port filed a plea to the jurisdiction which has not been heard.

***Port of Corpus Christi Authority of Nueces County, Texas v. City of Port Aransas, Texas***; Cause No. 2019CCV-6113-3; County Court at Law No. 3 of Nueces County, Texas. **Nature of the Litigation**: On September 3, 2019, Plaintiff Port of Corpus Christi Authority of Nueces County, Texas ("Port"), filed suit against the City seeking declaratory judgment, injunctive relief, and attorney's fees based on the City's enactment of a resolution and an ordinance that concerned potential development on and around Harbor Island, which is an island located within the corporate limits of the City. **Progress of the Litigation to Date**: The City filed a plea to the jurisdiction seeking the dismissal of the Port's suit based on the Port's lack of standing and the City's governmental immunity. The trial court granted the plea on certain grounds, but denied it as to others. As a result, the trial court did not dismiss the case. The City filed an interlocutory appeal of the plea order to the 13<sup>th</sup> Court of Appeals. The City and the Port entered into a settlement agreement in August 2020. The case on appeal has been dismissed and the case in the trial court will be dismissed once the mandate from the court of appeals is issued.

*City of Port Aransas, Texas v. The Port of Corpus Christi Authority of Nueces County, et al;* Cause No. 2019DCV-6221-B; 117<sup>th</sup> Judicial District Court of Nueces County, Texas. **Nature of the Litigation:** In January, 2020, the City filed suit against the Port of Corpus Christi Authority of Nueces County, Texas ("Port"), and against Sam Esquivel ("Esquivel") in his official capacity only as Director of Real Estate Services of the Port of Corpus Christi Authority of Nueces County, Texas. The suit sought a declaratory judgment that the City had not breached the City's marina lease with the Port. **Progress of the Litigation to Date:** The Port filed a plea to the jurisdiction seeking the dismissal of the City's suit based on the Port's governmental immunity. The trial court granted the plea and dismissed the case. The City filed an appeal to the 13<sup>th</sup> Court of Appeals. The City and the Port entered into a settlement agreement in August 2020, which also resolved the City's claims against Esquivel. The case on appeal has been dismissed and the case in the trial court will be dismissed once the mandate from the court of appeals is issued.

**D. Prior Period Adjustments**

The City has determined that certain transactions were recorded incorrectly in a prior year. The City had a prior period adjustment whereby the governmental activities' Net Position was restated upward by \$336,271. The restatement occurred because a capital lease listed as being outstanding on September 30, 2018 was actually paid off in September 2018. The restatement had the corresponding effect on the beginning Net Position as follows:

	Net Position, as Previously Reported	Capital Lease Restatement	Net Position As Restated
Governmental Activities:			
Net Position	\$24,716,617	\$336,271	\$25,052,888
Total Governmental Activities	<u>\$24,716,617</u>	<u>\$336,271</u>	<u>\$25,052,888</u>

**E. Related Party Transactions**

Council Member–Place #1 - is an officer of American Bank, which is a depositor for the City.

## F. Defined Benefit Pension Plans

### EXECUTIVE SUMMARY

as of December 31, 2018

Actuarial Valuation and Measurement Date, December 31,	2018	2017
<b>Membership</b>		
Number of		
- Inactive employees or beneficiaries currently receiving benefits	53	50
- Inactive employees entitled to but not yet receiving benefits	66	66
- Active employees	109	118
- Total	<u>228</u>	<u>234</u>
Covered Payroll	\$5,824,298	\$6,283,090
<b>Net Pension Liability</b>		
Total Pension Liability	\$16,458,907	\$15,263,536
Plan Fiduciary Net Position	<u>12,671,324</u>	<u>12,702,118</u>
Net Pension Liability/(Asset)	\$3,787,583	\$2,561,418
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	76.99%	83.22%
Net Pension Liability/(Asset) as a Percentage of Covered Payroll	65.03%	40.77%
<b>Development of the Single Discount Rate</b>		
Single Discount Rate	6.75%	6.75%
Long-Term Expected Rate of Return	6.75%	6.75%
Long-Term Municipal Bond Rate	3.71%	3.31%
Last year ending December 31 in the 100-year projection period for which projected benefit payments are fully funded	N/A	N/A



### SCHEDULE OF PENSION EXPENSE

1. Total Service Cost	\$848,018
2. Interest on the Total Pension Liability	1,036,361
3. Changes in Current Period Benefits Including Substantively Automatic Status	0
4. Employee Contributions (Reduction of Expense)	(349,458)
5. Projected Earnings on Plan Investments (Reduction of Expense)	(857,393)
6. Administrative Expense	7,354
7. Other Changes in Fiduciary Net Position	384
8. Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	(5,376)
9. Recognition of Current Year Outflow (Inflow) of Resources-Assets	247,603
10. Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities	(77,040)
11. Amortization of Prior Year Outflows (Inflows) of Resources-Assets	(4,969)
12. Total Pension Expense (Income)	<u>\$845,484</u>

**SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE**

A.	Recognition Period (or amortization year)	Total (Inflow) or Outflow of Resources	<b>2018 Recognized in current pension expense</b>	Deferred (Inflow)/Outflow in future expense
<b>Due to Liabilities:</b>				
Difference in expected and actual experience [actuarial (gains) or losses]	3.8900	(\$20,913)	(\$5,376)	(\$15,537)
Change in assumptions [actuarial (gains) or losses]	3.8900	\$0	\$0	\$0
			<u>(\$5,376)</u>	<u>(\$15,537)</u>
<b>Due to Assets:</b>				
Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses]	5.0000	\$1,238,014	\$247,603	\$990,411
			<u>\$247,603</u>	<u>\$990,411</u>
<b>Total:</b>				<u>\$974,874</u>

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future pension expense as follows:

	Net deferred outflows (inflows) of resources
2019	\$226,629
2020	89,441
2021	89,765
2022	247,602
2023	0
Thereafter	0
Total	<u>\$653,437</u>

Note to City:

GASB 68 requires 10 fiscal years of data to be provided in the Schedule of Contributions; the City will build this report over the next ID-year period. The data in this schedule is based on the City's fiscal year-end, not the valuation/measurement date as provided in other schedules of this report.

The Actuarially Determined Contribution (ADC) dollar amount can be calculated by multiplying the City's Full Retirement Rate (excludes portion of rate for Supplemental Death Benefits Fund) by the applicable payroll amount (for payroll, cities can use "gross earnings" as noted on line 1 of their TMRS-3 "Summary of Monthly Payroll Report"). The applicable months for the City's fiscal year are summed to determine the total ADC. Actual contribution amounts (employer-portion) remitted to TMRS will equal the "contributions in relation to ADC", with the deficiency/(excess) result then calculated. Covered payroll is the sum of the "gross earnings" for the applicable months of the TMRS-3 reports.

For additional detailed information, please reference the TMRS "GASB 68 Employer Reporting Guide."

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$6,242,163	\$3,787,583	\$1,787,161

## SUMMARY OF ACTUARIAL ASSUMPTIONS

These 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 postretirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) 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, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization

### *I. Economic Assumptions*

A. General Inflation — General Inflation is assumed to be 2.50% per year.

B. Discount/Crediting Rates

1. System-wide Investment Return Assumption: 6.75% per year, compounded annually, composed of an assumed 2.50% inflation rate and a 4.25% net real rate of return. This rate represents the assumed return, net of all investment and administrative expenses. This is the discount rate used to value the liabilities of the individual employers,
2. Assumed discount/crediting rate for Supplemental Disability Benefits Fund and individual employee accounts: an annual rate of 5.00% for (1) accumulating prior service credit and updated service credit after the valuation date, (2) accumulating the employee current service balances, (3) determining the amount of the monthly benefit at future dates of retirement or disability, and (4) calculating the actuarial liability of the system-wide Supplemental Disability Benefits Fund.

C. Overall Payroll Growth — 3.00% per year, which is used to calculate the contribution rates for the retirement plan of each participating city as a level percentage of payroll. This represents the expected increase in total payroll. This increase rate is solely due to the effect of wage inflation on salaries, with no allowance for future membership growth. However, for cities with a decrease in the number of contributing members from 2005 to 2014, the payroll growth is decreased by half the annual percentage decrease in the count capped at a 1.0% decrease per year and rounded down to the nearest 0.1%.

D. Individual Salary Increases —

Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

<u>Years of Service</u>	<u>Rate (%)</u>
1	10.50%
2	7.50%
3	7.00%
4	6.50%
5	6.00%
6	5.50%
7	5.25%
8-10	4.75%
11	4.50%
12-13	4.25%
14-16	4.00%
17-24	3.75%
25+	3.50%

E. Annuity Increase - The Consumer Price Index (CPI) is assumed to be 2.50% per year prospectively. For the City of Port Aransas annual annuity increases of 1.86% are assumed when calculating the TPL.

## II. Demographic Assumptions

### A. Termination Rates

- For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. For City of Port Aransas the base table is then multiplied by a factor of 80.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire — 63%, 2) Police - 88%, or 3) Other - 108%. A sample of the base rates follows:

#### Males

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.2920	0.2623	0.2186	0.1932	0.1850	0.1673	0.1529	0.1243	0.1022	0.0816
25	0.2653	0.2269	0.1812	0.1554	0.1429	0.1267	0.1148	0.1006	0.0926	0.0757
30	0.2451	0.2052	0.1610	0.1322	0.1079	0.0998	0.0896	0.0774	0.0744	0.0621
35	0.2505	0.2070	0.1577	0.1265	0.1050	0.0994	0.0848	0.0719	0.0621	0.0567
40	0.2467	0.2060	0.1561	0.1213	0.1046	0.0943	0.0805	0.0710	0.0601	0.0577
45	0.2268	0.1934	0.1556	0.1220	0.1053	0.0926	0.0813	0.0711	0.0605	0.0575
50	0.2078	0.1731	0.1412	0.1149	0.1016	0.0887	0.0807	0.0716	0.0604	0.0578
55	0.2003	0.1668	0.1265	0.1074	0.0861	0.0864	0.0771	0.0682	0.0609	0.0560
60	0.1999	0.1542	0.1231	0.1060	0.0790	0.0868	0.0753	0.0683	0.0571	0.0549
65	0.2000	0.1463	0.1238	0.1063	0.0803	0.0867	0.0757	0.0700	0.0547	0.0551
70	0.2000	0.1477	0.1237	0.1063	0.0802	0.0867	0.0756	0.0697	0.0551	0.0551

#### Females

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.3030	0.2790	0.2221	0.2098	0.1997	0.2021	0.1536	0.1539	0.1564	0.1574
25	0.2782	0.2409	0.2067	0.1962	0.1710	0.1663	0.1369	0.1352	0.1186	0.1125
30	0.2574	0.2188	0.1949	0.1762	0.1347	0.1348	0.1276	0.1126	0.0973	0.0804
35	0.2424	0.2118	0.1805	0.1438	0.1273	0.1238	0.1112	0.1085	0.1000	0.0769
40	0.2244	0.1993	0.1614	0.1342	0.1295	0.1097	0.1023	0.0924	0.0834	0.0733
45	0.2191	0.1853	0.1427	0.1337	0.1054	0.1017	0.0894	0.0784	0.0705	0.0725
50	0.2201	0.1793	0.1347	0.1229	0.0886	0.0881	0.0823	0.0723	0.0675	0.0617
55	0.2200	0.1738	0.1350	0.1199	0.0834	0.0806	0.0713	0.0705	0.0685	0.0551
60	0.2200	0.1523	0.1350	0.1172	0.0798	0.0843	0.0646	0.0639	0.0429	0.0379
65	0.2200	0.1431	0.1350	0.1150	0.0800	0.0857	0.0667	0.0593	0.0276	0.0280
70	0.2200	0.1447	0.1350	0.1154	0.0800	0.0854	0.0664	0.0601	0.0303	0.0298

2. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility. For City of Port Aransas the base table is then multiplied by a factor of 80.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire — 52%, 2) Police — 79%, or 3) Other — 115%. A sample of the base rates follows:

Years from Retirement	Male	Female
1	1.72%	2.20%
2	2.29%	2.97%
3	2.71%	3.54%
4	3.06%	4.01%
5	3.35%	4.41%
6	3.61%	4.77%
7	3.85%	5.10%
8	4.07%	5.40%
9	4.28%	5.68%
10	4.47%	5.94%
11	4.65%	6.19%
12	4.82%	6.43%
13	4.98%	6.66%
14	5.14%	6.87%
15	5.29%	7.08%

Termination rates end at first eligibility for retirement

- B. Forfeiture Rates (Withdrawal of Member Deposits from TMRS) for vested members vary by age and employer match, and they are expressed as a percentage of the termination rates shown in (A). The withdrawal rates for cities with a 2-to-1 match are shown below. 4% is added to the rates for 1 ½-to-1 cities, and 8% is added for 1-to-1 cities.

Age	Percent of Terminating Employees Choosing to Take a Refund
25	41.2%
30	41.2%
35	41.2%
40	38.0%
45	32.6%
50	27.1%
55	21.7%

Forfeiture rates end at first eligibility for retirement.

#### C. Service Retirees and Beneficiary Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

#### D. Disabled Annuitant Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate will be 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 3% floor.

#### E. Pre-Retirement Mortality

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 54.5% and female rates multiplied by 51.5%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

#### F. Annuity Purchase Rates

For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027 the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.



G. Disability Rates

Age	Males & Females
20	0.000004
25	0.000025
30	0.000099
35	0.000259
40	0.000494
45	0.000804
50	0.001188
55	0.001647
60	0.002180
65	0.002787

H. Service Retirement Rates, applied to both Active and Inactive Members

The base table rates vary by gender, entry age group, and age. For members under age 62, these base rates are then multiplied by 2 factors based on 1) employee contribution rate and employer match and 2) if the city has a recurring COLA.

Age	Males			Females		
	Entry Age Groups			Entry Age Groups		
	Ages 32 & Under	Ages 33 - 47	Ages 48 & Over	Ages 32 & Under	Ages 33 - 47	Ages 48 & Over
40-44	0.06	-	-	0.06	-	-
45-49	0.06	-	-	0.06	-	-
50-52	0.08	-	-	0.08	-	-
53	0.08	0.10	-	0.08	0.10	-
54	0.08	0.10	-	0.11	0.10	-
55-59	0.14	0.10	-	0.11	0.10	-
60	0.20	0.15	0.10	0.14	0.15	0.10
61	0.25	0.30	0.20	0.28	0.26	0.20
62	0.32	0.25	0.12	0.28	0.17	0.12
63	0.32	0.23	0.12	0.28	0.17	0.12
64	0.32	0.35	0.20	0.28	0.22	0.20
65	0.32	0.32	0.20	0.28	0.27	0.20
66-69	0.22	0.22	0.17	0.22	0.22	0.17
70-74	0.20	0.22	0.25	0.22	0.22	0.25
75 and over	1.00	1.00	1.00	1.00	1.00	1.00

Note: For cities without a 20-year/any age retirement provision, the rates for entry ages 32 and under are loaded by 20% for ages below 60.

Plan Design Factors Applied to Base Retirement Rates

Employer Match	Employee Contribution Rate		
	5%	6%	7%
1-1	0.75	0.80	0.84
1.5-1	0.81	0.86	0.92
2-1	0.86	0.93	1.00

Recurring COLA: 100%

No Recurring COLA: 90%

### **III. *Methods and Assumptions***

- A. Valuation of Assets — The actuarial value of assets is based on the market value of assets with a ten-year phase-in of actual investment return in excess of (less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized, with the shortest remaining bases recognized first and the net remaining bases continue to be recognized on their original timeframe. The actuarial value of assets is further adjusted by 33% of any difference between the initial value and a 15% corridor around the market value of assets, if necessary,
- B. Actuarial Cost Method: The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. The Entry Age Normal Actuarial Cost Method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the current city. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated. The unfunded actuarial accrued liability is paid off in accordance with a specified amortization procedure outlined in C below.

- C. Amortization Policy: For "underfunded" cities with twenty or more employees, the amortization as of the valuation date is a level percentage of payroll over a closed period using the process of "laddering". Bases that existed prior to this valuation continue to be amortized on their original schedule. Beginning January 1, 2016, all new experience losses are amortized over individual periods of not more than 25 years. Previously, some cities amortized their losses over a 30-year period. New gains (including lump sum contributions) are offset against and amortized over the same period as the current largest outstanding loss base for the specific City which in turn decreases contribution rate volatility.

Once a City reaches an "overfunded" status, all prior non-ad hoc bases are erased and the surplus for overfunded cities is amortized over a 25-year open period.

Ad hoc benefit enhancements are amortized over individual periods using a level dollar policy. The period will be based on the minimum of 15 years or the current life expectancy of the covered group.

For the December 31, 2013 actuarial valuation, there was a one-time change in the amortization policy for underfunded cities implemented in conjunction with the changes to the assumptions and cost method to minimize rate volatility associated with these changes. An initial ARC was developed using the methodology described above. For cities with a decrease in the rate compared to the rate calculated prior to changes, the amortization period for all non-ad hoc bases was shortened enough to keep the rates stable (if possible). Cities with an increase of more than 0.50% were allowed to extend the amortization periods for non-ad hoc bases up to 30 years to keep the full contribution rate from increasing. For cities with an increase of 0.50% or less, the amortization periods for all non-ad hoc bases could be extended to 25 years to keep the rate from increasing. The amortization period calculated in the prior steps was then rounded up to the nearest integer to calculate the final full contribution rate.

- D. Small City Methodology For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members.

There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%).

For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20-member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use  $(25 - (20 - 8)) = 13$ -year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be  $25 - (20 - 1) = 6$  years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

**IV. Other Assumptions**

1. Valuation payroll (used for determining the amortization contribution rate): An exponential average of the actual salaries paid during the prior fiscal years, with 33% weight given to the most recent year and 67% weight given to the expected payroll for the previous fiscal year, moved forward with one year's payroll growth rate and adjusted for changes in population.
2. Individual salaries used to project benefits: For members with more than three years of service, actual salaries from the past three fiscal years are used to determine the USC final average salary as of the valuation date. For future salaries, this three-year average is projected forward with two years of salary scale to create the salary for the year following the valuation. This value is then projected with normal salary scales.
3. Timing of benefit payments: Benefit payments are assumed to be made in the middle of the month. Although TMRS benefits are paid at the end of the month, eligibility for that payment is determined at the beginning of the month. A middle of month payment approximates the impact of the combination of eligibility determination and actual payment timing,
4. Percent married: 100% of the employees are assumed to be married.
5. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses.
6. Optional Forms: Healthy members are assumed to choose a life only benefit when they retire. Disabled members are assumed to select a 50% Joint and Survivor option when they retire.
7. Percent electing annuity on death (when eligible): For vested members not eligible for retirement, 75% of the spouses of male members and 70% of the spouses of female members are assumed to commence an immediate benefit in lieu of a deferred annuity or a refund. Those not electing an immediate benefit are assumed to take a refund. All of the spouses of married participants who die after becoming eligible for a retirement benefit are assumed to elect an annuity that commences immediately.
8. Partial Lump Sum Utilization: It is assumed that each member at retirement will withdraw 40% of their eligible account balance.
9. Inactive Population: All non-vested members of a city are assumed to take an immediate refund if they are not contributing members in another city. Vested members not contributing in another city are assumed to take a deferred retirement benefit, except for those who have terminated in the past 12 months for whom one year of forfeiture probability is assumed. The forfeiture rates for inactive members of a city who are contributing members in another city are equal to the probability of termination multiplied by the forfeiture rates shown in II(A) and II(B) respectively. These rates are applied each year until retirement eligibility. Once a member is retirement eligible, they are assumed to commence benefits based on the service retirement rates shown in II(H).

10. There will be no recoveries once disabled.
11. No surviving spouse will remarry and there will be no children's benefit.
12. Decrement timing: Decrements of all types are assumed to occur mid-year.
13. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
14. Decrement relativity: Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
15. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
16. Benefit Service: All members are assumed to accrue 1 year of eligibility service each year.
17. The decrement rates for service-related decrements are based on total TMRS eligibility service.

## ***V. Participant Data***

Participant data was supplied in electronic text files. There were separate files for (i) active and inactive members, and (ii) members and beneficiaries receiving benefits.

The data for active members included birthdate, gender, service with the current city and total vesting service, salary, employee contribution account balances, as well as the data used in the next calculation of the Updated Service Credit (USC). For retired members and beneficiaries, the data included date of birth, gender, spouse's date of birth (where applicable), amount of monthly benefit, date of retirement, form of payment code, and aggregate increase in the CPI that will be used in the next calculation of the cost of living adjustment.

To the extent possible we have made use of all available data fields in the calculation of the liabilities stated in this report. Actual CPI is used to model the wear-away effect or "catch-up" when a city changes its COLA provisions. Adjustments are made for members who have service both in a city with "20 and out" retirement eligibility and one that hasn't adopted it to calculate the earliest possible retirement date,

Salary supplied for the current year was based on the annualized earnings for the year preceding the valuation date.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

**Amortization Schedule  
Deferred (Inflows)/Outflows of  
Resources**

	Remaining Recognition period (or amortization years)	Total Remaining (Inflow) or Outflow of Resources	Measurement Year						
			2018	2019	2020	2021	2022	2023	Thereafter
<b>Due to Liabilities:</b>									
difference in experiences (inflows)/outflows									
2018	3.8900	(\$20,913)	(\$5,376)	(\$5,376)	(\$5,376)	(\$4,785)	\$0	\$0	\$0
2017	2.9400	\$1,213	\$413	\$413	\$387	\$0	\$0	\$0	\$0
2016	1.9100	22,047	11,543	10,504	0	0	0	0	0
2015	1.0000	(109,505)	(109,505)	0	0	0	0	0	0
		<b>Total</b>	<b>(\$102,925)</b>	<b>\$5,541</b>	<b>(\$4,989)</b>	<b>(\$4,785)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

change in assumptions (inflows)/outflows

2015	1.0000	\$20,509	\$20,509	\$0	\$0	\$0	\$0	\$0	\$0
		<b>Total</b>	<b>\$20,509</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Due to Assets:**

excess investment returns (inflows)/outflows

2018	5.0000	\$1,238,014	\$247,603	\$247,603	\$247,603	\$247,603	\$247,602	\$0	\$0
2017	4.0000	(\$612,206)	(\$153,051)	(\$153,051)	(\$153,051)	(\$153,053)	\$0	\$0	\$0
2016	3.0000	(364)	(121)	(121)	(122)	0	0	0	0
2015	2.0000	253,315	126,658	126,657	0	0	0	0	0
2014	1.0000	21,545	21,545	0	0	0	0	0	0
		<b>Total</b>	<b>\$242,634</b>	<b>\$221,088</b>	<b>\$94,430</b>	<b>\$94,550</b>	<b>\$247,602</b>	<b>\$0</b>	<b>\$0</b>

## G. GASB 75 Information

### Actuarial and Financial Schedules

As of Measurement Date of December 31, 2018

<b>Actuarial Valuation and Measurement Date, December 31,</b>	2018
<b>Membership</b>	
Number of	
-Inactive employees currently receiving benefits	36
-Inactive employees entitled to but not yet receiving benefits	12
-Active employees	109
-Total	<u>157</u>
<b>Covered Payroll</b>	\$5,824,298
<b>Changes in the Total OPEB Liability</b>	
Total OPEB Liability - beginning of year	\$270,600
Changes for the year	
Service cost	19,803
Interest on Total OPEB Liability	9,256
Changes of benefit term	0
Differences between expected and actual experience	(12,937)
Changes in assumptions or other inputs	(18,393)
Benefit payments	<u>(1,747)</u>
Net changes	<u>(4,018)</u>
Total OPEB Liability - end of year	\$266,582
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	4.58%



**Summary of Actuarial Assumptions:**

Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Discount rate	3.71%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Note: The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

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

	<b>1% Decrease (2.71%)</b>	<b>Current Discount Rate (3.71%)</b>	<b>1% Increase (4.71%)</b>
Total OPEB liability	\$315,821	\$266,582	\$227,611

OPEB Expense:

Service cost	\$19,803
Interest on total OPEB Liability	9,256
Changes in benefit terms	0
Employer administrative costs	0
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	(2,274)
Changes in assumptions or other inputs	418
Total OPEB expense	\$27,203

**Deferred (Inflows)/Outflows of Resources:**

	<b>Deferred (Inflows) of Resources</b>	<b>Deferred Outflows of Resources</b>
Differences between expected and actual experience	(\$10,663)	\$0
Changes in assumptions and other inputs	(1,685)	0
Contributions made subsequent to measurement date	N/A	NONE
Total (excluding contributions made subsequent to measurement date)	(\$12,348)	\$0

**Schedule of Outflows and Inflows - Current and future expense**

	Recognition Period (or amortization years)	Total (Inflow) or Outflow of Resources	<b>2018 Recognized in current OPEB expense</b>	Deferred (Inflow)/Outflow in future expense
<b><u>Due to Liabilities:</u></b>				
Difference in expected and actual experience [actuarial (gains) or losses]	5.6900	(\$12,937)	(\$2,274)	(\$10,663)
Change in assumptions [actuarial (gains) or losses]	5.6900	(18,393)	(3,233)	(\$15,160)
Contributions made subsequent to measurement date		NONE	NONE	NONE
<b>Total (excluding city provided contributions made subsequent to measurement date):</b>				<b>(\$25,823)</b>

**Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future OPEB expense (excluding city-provided contributions made subsequent to the measurement date):**

	Net deferred outflows (inflows) of resources
2019	(\$1,856)
2020	(1,856)
2021	(1,856)
2022	(2,985)
2023	(3,795)
Thereafter	0
	(\$12,348)

**Amortization Schedule - Deferred (Inflows)/Outflows of Resources**

	Remaining Recognition period (or amortization years)	Total Remaining (Inflow) or Outflow of Resources	2018	2019	2020	2021	2022	2023	Thereafter
difference in experience (inflows)/outflows									
2018	5.6900	(\$12,937)	(\$2,274)	(\$2,274)	(\$2,274)	(\$2,274)	(\$2,274)	(\$1,567)	(\$43)
<b>Total</b>			<b>(\$2,274)</b>	<b>(\$2,274)</b>	<b>(\$2,274)</b>	<b>(\$2,274)</b>	<b>(\$2,274)</b>	<b>(\$1,567)</b>	<b>(\$43)</b>
change in assumptions (inflows)/outflows									
2018	5.6900	(\$18,393)	(\$3,233)	(\$3,233)	(\$3,233)	(\$3,233)	(\$3,233)	(\$2,228)	\$0
2017	4.6900	\$17,126	\$3,651	\$3,651	\$3,651	\$3,651	\$2,522	\$0	\$0
<b>Total</b>			<b>\$418</b>	<b>\$418</b>	<b>\$418</b>	<b>\$418</b>	<b>(\$711)</b>	<b>(\$2,228)</b>	<b>\$0</b>

**Schedule of Contributions - (Retiree-only portion of the rate, for OPEB):**

<b>Plan/Calendar Year</b>	<b>Total SDB Contribution (Rate)</b>	<b>Retiree Portion of SDB Contribution (Rate)</b>
2019	<i>0.22%</i>	<i>0.03%</i>
2018	<i>0.22%</i>	<i>0.03%</i>
2017	<i>0.23%</i>	<i>0.04%</i>

Note 1: Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer’s yearly contributions for retirees.

Note 2: In order to determine the retiree portion of the City’s Supplemental Death Benefit Plan contributions (that which is considered OPEB), the City should perform the following calculation:

$$\text{Total covered payroll} * \text{Retiree Portion of SDB Contribution (Rate)}$$

Consideration should be given to the time period of contributions incurred (i.e., City’s fiscal year vs. calendar year) to ensure the proper contribution rate is utilized in the above calculation.

# Actuarial Assumptions

These 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 (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013.

## *I. Economic Assumptions*

- A. General Inflation – General Inflation is assumed to be 2.50% per year.
- B. Discount Rates – Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of the measurement date.
- C. Individual Salary Increases – Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

<u>Years of Service</u>	<u>Rate (%)</u>
1	10.50%
2	7.50%
3	7.00%
4	6.50%
5	6.00%
6	5.50%
7	5.25%
8-10	4.75%
11	4.50%
12-13	4.25%
14-16	4.00%
17-24	3.75%
25+	3.50%

## II. Demographic Assumptions

### A. Termination Rates

- For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. For City of Port Aransas the base table is then multiplied by a factor of 80.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire – 63%, 2) Police – 88%, or 3) Other – 108%. A sample of the base rates follows:

#### Males

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.2920	0.2623	0.2186	0.1932	0.1850	0.1673	0.1529	0.1243	0.1022	0.0816
25	0.2653	0.2269	0.1812	0.1554	0.1429	0.1267	0.1148	0.1006	0.0926	0.0757
30	0.2451	0.2052	0.1610	0.1322	0.1079	0.0998	0.0896	0.0774	0.0744	0.0621
35	0.2505	0.2070	0.1577	0.1265	0.1050	0.0994	0.0848	0.0719	0.0621	0.0567
40	0.2467	0.2060	0.1561	0.1213	0.1046	0.0943	0.0805	0.0710	0.0601	0.0577
45	0.2268	0.1934	0.1556	0.1220	0.1053	0.0926	0.0813	0.0711	0.0605	0.0575
50	0.2078	0.1731	0.1412	0.1149	0.1016	0.0887	0.0807	0.0716	0.0604	0.0578
55	0.2003	0.1668	0.1265	0.1074	0.0861	0.0864	0.0771	0.0682	0.0609	0.0560
60	0.1999	0.1542	0.1231	0.1060	0.0790	0.0868	0.0753	0.0683	0.0571	0.0549
65	0.2000	0.1463	0.1238	0.1063	0.0803	0.0867	0.0757	0.0700	0.0547	0.0551
70	0.2000	0.1477	0.1237	0.1063	0.0802	0.0867	0.0756	0.0697	0.0551	0.0551

#### Females

Age	Service									
	0	1	2	3	4	5	6	7	8	9
20	0.3030	0.2790	0.2221	0.2098	0.1997	0.2021	0.1536	0.1539	0.1564	0.1574
25	0.2782	0.2409	0.2067	0.1962	0.1710	0.1663	0.1369	0.1352	0.1186	0.1125
30	0.2574	0.2188	0.1949	0.1762	0.1347	0.1348	0.1276	0.1126	0.0973	0.0804
35	0.2424	0.2118	0.1805	0.1438	0.1273	0.1238	0.1112	0.1085	0.1000	0.0769
40	0.2244	0.1993	0.1614	0.1342	0.1295	0.1097	0.1023	0.0924	0.0834	0.0733
45	0.2191	0.1853	0.1427	0.1337	0.1054	0.1017	0.0894	0.0784	0.0705	0.0725
50	0.2201	0.1793	0.1347	0.1229	0.0886	0.0881	0.0823	0.0723	0.0675	0.0617
55	0.2200	0.1738	0.1350	0.1199	0.0834	0.0806	0.0713	0.0705	0.0685	0.0551
60	0.2200	0.1523	0.1350	0.1172	0.0798	0.0843	0.0646	0.0639	0.0429	0.0379
65	0.2200	0.1431	0.1350	0.1150	0.0800	0.0857	0.0667	0.0593	0.0276	0.0280
70	0.2200	0.1447	0.1350	0.1154	0.0800	0.0854	0.0664	0.0601	0.0303	0.0298

2. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility. For City of Port Aransas the base table is then multiplied by a factor of 80.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire – 52%, 2) Police – 79%, or 3) Other – 115%. A sample of the base rates follows:

Years from Retirement	Male	Female
1	1.72%	2.20%
2	2.29%	2.97%
3	2.71%	3.54%
4	3.06%	4.01%
5	3.35%	4.41%
6	3.61%	4.77%
7	3.85%	5.10%
8	4.07%	5.40%
9	4.28%	5.68%
10	4.47%	5.94%
11	4.65%	6.19%
12	4.82%	6.43%
13	4.98%	6.66%
14	5.14%	6.87%
15	5.29%	7.08%

Termination rates end at first eligibility for retirement

- B. Forfeiture Rates (Withdrawal of Member Deposits from TMRS) for vested members vary by age and employer match, and they are expressed as a percentage of the termination rates shown in (A). The withdrawal rates for cities with a 2-to-1 match are shown below. 4% is added to the rates for 1½-to-1 cities, and 8% is added for 1-to-1 cities.

Age	Percent of Terminating Employees Choosing to Take a Refund
25	41.2%
30	41.2%
35	41.2%
40	38.0%
45	32.6%
50	27.1%
55	21.7%

Forfeiture rates end at first eligibility for retirement.

- C. Service Retirees and Beneficiary Mortality Rates



For calculating the OPEB liability and the OPEB contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 97.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

D. Disabled Annuitant Mortality Rates

For calculating the OPEB liability and the OPEB contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set forward for both males and females. In addition, a 3% minimum mortality rate will be 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 3% floor.

E. Pre-Retirement Mortality

For calculating the OPEB liability and the contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 54.5% and female rates multiplied by 51.5%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

F. Disability Rates

Age	Males & Females
20	0.000004
25	0.000025
30	0.000099
35	0.000259
40	0.000494
45	0.000804
50	0.001188
55	0.001647
60	0.002180
65	0.002787

G. Service Retirement Rates, applied to both Active and Inactive Members

The base table rates vary by gender, entry age group, and age. For members under age 62, these base rates are then multiplied by 2 factors based on 1) employee contribution rate and employer match and 2) if the city has a recurring COLA.

Age	Males			Females		
	Entry Age Groups			Entry Age Groups		
	Ages 32 & Under	Ages 33 – 47	Ages 48 & Over	Ages 32 & Under	Ages 33 – 47	Ages 48 & Over
40-44	0.06	-	-	0.06	-	-
45-49	0.06	-	-	0.06	-	-
50-52	0.08	-	-	0.08	-	-
53	0.08	0.10	-	0.08	0.10	-
54	0.08	0.10	-	0.11	0.10	-
55-59	0.14	0.10	-	0.11	0.10	-
60	0.20	0.15	0.10	0.14	0.15	0.10
61	0.25	0.30	0.20	0.28	0.26	0.20
62	0.32	0.25	0.12	0.28	0.17	0.12
63	0.32	0.23	0.12	0.28	0.17	0.12
64	0.32	0.35	0.20	0.28	0.22	0.20
65	0.32	0.32	0.20	0.28	0.27	0.20
66-69	0.22	0.22	0.17	0.22	0.22	0.17
70-74	0.20	0.22	0.25	0.22	0.22	0.25
75 and over	1.00	1.00	1.00	1.00	1.00	1.00

Note: For cities without a 20-year/any age retirement provision, the rates for entry ages 32 and under are loaded by 20% for ages below 60.

Plan Design Factors Applied to Base Retirement Rates

Employer Match	Employee Contribution Rate		
	5%	6%	7%
1 – 1	0.75	0.80	0.84
1.5 – 1	0.81	0.86	0.92
2 – 1	0.86	0.93	1.00

Recurring COLA: 100%

No Recurring COLA: 90%

### **III. *Methods and Assumptions***

- A. Valuation of Assets – For purposes of calculating the Total OPEB Liability, the plan is considered to be unfunded and therefore no assets are accumulated for OPEB.
- B. Actuarial Cost Method: The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. The Entry Age Normal Actuarial Cost Method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the current city. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated.
- C. Supplemental Death Benefit – The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Fund, the SDB rate for retiree coverage is currently only one-third of the total term cost.

### **IV. *Other Assumptions***

- 1. Inactive Population: All non-vested members of a city are assumed to take an immediate refund if they are not contributing members in another city. Vested members not contributing in another city are assumed to take a deferred retirement benefit, except for those who have terminated in the past 12 months for whom one year of forfeiture probability is assumed. The forfeiture rates for inactive members of a city who are contributing members in another city are equal to the probability of termination multiplied by the forfeiture rates shown in II(A) and II(B) respectively. These rates are applied each year until retirement eligibility. Once a member is retirement eligible, they are assumed to commence benefits based on the service retirement rates shown in II(G).
- 2. There will be no recoveries once disabled.
- 3. Decrement timing: Decrements of all types are assumed to occur mid-year.
- 4. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
- 5. Decrement relativity: Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
- 6. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

7. Benefit Service: All members are assumed to accrue 1 year of eligibility service each year.

8. The decrement rates for service-related decrements are based on total TMRS eligibility service.

***V. Participant Data***

Participant data was supplied in electronic text files. There were separate files for (i) active and inactive members, and (ii) members and beneficiaries receiving benefits.

The data for active members included birthdate, gender, service with the current city and total vesting service and salary. For retired members, the data included date of birth, gender and date of retirement.

To the extent possible we have made use of all available data fields in the calculation of the liabilities stated in this report. Adjustments are made for members who have service both in a city with “20 and out” retirement eligibility and one that hasn’t adopted it to calculate the earliest possible retirement date.

Salary supplied for the current year was based on the annualized earnings for the year preceding the valuation date.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

CITY OF PORT ARANSAS, TEXAS  
CONSTRUCTION FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Interest	\$10,000	\$10,000	\$87,627	\$77,627
Miscellaneous				0
Total Revenues	10,000	10,000	87,627	77,627
<b>EXPENDITURES</b>				
Capital Projects - Capital Outlay and Other	2,400,000	2,835,000	1,970,660	864,340
Total Expenditures	2,400,000	2,835,000	1,970,660	864,340
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,390,000)	(2,825,000)	(1,883,033)	941,967
OTHER FINANCING SOURCES (USES):				
Other Financing Sources - Bond Proceeds				0
Operating Transfers In	0	435,000	435,000	0
Operating Transfers Out	(4,000,000)	(4,000,000)	(4,288,634)	(288,634)
Total Other Financing Sources (Uses)	(4,000,000)	(3,565,000)	(3,853,634)	(288,634)
Net Changes in Fund Balances	(\$6,390,000)	(\$6,390,000)	(5,736,667)	\$653,333
Fund Balances - Beginning	6,061,825	6,061,825	6,061,825	
Fund Balances - Ending	(\$328,175)	(\$328,175)	\$325,158	\$653,333

REQUIRED SUPPLEMENTARY INFORMATION

A. Total pension liability

	2018	2017	2016
1. Service Cost	\$848,018	\$907,907	\$826,657
2. Interest (on the Total Pension Liability)	1,036,361	957,205	875,901
3. Changes of benefit terms	0	0	0
4. Difference between expected and actual experience	(20,913)	1,626	45,133
5. Changes of assumptions	0	0	0
6. Benefit payments, including refunds of employee contributions	(668,095)	(660,131)	(507,493)
7. Net change in total pension liability	1,195,371	1,206,607	1,240,198
8. Total pension liability -- beginning	15,263,536	14,056,929	12,816,731
9. Total pension liability - ending	16,458,907	15,263,536	14,056,929

B. Plan fiduciary net position

1. Contributions - employer	676,202	739,519	702,974
2. Contributions - employee	349,458	376,985	345,160
3. Net investment income	(380,621)	1,491,703	647,381
4. Benefit payments, including refunds of employee contributions	(668,095)	(660,131)	(507,493)
5. Administrative Expense	(7,354)	(7,730)	(7,313)
6. Other	(384)	(392)	(394)
7. Net change in plan fiduciary net position	(30,794)	1,939,955	1,180,315
8. Plan fiduciary net position - beginning	12,702,118	10,762,163	9,581,848
9. Plan fiduciary net position - ending*	12,671,324	12,702,118	10,762,163

C. Net pension liability (A.9 - B.9)

\$3,787,583	\$2,561,418	\$3,294,766
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D. Plan fiduciary net position as a percentage  
of the total pension liability (B.9 / A.9)

76.99%	83.22%	76.56%
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E. Covered-employee payroll (B.9 / A.9)

\$5,824,298	\$6,283,090	\$5,752,659
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F. Net pension liability as a percentage  
of covered employee payroll (C/E)

65.03%	40.77%	57.27%
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**SCHEDULE OF CONTRIBUTIONS**  
Last 10 Fiscal Years (will ultimately be displayed)

	2015	2016	2017	2018
Actuarially Determined Contribution	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contributions in relation to the actuarially determined contribution	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contribution deficiency (excess)	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Covered payroll	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx	\$ xxx,xxx
Contributions as a percentage of covered payroll	xx.xx%	xx.xx%	xx.xx%	xx.xx%

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generated basis with scale BB

**Other Information:**

Notes

There were no benefit changes during the year.



## OPEB Retirement System Information:

OPEB Plan - GRS

### Changes in the Total OPEB Liability

Changes for the year

	2017	2018
1. Service Cost	\$18,849	\$19,803
2. Interest on Total OPEB Liability	8,802	9,256
3. Changes of benefit terms	0	0
4. Difference between expected and actual experience	0	(12,937)
5. Changes in assumptions or other inputs	20,777	(18,393)
6. Benefit payments	(2,513)	(1,747)
7. Net changes	45,915	(4,018)
Total OPEB Liability - beginning of year	\$224,685	\$270,600
Total OPEB Liability - end of year	\$270,600	\$266,582
E. Covered-employee payroll (B.9 / A.9)	\$6,283,090	\$5,824,298
F. Total OPEB Liability as a Percentage of Covered Payroll	4.31%	4.58%

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