

OFFICIAL STATEMENT DATED MAY 4, 2021

Ratings: Moody's: "Aa3"
Fitch: "AA"

NEW ISSUE - BOOK-ENTRY-ONLY

(See "OTHER INFORMATION - RATINGS" herein)

*In the opinion of Bond Counsel, under existing tax law, interest on the Bonds is **not** excludable from gross income for federal income tax purposes under existing law. See "TAX MATTERS" herein.*



\$13,545,000
CITY OF GALVESTON, TEXAS
GENERAL OBLIGATION REFUNDING BONDS,
TAXABLE SERIES 2021

Interest to accrue from Date of Delivery

Due: As shown on the inside cover page

PAYMENT TERMS . . . Interest on the \$13,545,000 City of Galveston, Texas, General Obligation Refunding Bonds, Taxable Series 2021 (the "Bonds") will accrue from the Date of Delivery (as defined below) to the initial purchasers thereof, will be payable November 1 and May 1 of each year until maturity or prior redemption, commencing November 1, 2021, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - BOOK- ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the constitution and general laws of the State of Texas (the "State"), including Chapter 1207, Texas Government Code, an ordinance adopted by the City Council of the City of Galveston, Texas (the "City") authorizing the issuance of the Bond and a pricing certificate executed pursuant thereto (collectively, the "Ordinance") (see "THE BONDS - AUTHORITY FOR ISSUANCE OF THE BONDS").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") for debt service savings and to pay the costs associated with the issuance of the Bonds (see "PLAN OF FINANCE – SOURCES AND USES OF FUNDS").

SECURITY AND SOURCE OF PAYMENT. . . The Bonds constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, as provided in the Ordinance (see "THE BONDS – SECURITY AND SOURCE OF PAYMENT").

OPTIONAL REDEMPTION . . . The Bonds are not subject to optional redemption prior to stated maturity (see "THE BONDS – NO OPTIONAL REDEMPTION").

See Maturity Schedule on the inside cover

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the underwriters listed below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel (see APPENDIX C, "FORM OF BOND COUNSEL OPINION"). Certain legal matters will be passed upon for the City by Hunton Andrews Kurth LLP, Houston, Texas, Disclosure Counsel, and for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Bonds will be available for delivery through the facilities of DTC on May 27, 2021 ("Date of Delivery").

SAMCO CAPITAL MARKETS, INC.

ESTRADA HINOJOSA

MATURITY SCHEDULE

\$13,545,000

CITY OF GALVESTON, TEXAS GENERAL OBLIGATION REFUNDING BONDS, TAXABLE SERIES 2021

<u>Due May 1⁽¹⁾</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield⁽²⁾</u>	<u>CUSIP Number⁽³⁾</u>
2022	\$2,075,000	0.27%	0.27%	364478XH5
2023	2,075,000	0.37	0.37	364478XJ1
2024	1,300,000	0.58	0.58	364478XK8
2025	1,305,000	0.90	0.90	364478XL6
2026	1,325,000	1.10	1.10	364478XM4
2027	1,340,000	1.35	1.35	364478XN2
2028	1,355,000	1.55	1.55	364478XP7
2029	1,375,000	1.73	1.73	364478XQ5
2030	1,395,000	1.83	1.83	364478XR3

(Interest to accrue from Date of Delivery)

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- (1) The Bonds are not subject to optional redemption prior to stated maturity (see "THE BONDS – NO OPTIONAL REDEMPTION).
 - (2) The initial yield at which the Bonds are priced is established by the Underwriters and may subsequently be changed at the discretion of the Underwriters.
 - (3) 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. Neither the City, the Municipal Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

No dealer, broker, salesman or other person has been authorized by the City or the Underwriters 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 or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Municipal Advisor or the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof.

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

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

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

The agreements of the City and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

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 any purpose.

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OFFICIAL STATEMENT SUMMARY

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

THE CITY	The City of Galveston, Texas (the “City”) is a political subdivision and municipal corporation of the State of Texas, located in Galveston County, Texas (see “INTRODUCTION - DESCRIPTION OF CITY” and “APPENDIX A - GENERAL INFORMATION REGARDING THE CITY”).
THE BONDS	The \$13,545,000 City of Galveston, Texas, General Obligation Refunding Bonds, Taxable Series 2021 (the “Bonds”) are issued as serial bonds maturing on May 1, 2022 through May 1, 2030, inclusive (see “THE BONDS - DESCRIPTION OF THE BONDS”).
PAYMENT OF INTEREST	Interest on the Bonds accrues from the date of delivery to the initial purchasers thereof (the “Date of Delivery”), and is payable November 1, 2021, and each May 1 and November 1 thereafter until maturity or prior redemption (see “THE BONDS - DESCRIPTION OF THE BONDS”).
AUTHORITY FOR ISSUANCE OF THE BONDS	The Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds and a pricing certificate executed pursuant thereto (collectively, the “Ordinance”) (see “THE BONDS - AUTHORITY FOR ISSUANCE OF THE BONDS”).
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, as provided in the Ordinance (see “THE BONDS – SECURITY AND SOURCE OF PAYMENT”).
REDEMPTION	The Bonds are not subject to optional redemption prior to the stated maturity (see “THE BONDS – NO OPTIONAL REDEMPTION”).
TAX MATTERS	Interest on the Bonds is <u>not</u> excludable from gross income for federal income taxation purposes. (See “TAX MATTERS” herein).
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I – Schedule of Refunded Obligations (the “Refunded Obligations”), for debt service savings, and to pay the costs associated with the issuance of the Bonds (see “PLAN OF FINANCE - SOURCES AND USES OF FUNDS”).
RATINGS	The Bonds and the presently outstanding tax supported debt of the City are rated “Aa3” by Moody’s Investors Service (“Moody’s”) and “AA” by Fitch Ratings (“Fitch”), without regard to credit enhancement (see “OTHER INFORMATION - RATINGS”).
BOOK-ENTRY-ONLY SYSTEM	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the initial paying agent/registrars, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - BOOK-ENTRY-ONLY SYSTEM”).

PAYMENT RECORD

The City has never defaulted on the payment of its general obligation bonds except during the period of rehabilitation following the disastrous hurricane and flood of 1900 when maturing interest coupons were compromised at \$0.50 on the dollar. The City has never had a payment default on its revenue bonds except for the Marine Park & Recreation Pier Revenue Bonds issued to Reconstruction Finance Corporation, an independent agency of the United States government, in 1941 for which no payments were made and the bonds were subsequently refunded in August 1963.

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SELECTED FINANCIAL INFORMATION

Fiscal Year End 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capital Taxable Assessed Valuation	Outstanding General Obligation ("G.O") Tax Debt ⁽³⁾	Per Capita G.O. Tax Debt	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2016	50,180	\$5,290,646,860	\$105,433	\$37,793,672	\$753	0.72%	100.9%
2017	50,550	5,845,540,283	115,639	87,483,672	1,731	1.50	100.1
2018	50,497	6,173,082,383	122,247	79,833,672	1,581	1.29	100.8
2019	50,457	6,330,928,781	125,472	106,715,621	2,115	1.69	100.4
2020	50,546	6,677,654,752	132,110	131,175,001	2,595	1.96	100.6

- (1) Source: United States Census Bureau.
- (2) Source: Galveston Central Appraisal District and City Finance Department. Includes assessed valuation attributable to the City’s Tax Increment Reinvestment Zones (TIRZs). Assessed value for the City’s TIRZs was approximately \$552.5 million in Fiscal Year 2016, \$403.8 million in Fiscal Year 2017, \$421.3 million in Fiscal Year 2018, \$433.6 million in Fiscal Year 2018, \$433.6 million in Fiscal Year 2019, and \$455.6 million in Fiscal Year 2020. Taxes levied on such property are not available to pay debt service on the Bonds. City Council voted in December, 2015 to close TIRZ 11, and also voted in December 2019 to close TIRZs 12 and 14. In Fiscal Year 2021, approximately \$112.5 million in assessed value is attributable to the TIRZ and is included in the City’s approximately \$7.425 billion in assessed value.
- (3) Includes \$74,308,400 in self-supporting debt as of September, 30, 2020.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	2020 ⁽¹⁾	2019 ⁽¹⁾	2018 ⁽¹⁾	2017 ⁽¹⁾⁽²⁾	2016 ⁽¹⁾
Beginning Balance	\$16,509,675	\$19,821,390	\$17,786,895	\$20,659,210	\$18,657,469
Total Revenue	58,300,525	57,057,241	53,302,510	50,943,948	50,799,840
Total Expenditures	(51,195,148)	(49,510,457)	(49,014,823)	(48,539,395)	(45,814,068)
Other Sources (Uses) ⁽²⁾	(6,862,491)	(10,858,499)	(2,253,192)	(5,276,868)	(2,984,031)
Ending Balance	\$16,752,561	\$16,509,675	\$19,821,390	\$17,786,895	\$20,659,210

- (1) Source: The City’s Annual Comprehensive Financial Reports (the “ACFR”)
- (2) Beginning in Fiscal Year 2015, the charter-mandated transfer to the Infrastructure and Debt Service Fund was reported as a part of "Other Uses." The fund has been reported separately in the ACFR as a non-major governmental fund. In Fiscal Year 2020, this transfer totaled \$4,746,944. For more detailed information on Other Sources (Uses), see TABLE 11 – OTHER OBLIGATIONS.

CONSULTANTS AND ADVISORS

Auditor..... Whitley Penn LLP
Certified Public Accountants
Houston, Texas

Bond CounselBracewell LLP
Houston, Texas

Municipal Advisor..... Huntington Capital Markets
Houston, Texas

Disclosure Counsel Hunton Andrews Kurth LLP
Houston, Texas

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CITY OF GALVESTON ELECTED OFFICIALS AND ADMINISTRATIVE STAFF

ELECTED OFFICIALS

City Council	Position ⁽¹⁾	Elected	Occupation
Craig Brown	Mayor	2020	Retired Pediatric Dentist
E. R. Johnson	Council Member	2020	Business Owner
William Shuster	Council Member	2020	Teacher
David Collins	Council Member	2018	Publisher
Bill Quiroga	Council Member	2020	Business Owner
John Paul Listowski	Council Member	2018	Real Estate Development
Marie Robb	Council Member	2020	Small Business Owner

(1) Pursuant to the City’s Home Rule Charter (the “Charter”), no Mayor or Councilmember may serve for more than 3 consecutive regular 2-year terms in each office. The Charter allows a person who has served the maximum number of Council terms to run for Mayor.

SELECTED ADMINISTRATIVE STAFF

Name	Position	Date of Employment	Years of Government Service
Brian Maxwell	City Manager	2011	26
Janelle Williams	City Secretary	2013	28
Donald Glywasky	City Attorney	2013	37
Daniel J. Buckley	Deputy City Manager	2014	34
Michael Loftin	Assistant City Manager Finance	2014	43
Tammy Jacobs	Executive Director & City Comptroller	2014	11

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OFFICIAL STATEMENT
RELATING TO
\$13,545,000
CITY OF GALVESTON, TEXAS
GENERAL OBLIGATION REFUNDING BONDS,
TAXABLE SERIES 2021

INTRODUCTION

This Official Statement, which includes the cover pages and Appendices A and B hereto, provides certain information regarding the issuance of \$13,545,000, City of Galveston, Texas, General Obligation Refunding Bonds, Taxable Series 2021 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance of the City Council of the City of Galveston, Texas (the “City”), authorizing the issuance of the Bonds and the pricing certificate executed pursuant thereto (collectively, the “Ordinance”) except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s Municipal Advisor, Huntington Capital Markets, Houston, Texas.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board at www.emma.msrb.org. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the City’s undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City’s Home Rule Charter (the “Charter”). The City was incorporated and first adopted its Home Rule Charter in 1839. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Council members. The term of office is two years, and elections for all offices are held in May of even-numbered years. Some of the services the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2020 U.S. Census Bureau’s estimated population for the City is 50,546.

EXTREME WEATHER EVENTS; HURRICANE HARVEY; 2021 WINTER STORM

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

On or about August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast before stalling over the Houston-Galveston region (the “Region”) and producing significant flooding. Many residential and commercial and industrial properties in the Region sustained damage, some of which was severe.

Portions of the City experienced some flooding from Hurricane Harvey. While such flooding caused flood damage to residences and properties within the City affecting taxable assessed valuations within the City, the overall taxable assessed valuation within the City increased during tax year 2018. The City incurred damages to its facilities estimated at \$1.9 million; however, all repairs due to Hurricane Harvey are almost complete and there has been little to no impact on City operations from these repairs. The City has undertaken certain projects relating to flooding and drainage as a result of Hurricane Harvey, and has been reimbursed \$1.6 million to date by FEMA. The City has an additional \$500,000 of flooding and drainage project reimbursements currently being processed by FEMA. The City is also seeking reimbursements for \$315,000 that may not be reimbursed by FEMA. The City does not expect the impact from Hurricane Harvey to adversely affect its ability to pay debt service on the Bonds.

In late August, 2020 Hurricane Laura made landfall near the Texas and Louisiana border as a Category 4 major hurricane, with sustained winds of 150 miles per hour. The City issued a mandatory evacuation before the hurricane made landfall, citing the uncertainty of the path and the heightened intensity of the storm as the reasons for the order. Hurricane Laura narrowly missed the Houston region and the City did not sustain wind or storm damage, nor were there power outages resulting from the hurricane. The City incurred approximately \$1 million in FEMA eligible expenses preparing for Hurricane Laura, which may be reimbursed.

From February 14, 2021 through February 19, 2021, the continental United States experienced a severe winter storm (the "2021 Winter Storm"). As a result of the 2021 Winter Storm, areas throughout Texas experienced widespread, record-breaking cold weather. During the 2021 Winter Storm, approximately 185 electric generating units in the Electric Reliability Council of Texas ("ERCOT") grid tripped offline, and the grid lost roughly 46,000 MW of electricity generation. In order to limit demand and protect the integrity of the grid, ERCOT implemented widespread and prolonged blackouts. Approximately 4 million Texas residents were without power for significant periods of time during the week. Extended subfreezing temperatures caused water pipes to freeze and burst, and combined with the lack of power, eventually led to water system failures across the State that impacted water availability generally and, in some cases, required the issuance of water boil notices, including the City's water supplier, the City of Houston and, as a result, the City. The City is working with FEMA and the City's insurance providers for reimbursement of eligible costs, and does not currently anticipate that the 2021 Winter Storm will have a material financial impact on the City or the City's water system.

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 Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency and the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with 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, which, among other things, imposed limitations on social gatherings and in-person contact, closed or limited operations of certain businesses, and closed schools to in-person classroom attendance for the 2019-2020 school year.

Beginning in mid-April 2020, the Governor issued several executive orders to implement the State's plan to safely and strategically open the State in phases while minimizing the spread of COVID-19. However, due to increases in COVID-19 positivity rates and hospitalizations, the Governor issued executive orders in late June and early July adjusting the re-opening plan by limiting and slowing the gradual reopening and requiring face coverings in public or places open to the public when it is not feasible to maintain six feet of social distance, subject to certain exceptions. On October 7, 2020, the Governor issued Executive Order GA-32, which continued limitations on social gatherings of more than 10 people and occupancy restrictions on business, but permitted certain business to operate at up to 75% capacity except in areas with high hospitalizations. Business in areas of high hospitalizations are generally limited to

50% capacity. On March 2, 2021 the Governor issued Executive Order GA-34 (to take effect on March 10, 2021), which provides that in all counties not in an area with high hospitalizations, there are no COVID-19-related operating limits for any business or other establishment, and no person may be required by any jurisdiction to wear or to mandate the wearing of a face covering. In counties in an area with high COVID-19 hospitalizations, while there are no state-imposed COVID-19-related operating limits for any business or establishment and there is no state-imposed requirement to wear a face covering, the county judge for the applicable county may impose COVID-19-related mitigation strategies; provided, however, that businesses and other establishments may not be required to operate at less than 50 percent total occupancy, and no operating limits are allowed for religious services, public and private schools, institutions of higher education, or child care services. Executive Order GA-34 defines high hospitalizations as any Trauma Service Area that has had seven consecutive days in which the number of COVID-19 hospitalized patients as a percentage of all hospital capacity exceeds 15%. Executive Order GA-34 supersedes prior executive orders relating to reopening Texas. Executive Order GA-34 remains in effect and full force unless it is modified, amended, rescinded, or superseded by the Governor.

In November 2020, the Governor and the Texas Department of State Health Services released guidelines for COVID-19 vaccine allocation. The U.S. Food and Drug Administration has authorized the emergency use of three different vaccines. The Pfizer-BioNTech COVID-19 vaccine requires two doses given 21 days apart; the Moderna COVID-19 vaccine requires two doses given 28 days apart; and the Johnson & Johnson vaccine requires only one dose. As of Monday, March 29, 2021, everyone age 16 and older is now eligible to receive a COVID-19 vaccine in Texas. Texas's Expert Vaccine Allocation Panel recommended opening vaccination to everyone who falls under the current Food and Drug Administration emergency use authorizations.

The Galveston County vaccination initiative is a collaboration organized by Galveston County, The University of Texas Medical Branch at Galveston, and the Galveston County Health District. Although everyone over the age of 16 in Texas is now eligible to receive a vaccine, the Pfizer vaccine is only authorized for persons 16 years of age and older, whereas the Moderna and Johnson & Johnson vaccines are authorized for persons 18 years of age and older. Additional information regarding executive orders issued by the Governor can be found on the Governor's website at <https://gov.texas.gov/coronavirus-executive-orders>. Additional information about the Galveston County vaccination guidelines can be found at <https://www.utmb.edu/covid-19/vaccine>. The information in (or accessed through) the Governor's website, or through The University of Texas Medical Branch at Galveston website is provided for information only and is not incorporated into or made part of this Official Statement.

In addition to the actions by the state and federal officials, certain local officials, including the City, previously declared a local state of disaster and public health emergency and issued temporary "stay home" orders. The City now primarily relies on the Governor's executive orders for reopening businesses. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and orders have focused on limiting instances where the public can congregate or interact with each other in person, which affects the operation of businesses, and directly impacts the economy.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. Financial assets and crude oil prices, in the U.S. and globally, have seen significant volatility and declines in value attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

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. The Pandemic has negatively impacted employment in both the City and Galveston County. The unemployment rate in Galveston County increased from 4.00% in 2019 to 8.70% in 2020. Similarly, the unemployment rate in the City went from 3.90% in 2019 to 10.00% in 2020 (see Appendix A – Labor Statistics). The City's Fiscal Year 2020 estimated negative effects of the Pandemic and associated business closures are approximately \$2.5 million. The United States Treasury Department has been providing financial relief to state and local governments as a part of its ongoing efforts to ameliorate the negative impact of the COVID-19 impact. The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), provides an avenue for recovery of costs associated with the Pandemic. The CARES Act has set forth categories of *eligible* City reimbursements for financial relief. The eligible expenses include medical expenses and testing, public health expenses including personal protective equipment, payroll expenses for City employees who must modify their

daily mission and focus to address Pandemic impacts, and expenses of actions to facilitate compliance with COVID-19 related public-health measures including telework, paid sick and family leave.

Through the CARES Act Congress provided \$5 billion for Community Development Block Grant (the “CDBG”) to states, metropolitan cities, urban counties, and insular areas. This supplemental funding available through the United States Department of Housing and Urban Development (the “HUD”) specifies eligible activities including public service activities, housing-related activities, public improvements and facilities, activities to acquire real property, economic development activities, and general administrative and planning activities. The HUD awarded the City \$714,670 in CDBG funding. 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.

PLAN OF FINANCE

PURPOSE

Proceeds from the sale of the Bonds will be used to refund certain obligations of the City described in Schedule I – Schedule of Refunded Obligations (the “Refunded Obligations”) for debt service savings and to pay the costs associated with the issuance of the Bonds (see “SOURCES AND USES OF FUNDS”).

REFUNDED OBLIGATIONS

The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the redemption dates (or maturities, if defeased to maturity) of such Refunded Obligations from funds to be deposited pursuant to a certain escrow agreement (the “Escrow Agreement”) between the City and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Escrow Agent”). The Ordinance provides that from the proceeds of the sale of the Bonds received from the underwriters of the Bonds listed on the cover page hereof (the “Underwriters”) and the cash contribution from the City, if any, the City will deposit with the Escrow Agent the amount that, together with investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their respective interest payment dates and their redemption dates (or maturities, if defeased to maturity). Such funds will be held by the Escrow Agent in an escrow fund (the “Escrow Fund”) and used to purchase securities authorized by Chapter 1207, Texas Government Code, as amended (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations. For more information regarding the Refunded Obligations, see “SCHEDULE I – Schedule of Refunded Obligations.”

The Arbitrage Group, Inc., will issue its report (the “Report”) verifying at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations on their respective interest payment dates and redemption dates or maturity dates. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the debt service on the Bonds (see “OTHER INFORMATION – Verification of Arithmetical and Mathematical Computations”).

By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the City will have made firm banking and financial arrangements and effected the defeasance of all of the Refunded Obligations in accordance with Texas law. It is the opinion of Bond Counsel, as a result of such defeasance and in reliance upon the Report, that the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent.

SOURCES AND USES OF FUNDS

Proceeds from the sale of the Bonds will be applied in the amounts shown below.

<u>Sources of Funds</u>	
Par Amount	\$13,545,000.00
Existing Debt Service Reserve Funds	<u>3,330,938.00</u>
Total	<u>\$16,875,938.00</u>

<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$16,656,068.49
Costs of Issuance ⁽¹⁾	153,617.36
Underwriters' Discount	<u>66,252.15</u>
Total	<u>\$16,875,938.00</u>

(1) Includes municipal advisory fees, legal fees of the City, Paying Agent/Registrar and Escrow Agent fees, rating fees, other costs of issuance and a rounding amount.

THE BONDS

DESCRIPTION OF THE BONDS

Interest on the Bonds will accrue from the date of delivery (the "Date of Delivery") to the Underwriters and mature on May 1 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on each May 1 and November 1 until maturity or prior redemption, commencing November 1, 2021. The Bonds will be issued only in fully registered form in any integral multiples of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"), to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM").

AUTHORITY FOR ISSUANCE OF THE BONDS

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT

The Bonds are direct obligations of the City, payable from a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property in the City. See "AD VALOREM PROPERTY TAXATION."

TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 taxable assessed valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance. The Charter sets an ad valorem tax rate limit of \$0.70 per \$100 assessed valuation for general operating expenses, including payment of the general obligation tax debt of the City. Pursuant to the Charter, the City Council may not increase the ad valorem tax rate by more than 5% in any one year; provided, however, that the 5% limitation does not prevent increased market valuation and taxation of taxable property when subsequent improvements are made. Further, the Charter requires the City to use the proceeds of the City's 1/2 of one percent sales tax to reduce the ad valorem tax rate. See "FINANCIAL INFORMATION - Table 13 - MUNICIPAL SALES TAX HISTORY."

NO OPTIONAL REDEMPTION

The Bonds are not subject to optional redemption prior to stated maturity.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by the DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the

Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar of each series, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar of each series, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar of each series, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . . In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - TRANSFER, EXCHANGE AND REGISTRATION" below. Discontinuance by the City of DTC's Book-Entry-Only system may require consent of participants under DTC operations and arrangements.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to

each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the effective date of the change and the name and address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION

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

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the 15th day of the preceding month.

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

DEFEASANCE

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

REMEDIES OF HOLDERS OF THE BONDS

The Ordinance does not establish specific events of default with respect to the Bonds or provide for the appointment of a trustee to represent the interests of the owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. If the City defaults in any payment due on the Bonds, or if the City defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinance, any registered owner is entitled to seek a writ of mandamus or mandatory injunction from a court of proper jurisdiction to compel the City to levy, assess and collect an annual ad valorem tax sufficient (within the limits described herein) to pay principal of and interest on the Bonds as they become due or to perform other material covenants, conditions or obligations contained in the Ordinance. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract; and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. Such rights are in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State with respect to the Bonds. Under Texas law there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. A registered owner of Bonds could file suit against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, a suit for monetary damages could be vulnerable to the defense of sovereign immunity and any judgment could not be satisfied by execution against any property of the City.

On June 30, 2006, 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. In so ruling, the Court declared that statutory language such as "sue and be sued," in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity.

Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville, Texas*, 489 S.W. 3d 427 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

The City is also eligible, pursuant to Section 140.001, Texas Local Government Code, to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or owners of an entity that 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 another federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the limitations related to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally.

AD VALOREM PROPERTY TAXATION

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

VALUATION OF TAXABLE PROPERTY

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Galveston County Appraisal City (the "Appraisal City"). Except as generally described below, the Appraisal City is required to appraise all property within the Appraisal City 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 City 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 City 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 (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to the 10% Homestead Cap.

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 City 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").

CITY AND TAXPAYER REMEDIES

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

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

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

STATE MANDATED HOMESTEAD EXEMPTIONS

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to exemptions for veterans.

LOCAL OPTION HOMESTEAD EXEMPTIONS

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. See "– CITY APPLICATION OF PROPERTY TAX CODE" herein.

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. See “AD VALOREM PROPERTY TAXATION” – CITY APPLICATION OF PROPERTY TAX CODE” for descriptions of any TIRZ created in the City.

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. See “AD VALOREM PROPERTY

TAXATION – CITY APPLICATION OF PROPERTY TAX CODE” for descriptions of any of the City’s tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the City, see “AD VALOREM PROPERTY TAXATION – CITY APPLICATION OF PROPERTY TAX CODE” herein.

PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS

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

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

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

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

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

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

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

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

Effective January 1, 2020, a city must annually calculate its “voter-approval tax rate” and “no-new-revenue tax rate” (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

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

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

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

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

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

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

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

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.

LEVY AND COLLECTION OF TAXES

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. Taxpayers 65 years old or older, disabled veterans or an unmarried surviving spouse of a disabled veteran, are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 1 of each year and the final installment due before August 1. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers.

Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

CITY’S RIGHTS IN THE EVENT OF TAX DELINQUENCIES

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes.

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

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser’s deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts.

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

PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST

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

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney’s collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City’s lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic

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

CITY APPLICATION OF PROPERTY TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$15,000; the disabled are also granted an exemption of \$10,000. The City has granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000. See TABLE 1 for a listing of the amounts of the exemptions described above.

The City has adopted the tax freeze for citizens who are disabled or are 65 years of age or older, effective January 1, 2005. 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.

The City does not tax Freeport Property.

The City does tax Goods-in-Transit.

Galveston County collects taxes for the City. The City does permit split payments, and discounts are not allowed. The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has adopted a tax abatement policy.

TAX ABATEMENT POLICY

The City has established a tax abatement program to encourage economic development consistent with State law. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. The City awards tax abatements according to state law and does so very sparingly at the present time.

The City has a program to give limited tax relief to persons who rehabilitate historic buildings in need of preservation.

CITY TAX INCREMENT REINVESTMENT ZONES

The City currently participates in one TIRZ; tax increment reinvestments zone thirteen ("Zone 13"). The City has created a local government corporation, the Galveston Island Redevelopment Authority (the "Authority"), to manage various aspects of its Zone 13 in accordance with a Tri-Party Agreement among the City, the Authority and Zone 13 (the "Tri-Party Agreement"). As of September 30, 2020 the Authority had no debt outstanding which was issued on behalf of Zone 13 pursuant to the Tri-Party Agreement. (For more detailed information, see "APPENDIX B - EXCERPTS FROM THE ANNUAL FINANCIAL REPORT" - Note 1A). The taxable value on property inside each TIRZ is compared with the base taxable value present when the zone was created, and paid to the TIRZ by the city as it is collected. The Authority was previously responsible for tax increment reinvestment zones twelve and fourteen, however, on December 12, 2019, the City Council voted to close TIRZs 12 and 14.

In accordance with Chapter 311, Texas Tax Code, the taxable value on property inside each TIRZ is compared with the base taxable value present when the zone was created, and paid to the TIRZ by the city as it is collected. In Fiscal Year 2021, approximately \$112.5 million in assessed value is attributable to Zone 13 and is included in the City's approximately \$7.425 billion in assessed value. Of this amount approximately \$112.5 million in taxable value results in approximately \$621,000 in TIRZ revenue for Fiscal Year 2021.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2019/2020 Market Valuation (excluding totally exempt property) ⁽¹⁾		\$7,425,234,569
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemptions	\$ 418,598,721	
Over 65 Homestead Exemptions	69,213,236	
Disabled Persons	4,633,400	
Disabled Veterans	23,498,225	
Pollution Control	500,321	
House Bill 366	-	
Prorated Exempt Property	-	
Freeport	32,945,021	
Productivity Loss	36,111,060	
Foreign Trade Zone	N/A	
Homestead Cap Adjustment	155,166,613	
Other	<u>6,913,220</u>	<u>\$ 747,579,817</u>
2020 Taxable Assessed Valuation ⁽²⁾		<u>\$ 6,677,654,752</u>
The Bonds		13,545,000
General Obligation Debt Payable from Ad Valorem Taxes (as of 9/30/2020):		<u>131,175,001</u>
Outstanding General Obligation Debt		<u>\$ 144,720,001</u>
Less: Self Supporting Debt ⁽³⁾	87,853,400	
Less: Interest & Sinking Fund Balance (as of 9/30/2020)	<u>1,716,543</u>	<u>\$ 89,569,943</u>
Net General Obligation Debt Payable from Ad Valorem Taxes		<u>\$ 55,150,058</u>
Ratio of Net General Obligation Debt to Taxable Assessed Valuation		0.83%

(1) Source: Galveston Central Appraisal District.

(2) Included approximately \$436 million of value attributable to Zone 13. Taxes levied on value attributable to Zone 13 are not available to pay debt service on the Bonds. See “-TAX INCREMENT REINVESTMENT ZONES” herein. City Council closed tax increment reinvestment zones 12 and 14 in December 2019. Zone 13 is the City’s remaining tax increment reinvestment zone and comprises \$112.5 million of the 2020 tax roll of \$7.425 billion in taxable property. See “-TAX INCREMENT REINVESTMENT ZONES” herein.

(3) Represents general obligation debt in the amounts shown for which repayment is provided from revenues of the City’s various revenue systems. Includes a portion of the City’s General Obligation Refunding Bonds, Series 2014, a portion of the General Obligation Refunding Bonds, Series 2016, and the Combination Tax and Revenue Certificates of Obligation, Series 2017, the Combination Tax and Revenue Certificates of Obligation, Series 2019, and the Bonds. It is the City’s current policy to provide payments for these bonds from the respective system revenues. This policy is subject to change in the future. In the event that such revenues are insufficient to pay debt service on such bonds, the City has covenanted to levy and collect an ad valorem property tax to pay the debt service.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Assessed Value, Fiscal Year Ending September 30									
	2020		2019		2018		2017		2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$5,507,981,751	74.18%	\$5,154,660,200	73.47%	\$5,084,650,265	73.37%	\$4,771,109,005	72.80%	\$4,150,976,308	71.04%
Real, Residential, Multi-Family	368,237,742	4.96	348,451,185	4.97	343,475,449	4.96	323,248,030	4.93	258,649,057	4.43
Real, Vacant Lots/Tracts	274,963,640	3.70	258,652,825	3.69	278,677,033	4.02	254,507,020	3.88	239,143,277	4.09
Real, Acreage (Land Only)	36,284,119	0.49	36,780,058	0.52	36,846,848	0.53	33,646,263	0.51	55,745,597	0.95
Real, Farm and Ranch Improvements	19,776,361	0.27	19,974,085	0.28	19,890,999	0.29	22,313,346	0.34	2,651,742	0.05
Real, Commercial and Industrial	707,610,690	9.53	697,121,772	9.94	690,133,171	9.96	663,190,986	10.12	611,800,369	10.47
Real, Oil, Gas & Other Mineral Reserves	691,732	0.01	1,230,305	0.02	1,565,002	0.02	1,586,322	0.02	3,211,203	0.05
Real and Intangible Personal, Utilities	110,525,100	1.49	102,383,706	1.46	98,082,878	1.42	95,502,072	1.46	90,864,040	1.55
Tangible Personal, Business	370,941,633	5.00	364,124,607	5.19	342,398,153	4.94	351,969,529	5.37	395,675,393	6.77
Tangible Personal, Other	69,961	0.00	72,970	0.00	75,345	0.00	3,718,335	0.06	1,822,525	0.03
Real, Inventory	18,908,810	0.25	21,376,880	0.30	24,785,436	0.36	23,576,260	0.36	24,742,295	0.42
Special Inventory	9,243,030	0.12	10,847,180	0.15	9,103,980	0.13	9,089,540	0.14	8,140,995	0.14
Total Appraised Value Before Exemption	7,425,234,569	100.00%	7,015,675,773	100.00%	6,929,684,559	100.00%	6,553,456,708	100.00%	5,843,422,801	100.00%
Less: Total Exemptions/Reductions	747,579,817		684,746,992		756,602,176		707,916,425		552,775,941	
Taxable Assessed Value ⁽¹⁾	<u>\$6,677,654,752</u>		<u>\$6,330,928,781</u>		<u>\$6,173,082,383</u>		<u>\$5,845,540,283</u>		<u>\$5,290,646,860</u>	

Source: Galveston Central Appraisal District.

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

- (1) Includes approximately \$436 million of value attributable to the City’s TIRZ in Fiscal Year 2020. Taxes levied on value attributable to Zone 13 are not available to pay debt service on the Bonds. City Council closed tax increment reinvestment zones 12 and 14 in December 2019. Zone 13 is the City’s remaining tax increment reinvestment zone and comprises \$112.5 million of the 2020 tax roll of \$7.425 billion in taxable property. See “AD VALOREM PROPERTY TAXATION – TAX INCREMENT REINVESTMENT ZONES” herein.

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TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Outstanding General Obligation ("G.O.") Tax Debt ⁽³⁾	Per Capita G.O. Tax Debt	Ratio of G.O. Tax Debt to Taxable Assessed Valuation
2016	50,180	\$5,290,646,860	\$105,433	\$37,793,672	\$753	0.71%
2017	50,550	5,845,540,283	115,639	87,483,672	1,731	1.50
2018	50,497	6,173,082,383	122,247	79,833,672	1,581	1.29
2019	50,457	6,330,928,781	125,472	106,715,621	2,115	1.69
2020	50,546	6,677,654,752	132,110	131,175,001	2,595	1.96

(1) Source: United States Census Bureau.

(2) Source: Galveston Central Appraisal District and City Finance Department. Includes assessed valuation attributable to the City's Tax Increment Reinvestment Zones. Taxes levied on such property are not available to pay debt service on the Bonds.

(3) Includes self-supporting debt and excludes the Bonds. See "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund ⁽¹⁾	Interest and Sinking Fund	Tax Levy ⁽²⁾	% Current Collections	% Total Collections
2015	\$ 0.53389	\$ 0.48658	\$ 0.04731	\$ 25,105,697	97.96%	101.00%
2016	0.52900	0.48396	0.04505	27,559,694	98.22	100.90
2017	0.52600	0.49103	0.03498	30,107,754	97.93	100.10
2018	0.56100	0.49100	0.07000	33,579,559	98.33	100.90
2019	0.56100	0.50850	0.05250	34,349,034	97.95	100.40
2020	0.57989	0.52739	0.05250	37,274,510	98.01	100.60

Source: Galveston Central Appraisal District and the City's Finance Department.

(1) All years include \$0.05 allocated to the Rosenberg Library per the Charter that is a part of the General Fund amount shown above.

(2) Of the 2019/2020 tax levy (Fiscal Year 2020), the City is required to transfer approximately \$1.91 million, representing Zone 13 tax increment, to the Authority, and such money is not available to pay debt service on the Bonds. See "AD VALOREM PROPERTY TAXATION – TAX INCREMENT REINVESTMENT ZONES herein. Tax levy presented considers the estimated impact of the "Over 65 and Disabled Homeowners" tax freeze.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	% of Total	
		2019/2020 Assessed Valuation	Taxable Assessed Valuation
Texas International Terminals	Oil & Gas	\$56,534,570	0.85%
Centerpoint Energy Inc	Electrical Utility	51,694,910	0.77
Fertitta Hospitality Inc	Hotel	50,827,090	0.76
TFT Galveston Portfolio Ltd.	Apartments	27,083,000	0.41
Eighteen Seventy Strand Corp	Hotel and Resorts	25,000,000	0.37
2014 Galveston Jones Drive LLC	Apartments	21,984,000	0.33
Beatty Street Properties	Water Transportation	18,977,120	0.28
Silverleaf Resorts Inc.	Real Estate	18,202,790	0.27
Galveston Island Water Park LP	Water Park	17,808,810	0.27
G&H Towing	Water Transportation	16,635,550	0.25
		<u>\$304,747,840</u>	<u>4.56%</u>

Source: Galveston Central Appraisal District. As of March 2, 2021 for tax year 2020.

GENERAL OBLIGATION DEBT LIMITATION

No general obligation debt limitation is imposed on the City under current State law or the Charter; however, State law and the Charter limit the City's ad valorem tax rate (see "THE BONDS – TAX RATE LIMITATION").

TABLE 6 – TAX ADEQUACY⁽¹⁾

2021 Net Principal & Interest Requirements	\$5,173,343
\$0.70000 Tax Rate at 97.50% Collection Produces	\$4,581,315
Average Net Principal and Interest Requirements (2021-2038)	\$4,429,871
\$0.04000 Tax Rate at 97.50% Collection Produces	\$2,617,894
Maximum Net Principal & Interest Requirements (2020)	\$5,374,478
\$0.07000 Tax Rate at 97.50% Collection Produces	\$4,581,315

⁽¹⁾Includes the Bonds and excludes the Refunded Obligations and self-supporting debt.

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TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

	FY 2020 Taxable Assessed Value	Outstanding Debt as of 09/30/2020	Estimated % Applicable	Estimated Overlapping Debt
Galveston County	\$30,686,499,260	\$229,269,447	21.91%	\$50,232,936
Galveston County MUD #30	124,232,557	4,365,000	100.00	\$4,365,000
Galveston ISD	7,789,988,051	65,334,998	86.32	\$56,397,170
Total Overlapping Debt				\$100,995,106
City of Galveston ⁽¹⁾				\$131,175,001
Total Direct and Overlapping Debt				\$242,170,107
Ratio of Total Direct and Overlapping Tax Debt to FY 2019 Assessed Valuation				3.63%
Total Direct and Overlapping Debt Per Capita				\$4,791

Source: Galveston Central Appraisal District and City Finance Department.

- (1) Includes the Bonds and self-supporting debt and excludes the Refunded Obligations. Self-supporting debt includes a portion of the City’s General Obligation Refunding Bonds, Series 2014, a portion of the General Obligation Refunding Bonds, Series 2016, and the Combination Tax and Revenue Certificates of Obligation, Series 2017, and the Combination Tax and Revenue Certificates of Obligation, Series 2019. It is the City’s current policy to provide payments for these bonds from the respective system revenues; this policy is subject to change in the future. In the event that such revenues are insufficient to pay debt service on such bonds, the City has covenanted to levy and collect an ad valorem property tax to pay the debt service.

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DEBT INFORMATION

TABLE 8- GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt Service Requirements ⁽¹⁾	The Bonds			Less: Self- Supporting Debt Service ⁽²⁾	Net Total Debt Service Requirements
		Principal	Interest	Total		
2021	\$15,347,277	\$2,075,000	\$125,759	\$2,200,759	\$10,173,934	\$5,173,343
2022	15,246,349	2,075,000	129,946	2,204,946	9,974,261	5,272,088
2023	14,573,794	1,300,000	122,269	1,422,269	9,199,316	5,374,478
2024	13,229,274	1,305,000	114,729	1,419,729	8,552,066	4,677,208
2025	13,081,361	1,325,000	102,984	1,427,984	8,409,033	4,672,328
2026	13,090,233	1,340,000	88,409	1,428,409	8,416,200	4,674,033
2027	13,089,715	1,355,000	70,319	1,425,319	8,414,932	4,674,783
2028	12,975,773	1,375,000	49,316	1,424,316	8,407,145	4,568,628
2029	12,967,337	1,395,000	25,529	1,420,529	8,405,869	4,561,468
2030	11,521,650				6,969,292	4,552,358
2031	9,523,500				5,086,309	4,437,191
2032	9,515,050				5,082,428	4,432,622
2033	9,498,550				5,082,202	4,416,348
2034	8,124,100				4,047,300	4,076,800
2035	8,091,250				4,043,450	4,047,800
2036	7,979,850				4,050,250	3,929,600
2037	7,977,600				4,047,000	3,930,600
2038	6,314,950				4,048,950	2,266,000
2039	6,312,800				4,045,600	2,267,200
2040	4,049,450				4,049,450	-
2041	4,042,650				4,042,650	-
2042	4,045,450				4,045,450	-
2043	4,042,150				4,042,150	-
2044	4,042,750				4,042,750	-
2045	4,046,800				4,046,800	-
2046	4,045,400				4,045,400	-
2047	2,013,400				2,013,400	-
2048	2,011,800				2,011,800	-
2049	2,012,400				2,012,400	-
	<u>\$ 242,812,663</u>	<u>\$ 13,545,000</u>	<u>\$ 829,257</u>	<u>\$ 14,374,257</u>	<u>\$ 160,807,787</u>	<u>\$ 82,004,876</u>

Source: City Finance Department.

- (1) Does not include lease/purchase obligations.
- (2) Represents general obligation ad valorem tax-supported debt in the amounts shown for which repayment is provided from revenues of the City's various revenue systems. Includes a portion of the City's General Obligation Refunding Bonds, Series 2014, a portion of the General Obligation Refunding Bonds, Series 2016, and the Combination Tax and Revenue Certificates of Obligation, Series 2017, the Combination Tax and Revenue Certificates of Obligation, Series 2019 and the Bonds. It is the City's current policy to provide payments for these obligations from the respective system revenues; this policy is subject to change in the future. In the event that such revenues are insufficient to pay the debt service on such obligations, the City has covenanted to levy and collect an ad valorem property tax to pay the debt service.

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TABLE 9- INTEREST AND SINKING FUND BUDGET PROJECTION

General Obligation Net Debt Service Requirements, Fiscal Year Ending September 30, 2021 ⁽¹⁾		\$5,173,343
Interest and Sinking Fund Balance, September 30, 2020	\$1,716,543	
I&S Property Tax Revenue including Delinquent Taxes (100.1 percent of Tax Levy)	\$3,609,000	
Debt service paid from other resources ("Infrastructure & Debt Service Fund")	\$1,511,000	
Investment Income	<u>\$48,000</u>	<u>\$6,884,543</u>
Balance, September 30, 2021		<u>\$1,711,200</u>

(1) Excludes self-supporting debt. Self-supporting debt includes a portion of the City’s General Obligation Refunding Bonds, Series 2014, a portion of the General Obligation Refunding Bonds, Series 2016, the Combination Tax and Revenue Certificates of Obligation, Series 2017, the Combination Tax and Revenue Certificates of Obligation, Series 2019 and the Bonds. It is the City’s current policy to provide payments for these obligations from the respective system revenues; this policy is subject to change in the future. In the event that such revenues are insufficient to pay the debt service on such obligations, the City has covenanted to levy and collect an ad valorem property tax to pay the debt service.

TABLE 10 - ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City has \$5,507 in authorized but unissued general obligation debt. It is unlikely that the City will issue the remaining authorized debt. The remaining authorized but unissued debt is as follows:

Date Authorized	Purpose	Amount Authorized	Amount Issued to Date	Unissued
5/5/2001	Street Improvements	\$13,215,000	\$13,215,000	-
5/5/2001	Park Improvements	4,405,000	4,405,000	-
5/5/2001	Transit Improvements	1,300,000	1,294,493	\$ 5,507
5/5/2017	Street and Drainage Improvements	62,000,000	62,000,000	-
		<u>\$80,920,000</u>	<u>\$80,914,493</u>	<u>\$ 5,507</u>

TABLE 11 - OTHER OBLIGATIONS

The City has the following outstanding capital leases and notes payable as of September 30, 2020:

	<u>Balance Remaining</u>
2007 note due in semi-annual installments of \$69,380 through July 2022, interest at 4.1%	<u>\$263,708</u>
	<u>\$263,708</u>

PENSION FUND

The City provides pension benefits for substantially all of its full-time employees through three defined benefit pension plans (i.e., the City of Galveston Employees’ Retirement Plan for City Employees, the City of Galveston Employees’ Retirement Plan for Police, and Galveston Firefighters’ Pension Fund). The City makes annual contributions to such plans based on actuarial recommendations consistent with State law. For the year ended September 30, 2019, the City recognized pension expense (City contributions) for the City’s Employees’, Police, and Firefighters’ pension plans are \$2,424,690, \$3,803,070, and \$1,401,579, respectively. For more detailed information concerning the pension plans, see “APPENDIX B - EXCERPTS FROM THE ANNUAL FINANCIAL REPORT” - Note 14.

GASB Statement No. 68 establishes accounting and financial reporting requirements for governments that provide their employees with pensions, including requiring that the City’s funding obligation be calculated and reported as

“Net Pension Liability.” The “Net Pension Liability” is the difference between the City’s “Total Pension Liability” and the “Fiduciary Net Position” of each respective pension plan. The Total Pension Liability is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. It includes benefits related to projected salary and service, and cost of living adjustments for police and fire plan retirees that vary in the amounts granted and the frequency and timing of those adjustments. In addition, ad hoc cost of living adjustments are also included in the Total Pension Liability to the extent they are substantively automatic. Under these reporting parameters measured as of December 31, 2019, the Net Pension Liability for the City’s Employees’, Police, and Firefighters’ pension plans are \$13,315,134, \$37,160,845, and \$24,607,102, respectively, representing a fiduciary net position as a percentage of total pension liability of 81.20%, 37.14%, and 66.58%, respectively. The City’s defined benefits plans offer retiree benefits based on years of service and salary, and the City and the plan members jointly bear the financial risk of such plans. As such, the City must fund the plans to pay retirees’ defined benefits despite being underfunded. The City has filed plans with the Texas Pension Review Board to amortize the unfunded amount for the Police and Fire plans in accordance with State law. For more detailed information concerning the pension plans, see “APPENDIX B - EXCERPTS FROM THE ANNUAL FINANCIAL REPORT - Note 14.”

OTHER POST-EMPLOYMENT BENEFITS

In addition to pension benefits, the City provides certain other post-employment benefits for qualified employees (“OPEB”). The costs of these benefits are recognized as expenditures on a modified accrual basis when the underlying claims are paid. Commencing in fiscal year 2009, the City implemented GASB Statement No. 45 “Accounting And Financial Reporting By Employers For Post- Employment Benefits Other Than Pensions.” Under the reporting parameters, the City’s retiree health care plan is 0% funded, with an estimated actuarial liability exceeding actuarial assets by \$11,379,952 at December 31, 2019. (For more detailed information concerning the City’s OPEB, see “APPENDIX B - EXCERPTS FROM THE ANNUAL FINANCIAL REPORT” - Note 13).

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FINANCIAL INFORMATION

TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	For Fiscal Year Ended September 30, ⁽¹⁾				
	2020 ⁽²⁾	2019	2018	2017	2016
Revenues:					
Taxes	\$51,331,861	\$49,878,422	\$47,742,094	\$45,503,118	\$42,680,895
Licenses and Permits	1,320,998	1,264,319	1,196,241	1,142,579	1,330,049
Fines and Forfeitures	1,393,994	1,673,576	1,528,689	1,578,365	1,756,605
Charges for Services	212,275	2,368,673	1,603,215	1,649,312	1,659,132
Investment Earnings	199,284	391,743	319,693	118,666	137,269
Intergovernmental	315,490	465,439	66,921	188,561	188,077
Other	1,304,530	1,015,069	845,657	763,347	3,047,813
Total Revenue	\$56,078,432	\$57,057,241	\$53,302,510	\$50,943,948	\$50,799,840
Expenditures:					
General Government	\$7,284,260	\$7,107,445	\$7,176,287	\$7,254,198	\$6,833,482
Public Safety	35,123,374	32,317,957	31,344,385	30,194,824	\$28,425,382
Highways and Roads	3,541,573	3,523,546	3,905,576	3,933,319	\$3,596,345
Culture and Recreation	2,770,563	2,610,441	2,706,831	2,588,900	\$2,479,733
Planning and Community Development	1,574,264	2,083,009	2,406,675	2,273,357	\$2,061,851
Transportation	-	941,068	915,000	870,000	\$1,195,000
Debt Service	-	-	-	-	-
Other	701,054	926,991	560,069	1,424,797	\$1,222,275
Total Expenditures	\$50,995,088	\$49,510,457	\$49,014,823	\$48,539,395	\$45,814,068
Excess (Deficiency) of Revenues Over Expenditures	\$5,083,344	\$7,546,784	\$4,287,687	\$2,404,553	\$4,985,772
Total Other Sources (Uses)	-\$3,190,286	-\$10,858,499	-\$2,253,192	-\$5,276,868	-\$2,984,031
Net change in fund balance	\$1,892,998	-\$3,311,715	\$2,034,495	-\$2,872,315	\$2,001,741
Fund Balance, Beginning of Year	\$14,859,563	\$19,821,390	\$17,786,895	\$20,659,210	\$18,657,469
Fund Balance, End of Year	\$16,752,561	\$16,509,675	\$19,821,390	\$17,786,895	\$20,659,210

Source: The City.

- (1) See “- FINANCIAL POLICIES” for a description of certain budgetary procedures, including new requirements imposed by the Charter for Fiscal Year 2013 and thereafter.
- (2) The General Fund Balance changes are attributable to (a) the receipt of \$2,292,053 in cash received as “other” revenue in Fiscal Year 2016 from the closure of TIRZ 11, (b) the subsequent use of those same TIRZ 11 funds to establish the Pension Reform Special Fund in Fiscal Year 2017, (c) spending controls implemented in Fiscal Year 2018 to provide potential funding to offset Hurricane Harvey costs and general economic conditions, (d) payment of the \$6,128,000 General Fund share of the \$13.5 million settlement with CDM Smith, and (e) recognizing \$1,526,000 in unreimbursed Ike CDBG housing administrative costs from the 2010-2014 Hurricane Ike housing repair grant implementation program.

MUNICIPAL SALES TAX

The City’s sales tax rate is 2 cents. The City has adopted the Municipal Sales and Use Tax Act, Chapter 321 Texas Tax Code, together with additional City authorization, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City. The proceeds of such sales tax are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. A Charter amendment was passed by the voters on January 21, 1989, whereby the City is required to offset ad valorem taxes each year with

the amount of additional (1/2 cent) sales tax collected in the prior year. The 1/2 cent offset was calculated using a calendar year formula provided by the State of Texas, resulting in ad valorem taxes offset by actual sales tax revenues of \$5,451,957 in Fiscal Year 2020. The total maximum allowable tax rate of \$0.70 was thus limited to \$0.60 for the current fiscal year.

Of the 2 cents sales tax, 1 and 1/2 cents is allocated to the General Fund and 1/2 cent is for Industrial Development Corporation (“IDC”) projects. Pursuant to an election held within the City in November 2008, the proceeds of the IDC’s 1/2 cent sales tax are divided equally between the following projects: (1) beach remediation, (2) drainage, streets and sewer, (3) economic development and (4) parks and park facilities.

The sales tax breakdown for the City is as follows:

Industrial Development Corporation:	
Beach Remediation	1/8 ¢
Drainage, Streets and Sewer	1/8
Economic Development	1/8
Parks and Park Facilities	1/8
Property Tax Relief	1/2
City Sales & Use Tax	1
State Sales & Use Tax	6 1/4
Total	<u>8 1/4 ¢</u>

TABLE 13 - MUNICIPAL SALES TAX HISTORY⁽¹⁾

Fiscal Year Ended 9/30	Total Sales Tax Revenue Collected ⁽²⁾	Industrial Development Corporation	General Fund	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2016	\$20,117,164	\$5,029,291	\$15,087,873	54.75%	28.52%	\$401
2017	20,263,266	5,065,817	15,197,449	50.48	26.00	401
2018	21,424,692	5,356,173	16,068,519	47.85	26.03	424
2019	22,632,670	5,658,168	16,974,502	49.42	26.81	449
2020	21,807,826	5,451,957	16,355,869	43.88	24.49	431

(1) Provided by the City.

(2) Based on estimated population as shown in Table 3.

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TABLE 14 – CONSOLIDATED STATEMENT OF OPERATIONS OF COMBINED UTILITY SYSTEM FUND

	For Fiscal Year Ended September 30,				
	2020	2019	2018	2017	2016
Revenues					
Charges for Services	\$ 38,168,655	36,998,782	38,278,753	37,200,743	35,283,761
Total Operating Revenues	<u>38,168,655</u>	<u>36,998,782</u>	<u>38,278,753</u>	<u>37,200,743</u>	<u>35,283,761</u>
Operating Expenses					
Personnel Services	9,293,693	8,507,441	7,167,827	6,666,690	6,729,780
Contractual Services	3,155,400	3,837,021	2,820,748	3,807,139	2,814,646
Supplies and Materials	2,147,437	2,332,877	2,345,890	1,798,943	2,753,177
Surface Water Contract	8,040,716	7,860,860	8,070,256	7,095,932	6,535,422
Insurance Claims & Premiums					
Other Expenses	2,166,034	1,894,931	736,053	713,518	1,310,041
Administration Charge	-	-	-	-	-
Depreciation	9,283,116	8,345,405	8,199,066	8,224,409	7,838,584
Total Operating Expenses	<u>34,086,396</u>	<u>32,778,535</u>	<u>29,339,840</u>	<u>28,306,631</u>	<u>27,981,650</u>
Operating Income (loss)	<u>4,082,259</u>	<u>4,220,247</u>	<u>8,938,913</u>	<u>8,894,112</u>	<u>7,302,111</u>
Non-Operating Revenues (Expenses)					
Intergovernmental Revenue			62,558		
Interest & Investment Revenue	744,997	1,634,398	909,147	263,870	121,772
Insurance Proceeds					
Gain (loss) on disposal of capital assts	18	83,581	(10,329)	(106,961)	916
Interest Expense	(3,550,953)	(3,599,379)	(2,515,579)	(2,529,912)	(1,155,418)
Bad Debt	-	-	-	-	(2,220)
Total Non-Operating Revenue (Expenses)	<u>(2,805,938)</u>	<u>(1,881,400)</u>	<u>(1,554,203)</u>	<u>(2,373,003)</u>	<u>(1,034,950)</u>
Income (loss) before contributions and transfers	<u>1,276,321</u>	<u>2,338,847</u>	<u>7,384,710</u>	<u>6,521,109</u>	<u>6,267,161</u>
Capital Contributions	3,340,977	15,089,349	12,170,855	11,547,860	31,987,945
Transfers In	(1)		170,000		1,114
Transfers Out	(1,690,668)	(1,721,918)	(3,606,112)	(1,613,240)	(3,892,429)
Change in Net Position	<u>2,926,629</u>	<u>15,706,278</u>	<u>16,119,453</u>	<u>16,455,729</u>	<u>34,363,791</u>
Total Net Position - Beginning	<u>258,388,301</u>	<u>242,682,023</u>	<u>230,279,807</u>	<u>233,120,678</u>	<u>199,947,893</u>
Prior Period Adjustment	(9,735)		(757,237)	(19,296,600)	(1,191,006)
Total Net Position Ending	<u>\$ 261,305,195</u>	<u>\$ 258,388,301</u>	<u>\$ 245,642,023</u>	<u>\$ 230,279,807</u>	<u>\$ 233,120,678</u>

FINANCIAL POLICIES

Basis of Accounting . . . The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary.

Governmental Funds . . . Used to account for all or most of a government’s general activities, including the collection and disbursement of earmarked monies (Special Revenue Funds), the acquisition or construction of general fixed assets (Capital Projects Funds), and the servicing of general long-term debt (Debt Service Funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Budgetary Procedures . . . Budgets are adopted on a modified accrual basis. Annual appropriated budgets are adopted for the general, special revenue (except for Industrial Development Corporation Revenue Fund), debt service and enterprise funds. All annual appropriations lapse at fiscal year-end. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund

balances because the commitments will be honored during the subsequent year, but they do not constitute expenditures or liabilities.

As provided by the Charter, after public hearings are held by the City Council to obtain citizen comments, the City Council must approve and adopt the budget by the second regularly scheduled City Council meeting in September, either in the same form as submitted by the City Manager or with changes that the City Council finds to be necessary or desirable. The budget may not be adopted nor any appropriation made unless the anticipated revenues for the fiscal year equal or exceed the authorized expenditures. The adoption of the budget requires a favorable vote of at least a majority of all the members of the City Council. In the event the budget has not been adopted by the beginning of the fiscal year, the latest budget proposed by the City Manager will take and remain in effect until the budget is finally adopted by the City Council. The proposed budget includes proposed expenditures and the means of financing them. A statement of capital projects planned for the next succeeding five fiscal years, with estimates of their costs is also submitted at this time. The Charter requires that no funds shall be expended nor shall any obligation for the expenditure of money be incurred unless an appropriation exists in the duly adopted budget. During the fiscal year the City Council may transfer any unencumbered appropriation balance or portion thereof from one department to another at any time.

Capital Improvement/Debt Service Account Requirement beginning Fiscal Year 2013 . . . In May 2012 the voters of the City approved an amendment to the Charter, which requires the City to create a “Capital Improvement and/or Debt Service Account” and allocate an equivalent of 1% of the General Fund Operating Budget to such account beginning in Fiscal Year 2013 for either capital improvements or debt service costs. Each fiscal year thereafter, the City expects to allocate an additional 1% of the General Fund Operating Budget to the Capital Improvement and/or Debt Service Account, until the cumulative annual allocation to the account reaches a minimum of 8% of the total General Fund Operating Budget. Thereafter, the City will be required to annually allocate at least 8% of the total General Fund Operating Budget to such account.

INVESTMENTS

The City invests its investable funds in investments authorized by State law in accordance with more restrictive investment policies approved by the City Council of the City pursuant to State law. Both State law and the City’s investment policies are subject to change.

LEGAL INVESTMENTS

Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) interest-bearing banking deposits, other than those described by clause (7), if (a) the funds invested in the banking deposits are invested through (I) a broker with a main office or branch office in this State that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025; or (II) a depository institution with a main office or branch office in this state that the City selects; (b) the broker or depository institution as described in clause (8)(a), above, arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (c) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (d) the investing City appoints as the City's custodian of the banking deposits issued for the City's account: (I) the depository institution selected as described by Paragraph (b); (II) an entity described by Section 2257.041(d) of the Texas Government Code; or (III) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and

share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (i) that are issued by or through an institution that has its main office or a branch office in the State, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, and require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (14) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2)

obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES

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

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

ADDITIONAL PROVISIONS

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording any changes made to either its investment policy or investment strategy; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 15 - CURRENT INVESTMENTS

<u>Type of Investment</u>	<u>Book Value</u>	<u>Market Value</u>
Agency Securities	\$3,999,680	\$3,997,116
Treasury Notes	5,998,830	5,995,890
Local Government Pools	141,267,786	141,267,786
Money Market Funds	5,531,202	5,531,202
	<u>\$156,797,498</u>	<u>\$156,791,994</u>

Source: City Finance Department. Current as of September 30, 2020.

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective buyer and investor should consult their own tax advisors in determining the federal, state, local, foreign and any other tax consequences to them from the purchase, ownership, and disposition of the Bonds.

Interest on the Bonds is **not** excludable from gross income for federal income tax purposes.

TAX CONSEQUENCES GENERALLY

The following is a discussion of material United States federal income tax matters regarding the purchase, ownership and disposition of the Bonds. This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”) and existing and proposed Treasury Regulations, revenue rulings, administrative interpretations and judicial decisions, all as currently in effect and all of which are subject to change, possibly with retroactive effect, and subject to different interpretations. Except as specifically set forth in this subsection, this summary deals only with Bonds purchased by a United States holder, as defined below, at original issuance, at par, and held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to such a holder in light of his particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, regulated investment companies or real estate investment trusts, dealers or brokers in securities or foreign currencies, traders in securities that elect the mark-to-market accounting method, persons holding the Bonds as part of a hedging transaction, “straddle,” conversion transaction, or other integrated transaction, or United States holders whose functional currency, as defined in Section 985 of the Code, is not the United States dollar. This discussion does not address United States estate tax consequences of holding the Bonds and, except as specifically described, does not address either tax consequences to pension plans or foreign investors or any aspect of state or local taxation with respect to the Bonds. Persons considering the purchase of the Bonds should consult with their own tax advisors concerning the application of the United States federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign jurisdiction. The opinion of Bond Counsel with respect to the Bonds will not address such matters.

If a partnership or other entity classified as a partnership for United States federal income tax purposes holds Bonds, the tax treatment of the partnership and each partner generally will depend on the activities of the partnership and the status of the partner. Partnerships acquiring Bonds, and partners in such partnerships, should consult their tax advisors.

UNITED STATES HOLDER

As used in the sections below, the term “United States holder” means a beneficial owner of a Bond that is for United States federal income tax purposes (a) an individual citizen or resident of the United States, (b) a corporation (including an entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate, the income of which is includible in gross income for United States federal income tax purposes, regardless of its source, or (d) a trust if (i) a court within the United States can exercise primary supervision over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of such trust or (ii) the trust has in effect a valid

election to be treated as a domestic trust for United States federal income tax purposes. Further, as described below, a non-United States holder is any holder of a Bond that is not a United States holder.

THE DISCUSSION OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR PERSON. ACCORDINGLY, ALL PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. TAX CONSEQUENCES RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS BASED ON THEIR PARTICULAR CIRCUMSTANCES.

TAXATION OF INTEREST

Subject to the discussion in “Original Issue Discount” below, interest payable on a Bond generally will be taxable to a United States holder as ordinary interest income at the time it accrues or is received, in accordance with the United States holder’s method of tax accounting. In addition, United States holders that are individuals, estates or trusts generally will be required to pay a 3.8% Medicare tax on their net investment income (including interest from the Bonds), or in the case of estates and trusts, on their net income that is not distributed, in each case to the extent that their total adjusted gross income exceeds applicable thresholds.

SALE, EXCHANGE OR RETIREMENT OF THE BONDS

Upon the sale, retirement or other taxable disposition of a Bond, a United States holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, retirement or other taxable disposition (other than amounts representing accrued and unpaid interest, which will be taxable as ordinary interest income to the extent not previously included in gross income) and the United States holder’s adjusted tax basis in the Bond. In general, a United States holder’s adjusted tax basis in a Bond will equal the cost of the Bond to that holder, increased by the amount of any earned, but as yet unpaid, interest previously included in income by such holder with respect to such Bond and reduced by any principal payments received by the holder.

Gain or loss recognized on the sale, exchange or retirement of a Bond generally will be capital gain or loss and generally will be long-term capital gain or loss if at the time of sale, exchange or retirement the Bond has been held for more than one year. The deductibility of capital losses is subject to certain limitations. In addition, net investment income for purposes of the 3.8% Medicare tax described above will include gains from the sale or other disposition of the Bonds. Prospective investors should consult their own tax advisor concerning these tax law provisions.

Defeasance or material modification of the terms of any Bond may result in a deemed reissuance thereof, in which event a beneficial owner of the defeased Bond generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the beneficial owner’s adjusted tax basis in the Bond. Prospective purchasers of the Bonds are urged to consult their tax advisors regarding the foregoing matters. Original Issue Discount

“Original issue discount” will arise for United States federal income tax purposes in respect of any Bond if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). The stated redemption price at maturity of a Bond is the sum of all scheduled amounts payable on such Bond other than qualified stated interest. United States holders of Bonds generally will be required to include any original issue discount in income for United States federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, United States holders of Bonds issued with original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

BOND PREMIUM

“Premium” generally will arise for United States federal income tax purposes in respect of any Bond purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of its principal amount. Bonds so purchased will be treated for federal income tax purposes as having amortizable

bond premium. A holder's basis in such a Bond must be reduced by the amount of premium that amortizes while such Bond is held by the holder. A United States holder of a Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such United States holder, to amortize such premium, using a constant yield method over the term of such Bond. Purchasers of Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Bonds.

TAXATION OF TAX-EXEMPT INVESTORS

Special considerations apply to employee benefit plans and other investors ("Tax-Exempt Investors") that are subject to tax only on their unrelated business taxable income ("UBTI"). A Tax-Exempt Investor's income from the Bonds generally will not be treated as UBTI under current law, so long as such Tax-Exempt Investor's acquisition of such Bonds is not debt-financed. Tax-Exempt Investors should consult with their own tax advisors concerning these special considerations. In addition, the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between an employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. The investment of the assets of the Plans also must satisfy the standards of fiduciary conduct prescribed by ERISA, e.g., prudence and diversification. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Bonds.

NON-UNITED STATES HOLDERS

The following applies to a holder if the holder is a beneficial owner of a Bond and is not a United States holder or a United States partnership (or entity treated as a partnership for United States federal income tax purposes) (hereinafter a "non-United States holder"). Special rules which will not be addressed herein may apply if a non-United States holder is a "controlled foreign corporation" or a "passive foreign investment company" for United States federal income tax purposes. If a non-United States holder is such an entity, the non-United States holder should consult its tax advisor to determine the tax consequences that may be relevant to the non-United States holder.

Subject to the discussion below under "Foreign Account Tax Compliance Act," all payments on a Bond made to a non-United States holder and any gain realized on a sale, exchange, or other disposition of a Bond will be exempt from United States federal income and withholding tax, provided that: the non-United States holder does not own, actually or constructively, 10% or more of the District's outstanding capital or profit interests within the meaning of the Code and the Treasury regulations;

- the non-United States holder is not a controlled foreign corporation related, directly or indirectly, to the District through stock ownership;
- the non-United States holder is not a bank whose receipt of interest on the Bond is described in Section 881(c)(3)(A) of the Code;
- the non-United States holder has fulfilled the certification requirement described below;
- such payments are not effectively connected with the conduct by the non-United States holder of a trade or business in the United States; and
- in the case of gain realized on the sale, exchange, or other disposition of a Bond, if the non-United States holder is a nonresident alien individual, the non-United States holder is not present in the United States for 183 or more days in the taxable year of the disposition where certain other conditions are met. The certification requirement referred to above will be fulfilled if the non-United States holder provides its name and address to the trustee or paying agent on IRS Form W-8BEN or W-8BEN-E, as applicable (or an acceptable substitute), and certifies, under penalties of perjury, that the holder is not a United States person. Prospective investors should consult their tax advisors regarding possible additional reporting requirements.

If the non-United States holder of a Bond is engaged in the conduct of a trade or business in the United States, and if payments on a Bond, or gain realized on its sale, retirement or other taxable disposition of the Bonds are effectively

connected with the conduct of such trade or business, and are attributable to a permanent establishment maintained by the non-United States holder in the United States under any applicable tax treaty, the non-United States holder will generally be taxed in the same manner as a United States holder (see “United States Holders” above), except that the non-United States holder will be required to provide a properly executed IRS Form W-8ECI in order to claim an exemption from withholding tax and such holder may be subject to an additional, up to 30%, branch profits tax.

FATCA (as defined below) could impose United States withholding tax on payments of interest and proceeds of sale in respect of the Bonds to a non-United States holder that does not comply with certain disclosure requirements related to the non-United States holder. See the “Foreign Account Tax Compliance Act” discussion below.

Non-United States holders should consult their tax advisors with respect to other tax consequences of the ownership of the Bonds.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Information returns may be filed with the IRS in connection with payments on the Bonds and the proceeds from a sale, exchange, or other disposition of the Bonds. Holders may receive statements containing the information reflected on these returns. If the holder is a United States holder, the holder may be subject to United States backup withholding tax on these payments if it fails to provide its taxpayer identification number to the paying agent and comply with certification procedures or otherwise establish an exemption from backup withholding. If the holder is not a United States holder, it may be subject to United States backup withholding tax on these payments unless the holder complies with certification procedures to establish that the holder is not a United States person. The certification procedures required of the holder to claim the exemption from withholding tax on certain payments on the Bonds described above will satisfy the certification requirements necessary to avoid the backup withholding tax as well.

The amount of any backup withholding made from a payment will be allowable as a credit against the holder’s United States federal income tax liability and may entitle the holder to a refund, provided that the holder timely furnishes the required information to the IRS. United States holders should consult their tax advisors regarding the application of information reporting and backup withholding rules in their particular situations, the availability of an exemption therefrom, and the procedure for obtaining such an exemption, if applicable.

FOREIGN ACCOUNT TAX COMPLIANCE ACT

Recent legislation and IRS guidance concerning foreign account tax compliance rules (“FATCA”) impose United States withholding tax on interest paid to certain foreign financial institutions and non-financial foreign entities if certain disclosure requirements related to United States accounts or ownership are not satisfied. No additional amounts will be paid in respect of any such withholding. Non-United States holders and those holding through foreign accounts should consult their tax advisors with respect to FATCA withholding on the Bonds.

CERTAIN STATE AND LOCAL TAX CONSEQUENCES

In addition to the United States federal income tax consequences described above, prospective investors should consider the potential state and local tax consequences of an investment in the Bonds. State income tax law may vary substantially from state to state, and this discussion does not purport to describe any aspect of the income tax laws of any state or locality. Therefore, potential purchasers should consult their own tax advisors with respect to the various state and local tax consequences of an investment in the Bonds.

There are many events that could affect the value, liquidity and/or marketability of the Bonds after their issuance, including but not limited to a general change in interest rates for comparable securities, a change in federal or state income tax rates, legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinion of Bond Counsel nor this Official Statement purports to address the likelihood or effect of any such potential events or such other tax considerations, and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

TAX LEGISLATIVE CHANGES

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (“MSRB”). Information will be available free of charge via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement in Tables 1 through 15, and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year.

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

The City’s current fiscal year end is September 30. Accordingly, the City must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES

The City will also provide the following to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) Business Days after the occurrence of the event, notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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 successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. In addition, the City will provide to the MSRB, in a

timely manner, notice of any failure by the City to provide the required annual financial information described above under "ANNUAL REPORTS" and any notices of events in accordance with this section.

For these purposes, any event described in (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. As used in this section, the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. The City intends the words used in the above 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.

LIMITATIONS AND AMENDMENTS

The City has agreed to update information and to provide notices of certain specified events only as described above. The City shall be obligated to observe and perform such obligations for so long as, but only for so long as, the City remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the City in any event will give notice of any bond calls and any defeasances that cause the City to be no longer an "obligated person."

The provisions of the City's continuing disclosure undertaking are for the sole benefit of the Owners and beneficial owners of the Bonds, and nothing in the City's continuing disclosure undertaking, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City has undertaken to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide as described above and has not undertaken to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or undertaken to update any information provided, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell the Bonds at any future date.

Under no circumstances shall the City be liable to the owner or beneficial owner of any Bond or any other person, in contract or tort, for damages resulting in whole or in part from any breach by the City, whether negligent or with or without fault on its part, of any covenant specified in its undertaking, and any right and remedy of any such person, in contract or tort, for or on account of any such breach shall be limited to an action for mandamus or specific performance. No default by the City in observing or performing its obligations under its continuing disclosure undertaking shall constitute a breach of or default under the Ordinance for purposes of any other provisions of the Ordinance. Nothing in this paragraph is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The City may amend its continuing disclosure undertaking from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (i) the provisions of undertaking, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (A) the Owners of a majority in aggregate principal amount of the outstanding Bonds consent to such amendment or (B) an entity or individual person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Bonds. The provisions of the City's undertaking may also be amended from time to time or repealed by the City if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but only if and to the extent that reservation of the City's right to do so would not prevent underwriters of the initial public offering of the Bonds from lawfully purchasing or selling Bonds in such offering. If the City so amends the provisions of its undertaking, it shall include with any amended financial information or operating data next provided as described in Annual Reports, above, an explanation, in narrative form,

of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS

The City has entered into prior undertakings pursuant to which it has agreed to provide certain continuing disclosure information. For additional information relating to each of the City's filings, please refer to EMMA's website at www.emma.msrb.org. The City has implemented continuing disclosure procedures to ensure timely compliance with its annual disclosure and event notice obligations.

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding tax-supported debt of the City are rated "Aa3" by Moody's and "AA" by Fitch, without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds. Neither the Underwriters nor the City has undertaken any responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of the ratings of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds.

LITIGATION

The City is a defendant in various lawsuits and is aware of claims arising in the ordinary course of its municipal and enterprise activities. The typical claims or litigation in which the City is involved include claims for damages alleging the City caused personal injuries and wrongful deaths, breach of contract and various claims from contractors for additional amounts under construction contracts. At this time there are no claims or cases that could impact the operations of the City. Available damages for state based civil claims are limited by the Texas Tort Claims Act.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel in substantially the form attached hereto as APPENDIX C. Bond Counsel has reviewed the statements and information appearing in the Official Statement under the captions "THE BONDS" (except the subcaptions "TAX RATE LIMITATION," "BOOK-ENTRY-ONLY SYSTEM," and "REMEDIES OF HOLDERS OF THE BONDS") "PLAN OF FINANCE (except for the information under the subcaptions "SOURCES AND USES OF FUNDS") and "CONTINUING DISCLOSURE OF INFORMATION" (except the subcaption "COMPLIANCE WITH PRIOR UNDERTAKINGS") and Bond Counsel is of the opinion that the statements and information contained therein accurately reflect the provisions of the Ordinance; further, Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions "TAX MATTERS," "OTHER INFORMATION - REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "OTHER INFORMATION - LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER INFORMATION - LEGAL MATTERS" (except for the last two sentences of the first paragraph and the second paragraph) and Bond Counsel is of the opinion that the statements and information contained therein accurately describe the laws and legal issues contained therein. Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain matters will be passed upon for the City by Hunton Andrews Kurth LLP, Houston, Texas, Disclosure Counsel, whose fee is contingent upon the sale and delivery of the Bonds. Certain matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Counsel for the Underwriters, whose fee is contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds 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 opened upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

MUNICIPAL ADVISOR

Huntington Securities, Inc. dba Huntington Capital Markets is employed as Municipal Advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Municipal Advisor has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

AUDITED FINANCIAL STATEMENTS

Whitley Penn LLP, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Whitley Penn LLP relating to City's financial statements for the fiscal year ended September 30, 2020 is included in this Official Statement in APPENDIX B; however, Whitley Penn LLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by Huntington Capital Markets on behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the Securities and the forecasted payments of principal and interest to redeem the Refunded Obligations and (b) computation of the yields of the Bonds and the restricted Securities were verified by The Arbitrage Group, Inc. Such computations were based solely on assumptions and information supplied by Huntington Capital Markets on behalf of the City. The Arbitrage Group, Inc. has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price of \$13,478,747.85 (representing the principal amount of the Bonds, less an underwriting discount of \$66,252.15). The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

SCHEDULE I – SCHEDULE OF REFUNDED OBLIGATIONS

Waterworks and Sewer System Revenue Refunding Bonds, Series 2012

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
05/01/2022	3.000%	\$730,000	(escrowed to maturity)	
05/01/2023	3.000%	<u>\$760,000</u>	05/01/2022	100.00%
		\$1,490,000		

Waterworks and Sewer System Revenue Refunding Bonds, Series 2014

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
05/01/2022	5.000%	\$1,215,000	(escrowed to maturity)	
05/01/2023	5.000%	\$1,275,000	(escrowed to maturity)	
05/01/2024	5.000%	\$1,340,000	(escrowed to maturity)	
05/01/2025	5.000%	\$1,405,000	05/01/2024	100.00%
05/01/2026	5.000%	\$1,480,000	05/01/2024	100.00%
05/01/2027	5.000%	\$1,555,000	05/01/2024	100.00%
05/01/2028	5.000%	\$1,630,000	05/01/2024	100.00%
05/01/2029	5.000%	\$1,710,000	05/01/2024	100.00%
05/01/2030	5.000%	<u>\$1,795,000</u>	05/01/2024	100.00%
		\$13,405,000		

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City is one of Texas' most historic cities and is a popular tourist and convention destination. Major tourist attractions include "the Elissa," a restored 1877 iron barque, Moody Gardens, Schlitterbahn, the Historic Galveston Island Pleasure Pier, the Strand District, Sea Wolf Park, year-round sport fishing, and miles of beautiful beaches.

HEALTH CARE

The City is home to the University of Texas Medical Branch ("UTMB"). UTMB offers the full range of primary and specialized medical care through a network of Galveston-based hospitals and clinics. The cornerstone to UTMB's future growth in the City is the new Jennie Sealy Hospital, designed to promote a team-based approach to care, offer real-world educational opportunities for students, and provide a state-of-the-art, optimal healing environment for patients and their families. The \$438 million hospital opened for patients in April 2016, and has advanced medical training and patient health for the region. An adjacent Clinical Services Wing, which houses critical support services for the entire inpatient complex on Galveston Island, opened in June 2015. The combined hospital bed count is approximately 600 beds. UTMB has a \$1.7 billion annual budget.

The new hospital was part of a more than \$1 billion plan for the repair, renovation and new construction of UTMB. UTMB is planning to build a new clinical services wing next to the new Jennie Sealy Hospital and is renovating and modernizing John Sealy Hospital. Since Hurricane Ike (2008) UTMB has opened 25 clinics in 15 locations on the mainland for a total of 40 clinics on and off the island. The medical school also completed construction on a \$90 million outpatient specialty care and surgical center in League City.

The Galveston-based Sealy & Smith Foundation contributed \$170 million to the cost of construction that was then combined with \$150 million in tuition revenue bonds approved by the Legislature. The remaining \$118 million in construction costs came from UTMB, along with \$100 million in donations.

UTMB employees over 11,500 people county-wide with 8,948 working in the City.

EDUCATION

Primary Education: Galveston Independent School District covers 94.82 square miles and serves approximately 7,000 students in the City and on Bolivar Peninsula. During the 2020-2021 school year, it will operate one high-school program, three middle school programs and six elementary schools. There are eight private schools in the City.

Higher Education: Texas A&M University at Galveston; Galveston College; UTMB (four schools and three institutes).

ECONOMY

Major employment sectors in the City are education, tourism and health care. Johnson Space Center, 30 minutes from the City, and many support industries provide opportunities in engineering, electronics and aeronautical research. Approximately 60 miles north on Highway 45 is Houston, the fourth largest city in the United States.

The education industry is a major employer in the City. In addition to the educators that support UTMB's four colleges and two institutes, Galveston Independent School District provides the third largest employment opportunities in the City with a total of 1,251 employees, and Texas A&M University at Galveston has 1,247 employees.

The City is home to various public and private maritime facilities. The public port authority, known as the Galveston Wharves, and in the maritime industry as the Port of Galveston, is a wholly-owned entity of the City. The port is located on the upper Texas coast at the mouth of Galveston Bay, just 30 minutes steaming time from the open sea. The wharves have facilities to handle all types of cargo, including containers; automobiles; project, import and export dry bulks; and a variety of break bulk commodities.

The Port of Galveston is home to several year-round home-ported cruise ships. The City has been as recently as 2019 the fourth largest home port in the United States when measured by embarkations. The CDC halted cruises because of the Pandemic in 2020, however the CDC recently revised its guidelines for the cruise industry. The CDC clarified its return-to-sailing framework and is allowing eligible cruise companies to conduct “trial” voyages with volunteer passengers in advance of restricted passenger voyages under a conditional sailing certificate. The trial cruises must comply with several trial voyage rules and restrictions, including age and capacity limits and post-disembarkation COVID-10 testing. Alternatively, the CDC stipulated that cruise lines can bypass the trial voyages by complying with additional conditions such as showing proof of vaccination by a certain percentage of both passengers and crew. At this time, it remains unknown exactly when cruises may commence again at full capacity. With the advancement of COVID-19 vaccines, the cruise industry is hoping the cruise industry continues to open in 2021 since the City’s cruise terminal complex has been enhanced to meet the CDC standards. Efforts by the City and the others to open the cruise industry include a letter sent by the director of the Port of Galveston asking the Governor for help in pressuring the CDC to lift its moratorium on cruises. The director of the Port of Galveston was joined by Florida Governor Ron DeSantis and the Cruise Lines International Association in the letter asking for the lift of the ban. Additionally, Texas, along with Alaska, has joined in a lawsuit Florida filed against the CDC to allow cruise operations to restart.

Trains cross Galveston Bay on a bridge adjacent to the Causeway, the major link to the mainland. The San Luis Pass Bridge on the west end and a public ferry service at the east end provide additional access.

Major air service is available at two Houston airports-Hobby Airport, 45 minutes from the City, and Houston Intercontinental Airport, 1.5 hours from the City. The City has a municipal airport, Scholes Field, used for private flying and helicopter services.

TOP EMPLOYERS

Employer	Type of Business	Employees
University of Texas Medical Branch	Medical / Education	8,948
Landry's Restuarants	Restaurant	1,930
Galveston ISD	Education	1,251
Texas A&M University at Galveston	Education	1,247
Moody Gardens	Tourism	1,000
American National Insurance Co.	Insurance	900
Galveston County (Island only)	Government	888
City of Galveston	Government	883
Schlitterbahn	Waterpark	700
International Longshoremen's Assoc.	Union	465

Source: Galveston Economic Development Partnership.

LABOR STATISTICS

City of Galveston

Year	Civilian Labor Force	Total Employment	Unemployment	Rate
2015	24,169	22,995	1,174	4.90%
2016	23,872	22,645	1,227	5.10%
2017	23,989	22,888	1,101	4.60%
2018	24,575	23,463	1,112	4.50%
2019	24,416	23,452	964	3.90%
2020 ⁽¹⁾	23,791	21,420	2371	10.00%

Galveston County

Year	Civilian Labor Force	Total Employment	Unemployment	Rate
2015	157,727	149,858	7,869	5.00%
2016	158,813	150,357	8,452	5.30%
2017	159,004	151,971	7,033	4.40%
2018	165,696	158,108	7,587	4.60%
2019	167,533	160,890	6,643	4.00%
2020 ⁽¹⁾	164,608	150,218	14,390	8.70%

Source: Texas Workforce Commission.

(1) For more information regarding the economic impact of the Pandemic see INTRODUCTION – INFECTIOUS DISEASE OUTBREAK – COVID-19

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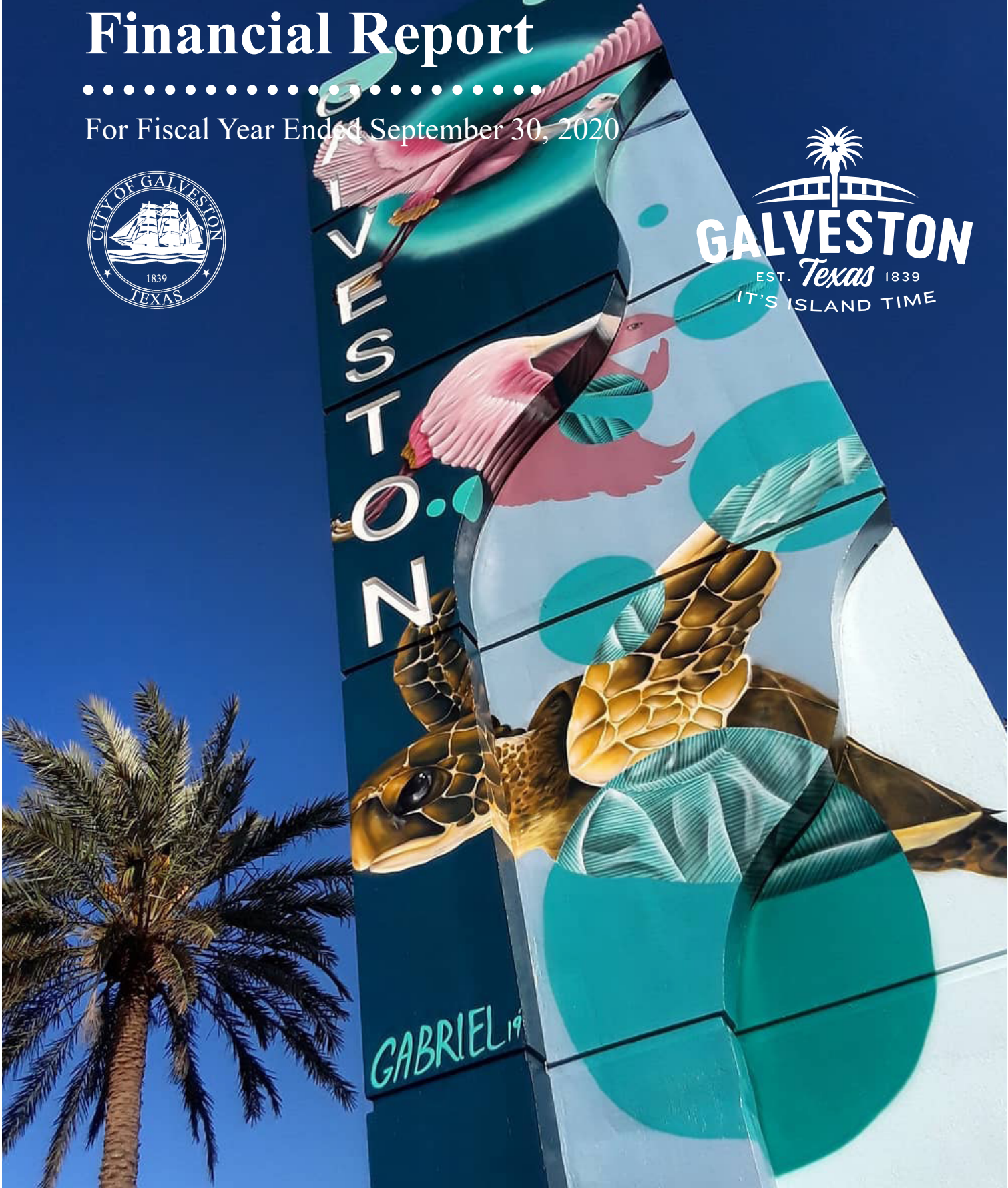
APPENDIX B

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

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Annual Comprehensive Financial Report

For Fiscal Year Ended September 30, 2020



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**CITY OF GALVESTON,
TEXAS**



**ANNUAL COMPREHENSIVE
FINANCIAL REPORT**

**Fiscal Year Ended
September 30, 2020**

**Prepared by:
Finance Department**

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Introductory Section

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2020 Annual Comprehensive Financial Report



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City of Galveston



P.O. Box 779 / Galveston, Texas 77553

**Annual Comprehensive Financial Report
for Fiscal Year Ending September 30, 2020**

Letter of Transmittal

March 29, 2021

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

State law requires that all general purpose local governments publish within 180 days of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the annual comprehensive financial report (the Annual Report) of the City of Galveston, Texas (the City) for the fiscal year ended September 30, 2020.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. In order to provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Whitley Penn, LLP a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2020, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended September 30, 2020 are fairly presented in conformity with GAAP.

The independent auditor's report is presented as the first component of the financial section of this report. The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are available in the City's separately issued Single Audit Report. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Galveston is a home rule, full service city incorporated in 1839, and is governed through a council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the Mayor, who is elected at large, and six council members elected to represent individual districts. The governing council is responsible, among other things, for passing ordinances, adopting the budget, determining policies, appointing committees, and hiring the City Manager, City Attorney, City Secretary, internal Auditor, and Municipal Judge. The City Manager is responsible for developing and proposing the annual City budget for consideration by City Council, for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. Elections are held every two years. Council members, including the Mayor, are limited to serving three consecutive terms.

The City provides a full range of services including police and fire protection, the construction and maintenance of streets and other infrastructure, water services, sewer services, refuse collection, drainage services, parks and recreational activities, and general administration. Additional services include building inspection, planning, zoning, engineering, and an airport.

Component units of the City, and the services they provide, include:

- The Park Board which provides improvements and maintenance to City waterfront parks and beaches;
- The Galveston Island Redevelopment Authority (GIRDA), which manages funds from one tax reinvestment zone and three public improvement districts for development and improvement projects within specific geographic areas of the City;
- The Galveston Housing Finance Corporation (GHFC) which provides home mortgages and loans to lending institutions for the purpose of making home mortgages;
- The City of Galveston Property Finance Authority, Inc.(GPFC) which was created by State Statute for the purpose of acquiring, owning, holding, leasing, and selling real or personal property to or for the benefit of the City for the furtherance of its public purposes;
- The Board of Trustees of the Galveston Wharves which manages, controls, and maintains the Port of Galveston;
- The Industrial Development Corporation which provides funding for public works, beach renourishment, parks and economic development projects; and
- The City of Galveston Employees' Retirement Plan for City employees, the Galveston Firefighters' Pension Fund, and the City of Galveston Employees' Retirement Plan for Police.

In FY 2020, the City Council reorganized the board of GIRDA giving it oversight and governance powers over the GHFC and GPFC in addition to the GIRDA itself.

The annual budget serves as the foundation for the City's financial planning and control. Since FY 2016, the budget process has begun with a five-year forecast of revenue and expenditures presented to City Council in June. The forecast frames issues for consideration by City Council that are discussed in budget work sessions held during June and July. Using council directed priorities and departmental spending targets derived from the forecast, the City Manager develops and presents a proposed budget to the council no later than the first week of August. Capital projects and related financing are also discussed with council in May and June resulting in the presentation of the five year capital improvement plan in July.

The Council is required to hold public hearings on the proposed budget, including the capital improvement plan, and to adopt a final budget no later than the second or last regularly scheduled council meeting in September. If the council does not approve the budget by October 1, it takes effect as proposed by the city manager until council ratifies or modifies it. Also, in August and September, the Council holds public hearings on the proposed property tax rate required to support the budget. The rate is then adopted in September after the budget is adopted in accordance with State law.

The budget is prepared for every operating and capital fund, function (e.g. public safety), and department (e.g. police). Subsequently, the Budget ordinance proposed to and passed by the City Council provides specific appropriations that govern spending plans for the fiscal year. During the year, the City Manager may make transfers of appropriations within a department and fund without prior approval by City Council. Transfers of appropriations within a fund and between departments, however, require the prior approval of the City Council. Revenue and expense is monitored throughout the fiscal year and documented in quarterly reports, along with the status of capital projects and capital funds. The Budget is amended by City

Council as needed for municipal purposes under the authority of the state Budget Law (Local Government Code Chapter 102) and the City charter. At the close of each fiscal year, any unencumbered balance of an appropriation reverts to the fund from which it was originally appropriated and may only be re-appropriated by the council.

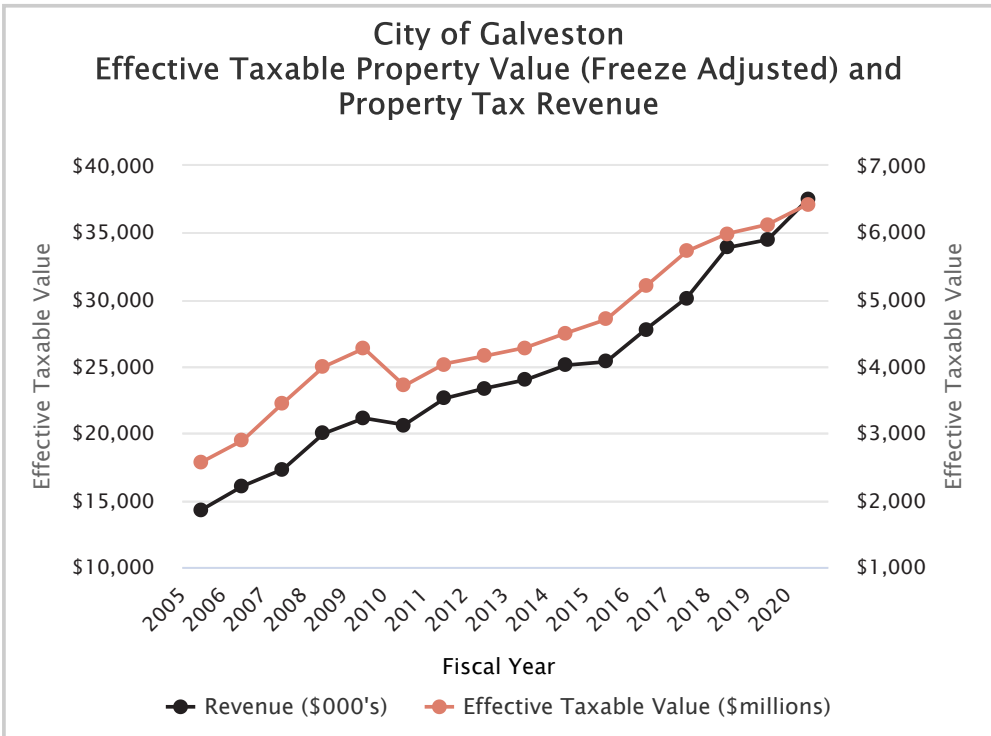
Budget-to-actual comparisons are provided for the most significant governmental funds including the General Fund, Debt Service Fund, Island Transit special fund and Rosenberg Library special fund. Budget-to-actual comparisons are also presented for the Combined Utility System Fund (formerly the Waterworks and Sewer System Funds), Sanitation, Drainage and Airport enterprise funds.

Economic Climate

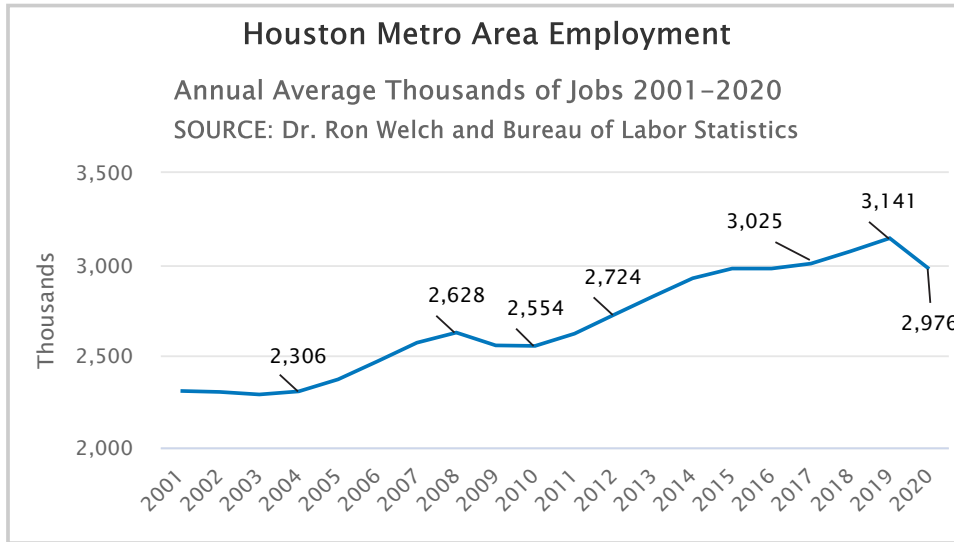
Galveston’s economy is healthy and growing in spite of challenges from natural disasters, weather events and economic downturns because of its location and climate. Galveston is located on the Gulf of Mexico at the mouth of Galveston Bay. The Gulf Coast of Texas normally experiences mild winters and temperate summers making the City a tourist destination. Furthermore, it is part of the nation’s most vibrant state economy and one of the top metropolitan economies which provides Galveston economic vibrancy that goes beyond the City’s borders.

The City’s long-term growth rate was interrupted in a significant way by the simultaneous arrival of Hurricane Ike and the Great Recession in 2008. After a one year adjustment due to the impact of Hurricane Ike that dropped taxable values 13 percent to \$3.7 billion, it took four years for taxable property value to return to its pre-Ike level. The City adjusted its property tax rate to absorb a portion of the associated tax revenue loss but chose to set a rate lower than would have been allowed under the State property tax assessment process.

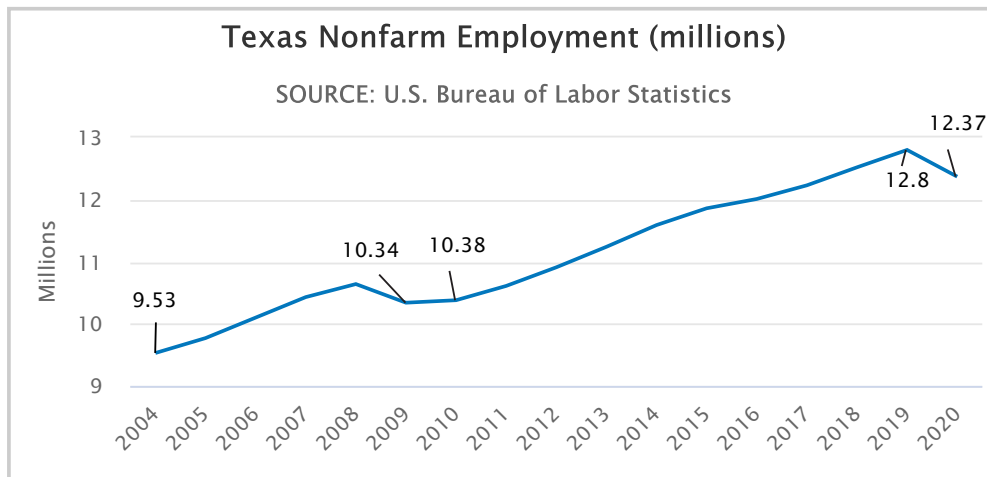
Post-recession economic recovery brought sustained growth and taxable value to \$6.43 billion in FY 2020 (Source: Galveston County Appraisal District). The effective annual rate of increase in the City’s taxable value from FY 2009 through FY 2020, was 6.28 percent including the loss incurred after Hurricane Ike in FY 2010. Property tax collections were strong in FY 2020, despite the pandemic at 100.62 percent of the effective taxable value adjusted for the tax freeze. In FY 2020, the property tax freeze provided \$1.45 million in property tax savings for eligible homeowners who were over 65 and disabled.



After the Hurricane Ike/Great Recession downturn of 2008-2010, and the energy slowdown of 2014-2017, regional employment surged ahead. Galveston property and sales revenues recovered and grew in parallel to the region's employment base shown here. In FY 2020, the COVID-19 pandemic had a dramatic effect on employment in the region as it did nationally. Galveston's metro area lost 331,000 jobs in April, and recovered 164,000 jobs by the end of the calendar year. Average annual employment for the region dropped from 3,144,000 in 2019 to 2,976,000 in calendar 2020. In spite of job losses suffered by the hospitality industry, Galveston's economy showed strength because of its role as the playground for the region.



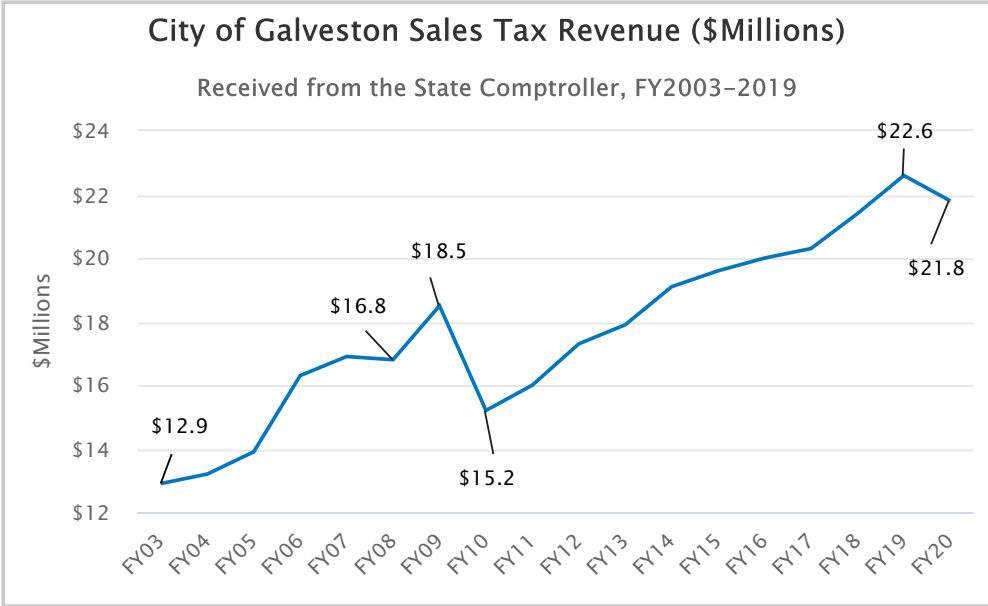
Statewide employment followed the same pattern as the region in 2020. The state suffered the loss of 1.4 million jobs between February and April, but recovered 848,000 of those jobs by the end of the calendar year. While the growth rate has slowed, the state is expected to continue its previous long-term employment growth trend as shown below.



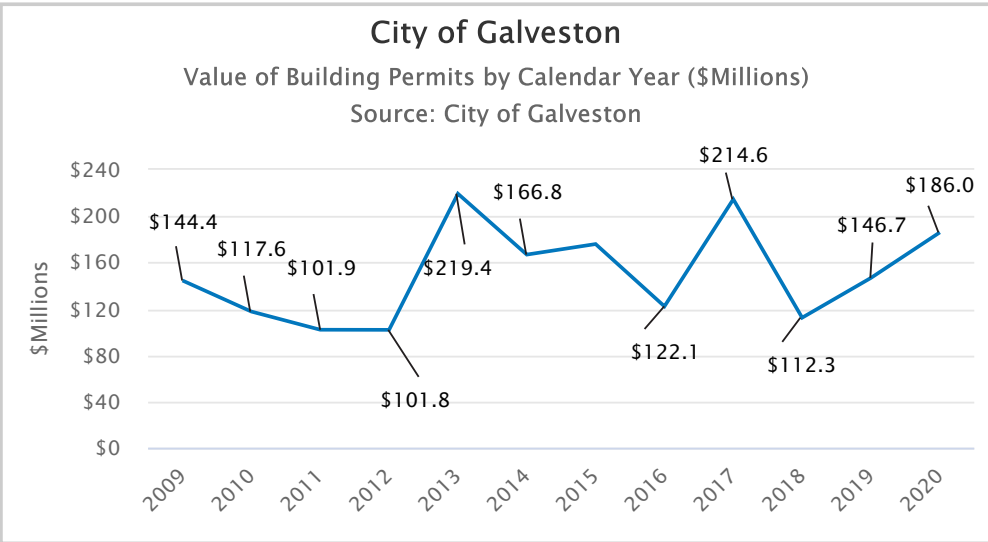
Galveston is the top recreation center for the region as evidenced by its sales tax revenue performance since FY 2003. The City's two percent sales tax rate is composed of a 1.5 percent amount that goes to the City's General Fund to support public safety and transportation functions. The remaining one-half percent goes to economic development, including equal one-eighth percent portions for beach renourishment, city parks and recreation, infrastructure and targeted economic development programs and projects.

Galveston's sales tax growth mirrors the region's employment growth. The city performs sales tax forecasts with a statistical model based primarily on regional employment. After the Hurricane Ike/Great Recession of 2008-2010 when sales tax revenue dropped eighteen percent, Galveston's sales tax revenue showed steady growth. The City collected \$22.6 million in FY 2019, and the FY 2020 budget of \$22.9 million appeared achievable until COVID-19 arrived. When the region lost jobs due to the business closures

caused by the pandemic, the City expected, and experienced a drop in sales tax revenue. In April of 2020, the City projected sales tax revenue losses of \$2.4 million in the last seven months of FY 2020 for a year ending total of \$19.9 million. Actual results were better than anticipated as the final sales tax total was \$21.8 million in FY 2020. In spite of the loss of special events, and hospitality industry losses, Galveston's sales tax revenue was sustained in part by the federal stimulus as well as its outdoor recreational opportunities for people looking for a COVID-free experience.



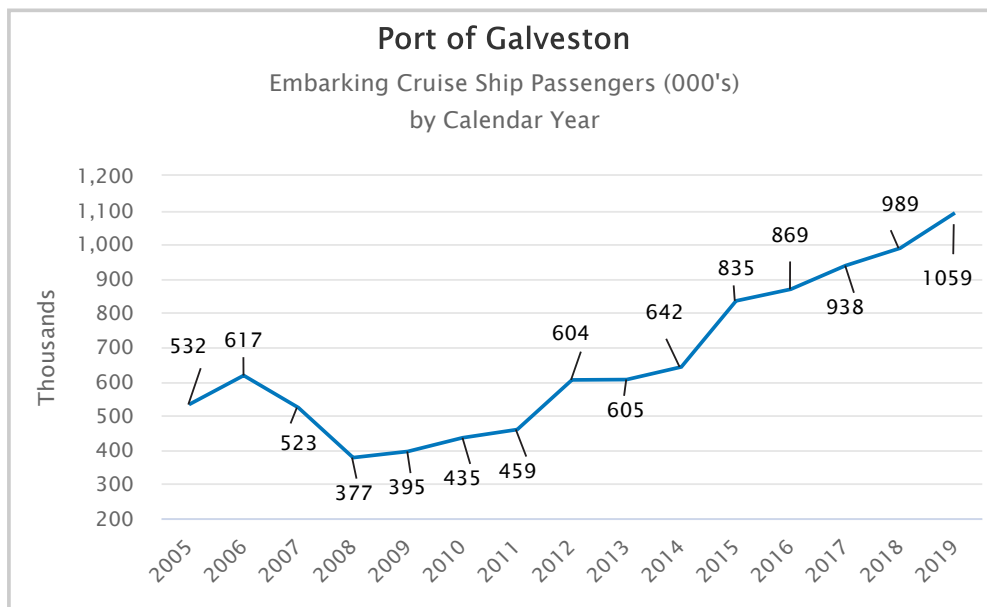
Galveston continues to have a lower cost of living than the nation in spite of its growing economy. According to the U.S. Department of Labor Statistics, the Consumer Price Index-Urban (CPI-U) for the U.S. as a whole was 260.5 in December 2020. The CPI-U for the metropolitan area including Galveston was 230.4 for the same period. By this measure, Galveston's cost of living is approximately 11.6 percent less than the nation as a whole.



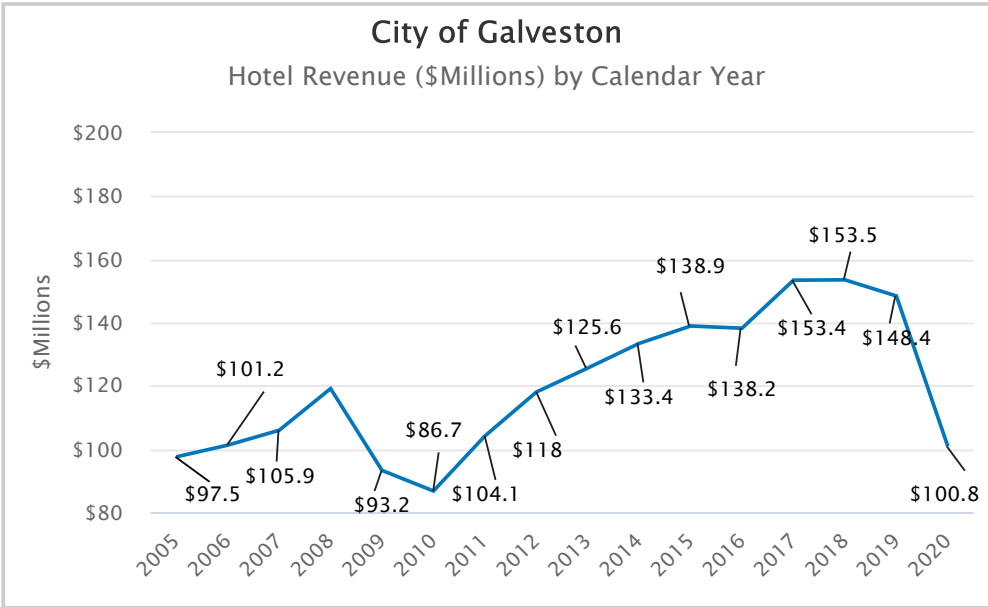
Construction activity in Galveston is continuing at a steady pace after the value of building permits in the immediate aftermath of Hurricane Ike peaked in 2008 at \$284.8 million (not shown in the graph). For the seven year period of 2013 through 2019, the annual average value of commercial and residential building permits has been \$165 million per year. For that same period of time (tax years 2014 through 2020), the value of new construction placed on the City's property tax roll by the Galveston County Appraisal District averaged \$69 million. Calendar year 2020 produced a \$186.0 million total and the expectation is that GCAD will again add a significant amount of new construction to the City's tax roll for tax year 2021.

The Port of Galveston has long been an important contributor to both the Galveston and Texas economies. One of the top 50 ports in the nation and one of the busiest in Texas, the Port moved 4.3 million tons of cargo in 2020, which is up 6.2 percent overall from 2019. Grain and wind led the Port with a 127.6 percent increase. General cargoes increased 13.9 percent over 2019. Vessels lay-up at the Port of Galveston for a variety of reasons including obtaining vessel repairs and maintenance, gathering stores, and obtaining inspections. Lay dockage space is utilized only when there are no cargo-laden vessels available for berths. A record-setting 461 lay vessels called at the Port of Galveston in 2020 compared with 377 in 2019, for an increase of 22 percent.

Galveston is the fourth largest cruise port in the country, and cruise ship passengers through the port continue to set records each year. According to a report published by Cruise Lines International Association, the cruise industry in Galveston drove \$1.6 billion in direct expenditures, 26,872 jobs, and had a total wage impact of \$1.8 billion through the Texas economy in 2019. The cruise industry also has significant local impact generating \$71.5 million in passenger on-shore spending in 2019, up from \$65.7 million in 2018, and another \$23.4 million in services provided at the port in 2019, up from \$19.3 million in 2018. After cruise ship traffic was interrupted by Hurricane Ike in 2008 and cruise passengers dipped to 377,000, the Port of Galveston saw 985,000 cruise passengers in 2018, and 1,092,000 for 2019. Because of the pandemic, cruise companies suspended operations temporarily in 2020. When cruise companies resume operations, a similar rebound in Galveston's cruise traffic can be expected like the one that occurred after Ike that is referenced above.



The City of Galveston is a popular destination for tourists, because of its beaches and other attractions, including Moody Gardens, Schlitterbahn, and the Pleasure Pier. The City's downtown area features The Strand District, which is the home of some of Galveston's most historic commercial buildings, and the centerpiece for the City's active year-round calendar of community and seasonal events. Nearby is the East End Historic District which is on the National Historic Register and the site of many of the City's historic residential structures. A primary indicator of Galveston's tourism industry is total hotel occupancy tax revenue. Total hotel revenue was negatively impacted in calendar 2020 by the COVID pandemic, with closures and limited occupancy. However, part of the decrease is attributable to travelers shifting their lodging preferences from hotels to short-term rentals. From 2018 to 2020, short-term rental Hotel Occupancy Tax revenue has increased 24 percent, offsetting the losses attributable to hotels.

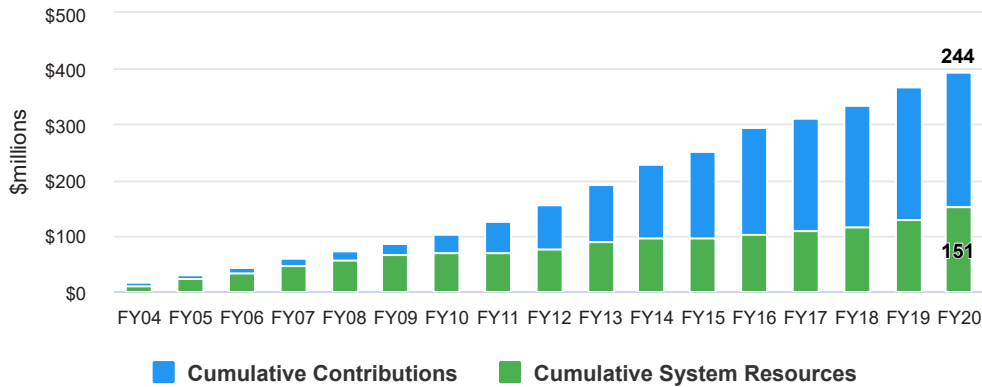


FY 2004 was the first year in which the City was required by Governmental Accounting Standards Board Statement 34 to include the value of its capital assets net of depreciation in its balance sheet. Since 2004, GASB 34 has served as an annual reminder to communities of the importance of investments in infrastructure. And the true value of the requirement is best viewed from a long-term perspective.

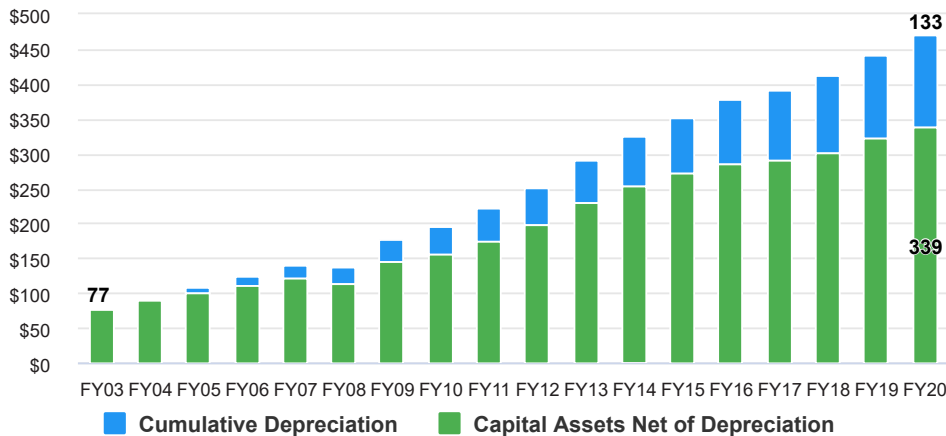
Since FY 2004, the City's net enterprise funds' capital asset position has increased from \$77 million to \$339 million, a \$262 million increase. The two graphs below illustrate the summary totals of this infusion of federal grants for the City's enterprise funds in this regard. Since FY 2004, the City has invested a total of \$395 million in improvements to its water, wastewater and airport systems. This included \$151 million in system resources (cash, bond proceeds) and \$244 million in contributions (largely federal grants) received by the City and invested in those same systems. If the total contribution (\$395 million) is adjusted by \$133 million less for accumulated depreciation from FY 2004 to FY 2020, the result is the same \$262 million increase in investments net of depreciation above.

The totals viewed in this manner put in perspective two critical lessons. First, rebuilding and maintaining the value of the City's water and wastewater systems (included in the Combined Utility System in this annual report) requires significant continual investment of grants and local funds. Second, the system resources invested (\$151 million) were just enough to offset the depreciation of enterprise fund assets (\$133 million). Third, depreciation for the enterprise systems totals \$12 million in FY 2020 alone, making this the minimum annual investment in capital required to maintain the value of those systems.

**System Resources (\$151M) and Contributions (\$244M)
Enterprise Fund Capital Investments
Total: \$395M**

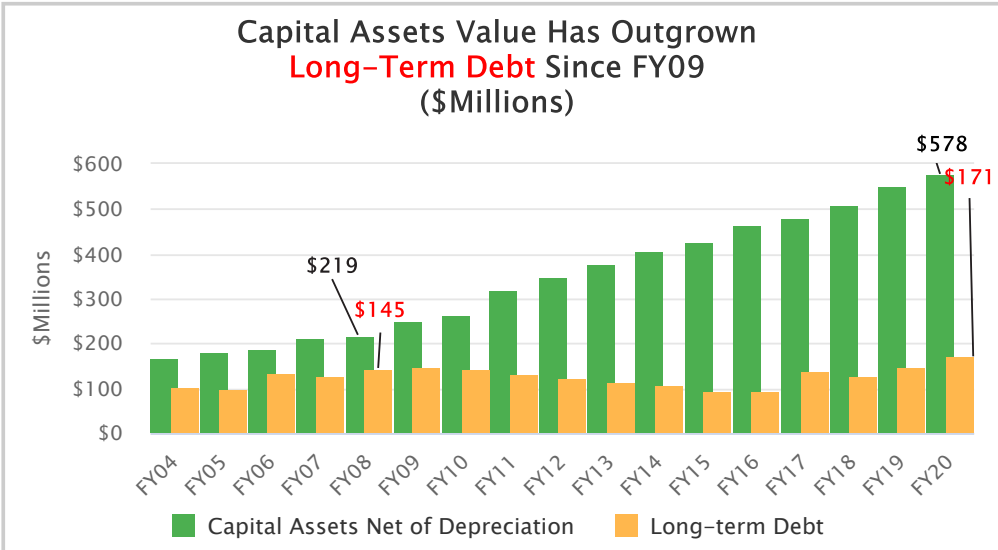


**Enterprise Fund Capital Net of Depreciation: \$339M in FY20,
\$262M more than in FY03**



The City issued no new long-term bonds for local investment in capital assets between FY 2008 and FY 2017. In FY 2016, the City adopted a five year capital improvement plan (CIP) including only projects that were to be fully financed with a combination of cash on hand and/or future bond sale proceeds. Programs to make substantial improvements to the City’s streets, drainage system, water and wastewater system have been the primary focus of the CIP. In May 2017, Galveston voters authorized the issuance of \$62 million in street and drainage general obligation bonds. By the end of FY 2020, the City had issued all of these bonds, and an additional \$70 million in certificates of obligation for water and sewer projects that are being retired with utility system revenue.

As of FY 2020, the City’s capital assets are valued at \$578 million and the City’s outstanding principal payments for long-term debt totals \$171 million. This includes City bonds issued strictly for basic infrastructure improvements (water, wastewater, streets and drainage) and includes contract debt payable to the Gulf Coast Water Authority. It does not include special obligation debt (Convention Center bonds payable with hotel occupancy tax revenue) or other liabilities addressed in Note 8 of this financial statement. The \$171 million outstanding as of the end of FY 2020 is \$26 million more than existed at the end of FY 2008 when Hurricane Ike made landfall. The reason the current total is not higher is because of the City’s long standing, conservative approach to scheduling and making principal payments through its budgeting and capital financing processes.



Long-term financial planning

In FY 2016, the City initiated a new budget and financial planning process that includes a five-year Long Range Financial Forecast, a five-year Capital Improvement Plan (CIP), and the Annual Budget. The Forecast serves as a pre-budget, providing the basis for spending targets for operating and capital budget requests.

Long term revenue analysis includes trends of ten years or more, as shown in the previous section, to identify the impact of variations in the business cycle on city revenue. Statistical modeling is used to explain the effects of significant changes in economic, climate and other factors on prior sales tax revenues. Taxable property values are forecasted based on twelve years of certification and hearings loss trends. Water and sewer revenues are forecasted using fifteen years of billing data. Non-major revenues are assumed to show modest to no growth. Expenditures are forecasted using conservative estimates of inflation, and prior period actual expenditures. Debt service is projected to include payments for new bonds needed to fund the CIP.

An essential element of long-term financial planning is ongoing monitoring and evaluation to identify new or different trends that can affect planning assumptions. Quarterly Budget Status Reports provide year-end projections of revenue and expenses for all budgeted funds as well as capital project status reports and

detailed reconciliations for all capital funds. All of these financial documents can be found in the “Financial Transparency” section of the home page of the City’s website.

Relevant financial policies

The City Council has established a ninety-day target balance for General Fund unrestricted cash and cash equivalents to be used in case of emergencies. The General Fund ended the year with an operating balance of \$16.75 million, representing approximately 109 days of maintenance and operating expenditures. Only the City Council can approve an allocation of the General Fund balance in excess of the ninety day minimum. In 2018, the City secured the renewal of its emergency bridge loan for \$50 million to be used in the event of a major catastrophic emergency, and secured a contract for this important financial tool through spring 2023. The loan will be available to support eligible costs associated with any large emergency including a tropical storm or hurricane, including federally reimbursable costs, local costs as well as matching funds for disaster grants (see Note 8).

The City Charter assigns the responsibility to “administer all the financial affairs of the City other than the assessment and collection of taxes to the Director of Finance. This includes responsibility for the receipt, disbursement and safe-keeping of all City funds. The Finance Director establishes the accounting procedures to be used in all departments, and approves all expenditures to ensure that legal requirements have been met and the budget appropriations are not exceeded.” (See the City Charter Article VII Section 2.) Also, by State law and the City Charter, this Annual Comprehensive Financial Report, “including the auditor’s opinion on the statement, shall be filed in the office of the municipal secretary or clerk within 180 days after the last day of the municipality’s fiscal year.” (See Local Government Code Section 103.003.)

In FY 2019, the City Council adopted a debt management policy to formalize the practices included in the financial planning process that lead to decisions to issue long-term debt. The policy provides for specific projects with phased implementation and proposed funding sources to cover total project cost as the basis for any long-term debt issuance. Amortization schedules are proportional to what the City can afford, include no unusual principal amounts or “balloon” notes, and are shorter in years than the useful life of assets that are being constructed and/or acquired. The policy provides broad guidelines that encourage component units with debt issuance, that must be approved by City Council, to adhere to the key provisions mentioned above.

The City adheres to an investment policy that emphasizes, in order of priority, safety, liquidity, diversity and return on investments as required by the Public Fund Investment Act. (See Texas Government Code Chapter 2256.) This law and City policy require quarterly reports to the City Council that disclose the specific listing of investments that comprise the City’s investment pool, present the overall earnings from the pool, and balances as of the end of each calendar quarter. City Council appoints a Finance, Fiscal Affairs and Investment Advisory Committee (FFIAC) to provide strategic direction and oversight by working with the Finance Department to manage the City’s investments. This policy is reviewed and updated annually by the FFIAC and City Council. All of the City’s idle cash on hand, including operating and capital funds, is invested through this pooled approach. The only exception is federal grant cash which the City is not allowed to invest under federal regulation.

A ladder investment approach has been used previously to invest the City’s cash on hand in investment pools, federal agencies and treasuries. This approach took maximum advantage of rising interest rates by scheduling maturities based on specific project implementation schedules as well as the five year Capital Improvement Plan (CIP). With the advent of the COVID-19 pandemic, and actions by the Federal Reserve Board to set the prime rate at zero, the city has placed all of its cash in investment pools. This provides maximum liquidity and safety which is appropriate in the current interest rate environment. The CIP is adopted by the City Council annually, and each project’s status is monitored and reported through the City’s webpage.

Major initiatives

The City continues to implement its CIP by renewing and replacing capital facilities, many of which have outlived their useful lives. Any future bond sales will be conducted in accordance with State law and the City Charter including voter approval for General Obligation bonds providing new monies for major projects. The City is well positioned to continue the CIP as well as its long-term bond issuances. Moody’s Investors Service issued the following overall assessment of the City in its annual rating published in October: “The credit position for Galveston is good. Its Aa3 rating is level with the US cities median of Aa3. Notable credit factors include a healthy financial position, a large tax base and a moderate wealth and income profile. The rating also reflects a small debt burden and a somewhat inflated pension liability.” The City’s pension liability dropped \$9 million in FY 2020 largely due to the performance of the three funds investment pools.

Moody's also noted the following in its October 2020 rating: "Texas cities are well positioned to operate soundly despite the coronavirus pandemic effects because cities typically retain healthy reserves and liquidity which will mitigate any near-term financial challenges. Additionally, cities maintain high flexibility to make expenditure cuts which will mitigate some of the challenges associated with falling sales tax revenues, which typically are about a third of the cities' revenue stream. Property taxes, typically the largest revenue source, remain strong and stable supported by historically solid tax base growth. Any slowdown in the economy will likely not affect budgets until fiscal 2022. Texas cities in energy dependent regions will face additional challenges by the slump in energy prices. Debt and pension levels are manageable for most cities."

By virtue of its location on the Texas Gulf Coast, Galveston is exposed to the ongoing threat of tropical storms that bring heavy floods, high winds and excessive storm tides. The magnitude of the impact on the City's operations, economy, or financial condition from climatic changes is indeterminate and unpredictable. But this is a threat that Galveston has managed its way through for over one hundred years. After the 1900 Storm that killed many thousands of Galveston residents, the City built a three mile long, seventeen foot high concrete wall to protect against storm tides associated with a tropical storm. The residents and businesses also elevated their properties to match the height of the Seawall and then taper slowly to sea level on the port side of the Island. Today, the seawall has been extended to protect ten miles of the City from high water events.

Prior to Hurricane Ike in 2008, the City established a \$20 million emergency finance note program to assist the City with any costs and/or projects that are derived from any natural disaster. That "bridge loan" today stands at \$50 million that can be employed in the event of a disaster declaration by the President of the United States. City management and staff are experienced as an organization in managing disasters and documenting eligible costs for reimbursement from FEMA. As this report goes to press, we are tracking and preparing reimbursement requests for eight active disasters largely because of the number and variety of disasters encountered in 2020.

Most recently, the City has received a \$2.66 million FEMA Section 404 Hazard Mitigation Grant to design what will become a \$32 million high water management pump station to be located at the Galveston ship channel. Design approval by the state and federal partners in this project should result in a grant for construction as well. This pump station will take the project service area from a 0.5 year flood level to a 25 year event and maintain a 100 year event in the right of way. Galveston also falls within the bounds of the area to be protected by the "Ike Dike," a proposed U.S. Army Corp of Engineers project to ultimately provide flood protection for the low lying areas near the Gulf and Galveston Bay in the metropolitan area.

In FY 2019, the City began a major water loss mitigation project aimed at reducing the amount of water loss in its aging water distribution system. After the major investments in the water system made recently, the City has shifted its focus to more accurate measurement of water usage and transmission throughout the City. The goal is to ensure that the City purchases only the water it needs from the Gulf Coast Water Authority, isolating sources of water loss so they may be addressed in a variety of ways.

Protection of neighborhoods through stricter codes and clearer rules is also a high priority with major revisions underway to the City's land development rules and zoning requirements. Renewed emphasis is being placed on the City's information technology resources, upgrading system infrastructure and beginning the implementation of major systems to manage field maintenance operations, improve plan review and the permit and inspections processes, as well as continuing to move the City to a paperless environment.

In FY 2019, the City and its police employees group secured passage of state legislation that revised and modernized the police officers' pension system, putting in place a thirty year funding plan that fully amortizes the plan's current unfunded accrued actuarial liability. This law provides for any future additional funding needs to be shared equally by the City and the plan members. The City's contribution is guaranteed to remain at the current authorized strength level for police officers should future economic downturns result in any reductions in force (see Note 14). In FY 2018, the City and firefighters agreed on a plan that increased contributions from the City and the firefighters that brought its long-term funding plan within State guidelines. The increases required in the City's contribution to the police pension plan (12 percent to 18 percent) and firefighters' pension plan (12 percent to 17 percent) are funded with current year income. The City will continue in FY 2021 to work to further stabilize these plans and the non-civil service City employees plan as well. As the City works to stabilize the three defined benefit pension plans, we persist in our long-term plan to convert those plans over time to a defined contribution basis or a hybrid plan such as that offered by the Texas Municipal Retirement System.

The City's retiree health insurance plan is reported in the government wide balance sheet. This presentation provides information in compliance with the Governmental Accounting Standards Board Statement 75

addressing Other Post-Employment Benefits (OPEB). The City's unfunded accrued liability for OPEB is estimated for FY 2020 at \$11.4 million. Having addressed the City's pension fund liabilities, we now expect to begin to develop a plan that will address the unfunded OPEB liability.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) of the United States and Canada awards a Certificate of Achievement for Excellence in Financial Reporting for recognizing conformance with the highest standards for preparation of state and local government reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized ACFR, whose contents conform to program standards. The Annual Comprehensive Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements.

The award is valid for a period of one year only. We believe that this Annual Report will meet the Certificate of Achievement Program requirements and will submit it to GFOA to determine its eligibility for a certificate.

The preparation of this report is a joint effort of various departments and offices of the City. The City's Finance Department coordinates the compilation and prepares the final report for review by the City's independent auditor, Whitley Penn, LLP. The City assumed the lead role in preparing the financial statements and related notes for the first time in FY 2017. This financial report represents the fourth such effort. The successful and timely preparation of this report depends on the cooperation of all these groups and upon the diligence and dedication of the entire staff of the Finance Department. We would like to express our appreciation to all those who contributed to this effort.

Finally, we acknowledge the Mayor and Council Members who have consistently supported the City's goal of excellence in all aspects of financial management. Their support is greatly appreciated.

Respectfully submitted,


City Manager


Assistant City Manager for Finance

**CITY OF GALVESTON, TEXAS
PRINCIPAL OFFICIALS**



Mayor
Craig Brown

District 1



ER Johnson

District 2



William Schuster

District 3



David Collins

District 4



Bill Quiroga

District 5



John Paul Listowski

District 6



Marie Robb

Charter Adopted April 19, 1960
Council – Manager Form of Government

City Council Appointees

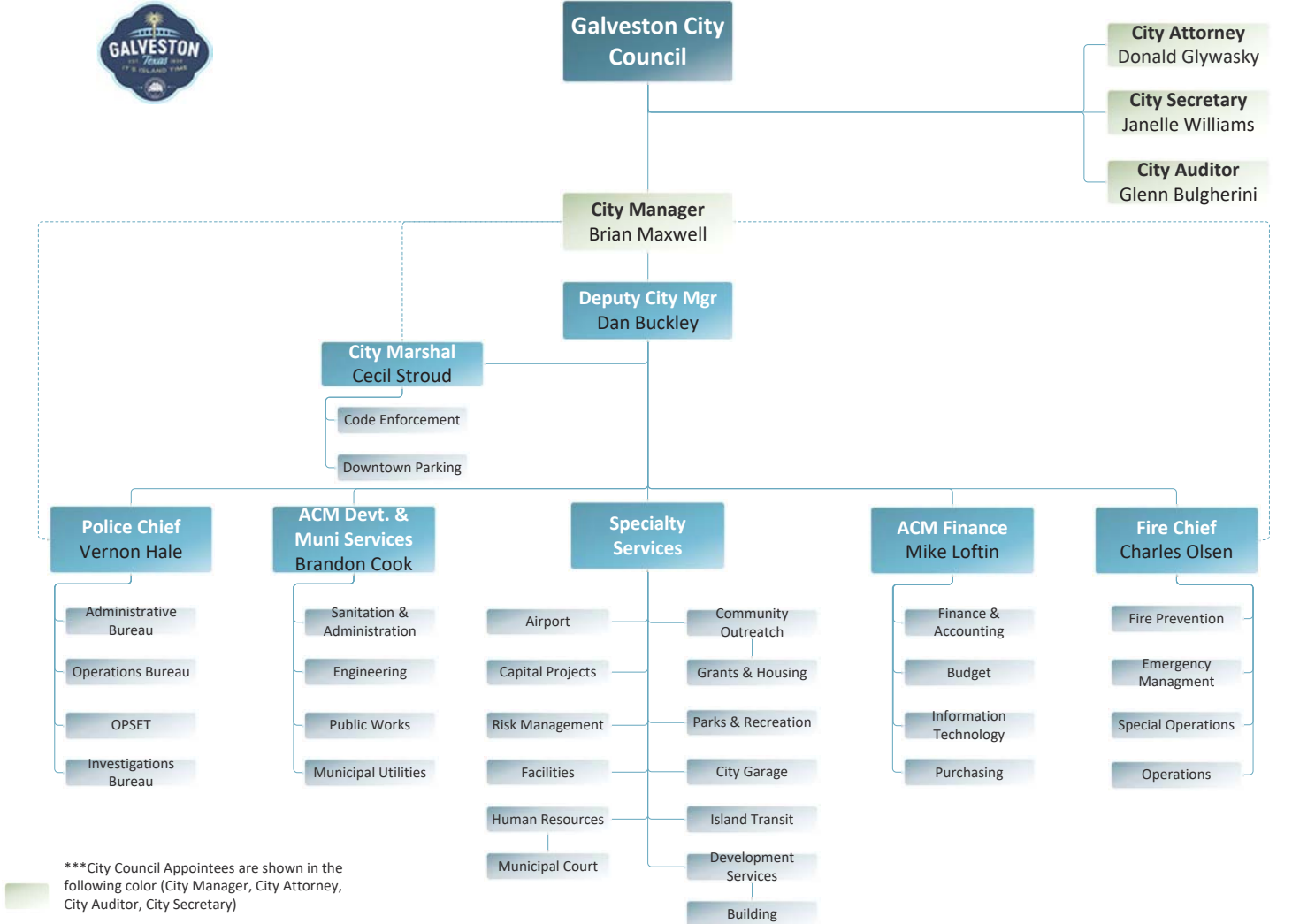
City Manager	Brian Maxwell
City Secretary	Janelle Williams
City Attorney	Donald Glywasky
Court Judge	Jim Schweitzer
City Auditor	Glenn Bulgherini

Departmental Directors

(City Manager Appointees)

Deputy City Manager	Dan Buckley
Assistant City Manager Finance	Michael Loftin
Assistant City Manager Development and Municipal Services	Brandon Cook
Police Chief	Vernon Hale
Fire Chief	Charles Olsen, Sr.
City Marshal	Cecil Stroud, Jr.
Executive Director of Development Services	Timothy Tietjens
Executive Director of Fleet, Mass Transit and Special Events	David Smith
Executive Director of Human Resources and Civil Service	Kent Etienne
Executive Director of Parks, Recreation and Community Outreach	Barbara Sanderson
Executive Director and Chief Information Technology Officer	Hope Dean
Executive Director and City Controller	Tammy Jacobs
City Engineer	Daniel Christodoss
Director of Administration and Sanitation	Cindy DeWitt
Director of Airport	Michael Shahan
Director of Municipal Utilities	Trino Pedraza
Director of Parks and Recreation	Cesar Garcia
Public Information Officer	Marissa Barnett
Emergency Management Coordinator	Mark Morgan, Sr.
Municipal Court Clerk	Gladys Lopez
Facilities Director	Charles Kenworthy
Risk Manager	Robert Simmons

City of Galveston Organizational Chart





Government Finance Officers Association

Certificate of
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for Excellence
in Financial
Reporting

Presented to

**City of Galveston
Texas**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

September 30, 2019

Christopher P. Morill

Executive Director/CEO

Financial Section



2020 Annual Comprehensive Financial Report



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REPORT OF INDEPENDENT AUDITORS

To the Honorable Mayor and Members
of the City Council
City of Galveston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galveston, Texas (the “City”), as of and for the year ended September 30, 2020 and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Park Board of Trustees of the City of Galveston (the “Park Board”) or the Board of Trustees of the Galveston Wharves (the “Wharves”), which collectively represent 98 percent, 63 percent, and 91 percent, respectively, of the assets and deferred outflows of resources, liabilities and deferred inflows and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Park Board and the Wharves, is based solely on the reports of the other auditors. 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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2021, on our consideration of the City's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal controls over financial reporting and compliance.

Whitley Penn LLP
Houston, Texas
March 29, 2021

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Galveston (the "City") offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2020.

Financial Highlights

1. The assets and deferred outflows of resources of the City exceeded its deferred inflows of resources and liabilities at the close of the most recent fiscal year by \$481.7 million (net position). Of this amount, \$35.4 million is restricted for specific purposes based on law and contractual obligations to citizens and creditors. Long-term liabilities increased from \$183.6 million to \$207.5 million largely due to the bond sale described below. Also, the aggregate net pension liability declined from \$84.4 million in FY 2019 to \$75.1 million in FY 2020 largely due to the performance of each fund's investment pool. The City's unrestricted net position went from a negative \$28.5 million in FY 2019 to a negative \$34.8 million in FY 2020.
2. On October 31, 2019, the City issued \$31.2 million of Public Improvement Bonds, Series 2019 (see Note 8 for additional information). This completed the issuance of \$62 million in General Obligation bonds approved by the voters in May 2017.
3. In FY 2020, the City was forced to adopt new ways of conducting business in response to the COVID-19 pandemic. The City received federal grant assistance to ease the burden of additional costs incurred in this process. These grants included:
 - a) \$4,675,290 awarded under the CARES Act for Federal Transit Authority (FTA) eligible transit spending by the Island Transit department (\$1,877,701 expended in FY 2020);
 - b) \$2,730,090 awarded under the CARES Act to cover the cost of specific measures taken to combat the spread of COVID-19, all of which had to be spent by December 31, 2020 (\$546,018 was provided as an advance, and the City has requested reimbursement for the balance of this grant; however, no receivable has been recorded in the FY 2020 financial statements pending actual receipt of the \$2,184,072 balance of the grant); and
 - c) \$442,934 awarded under the CARES Act for Community Development Block Grant-Coronavirus to help low and moderate income persons specifically impacted by the pandemic.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist 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.

Government-wide Financial Statements

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

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four 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.

The *statement of activities* presents information showing how the government'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 include general government, administrative services, public safety, public works, parks and recreation and community development. The business-type activities

of the City include utility systems, including surface water operations, and solid waste operations as well as the operations of a regional airport facility.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's eight discretely presented component units consist of the following:

- | | |
|---|---|
| Park Board of Trustees | Bayside at Waterman's - Public Improvement District |
| Galveston Island Redevelopment Authority | Board of Trustees of Galveston Wharves |
| Campeche Shores - Public Improvement District | Galveston Housing Finance Corporation |
| Beachside Village - Public Improvement District | Galveston Property Finance Authority |

The financial statements of Galveston Housing Finance Corporation and Galveston Property Finance Authority have been excluded from this report.

The government-wide financial statements can be found on pages 37 through 39 of this report.

Fund Financial Statements

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

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

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

The City maintains 77 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Hurricane Ike, CDBG Disaster Fund Non-Housing, and General Obligation Bonds 2019 Capital Projects funds, all of which are considered to be major governmental funds. Data from the other 71 governmental funds are combined into a single, aggregated presentation (the Non-Major Governmental Funds); including 9 CDBG annual entitlement allocation funds and 11 Home Partnership Investment annual allocation funds. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and can be found on pages 96 through 109 of this report.

The basic governmental fund financial statements can be found on pages 40 through 43 of this report.

Proprietary Funds - The City maintains two different types of proprietary funds, Enterprise Funds and Internal Service Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its waterworks system, sewer system, drainage and sanitation operations as well as the operations of the airport. Internal Service Funds are used to report activities that provide supplies and services for the City's other programs and activities. The Municipal Garage, Central Service, Casualty and Liability insurance, Construction Management, Workers Compensation Insurance, and Health and Life Insurance funds are the City's internal service funds. Their purpose is to provide for the accumulation of money for employee benefits, as well as, vehicle and equipment replacement used in City operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Combined Utility System Fund is considered to be a major fund of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in the annual comprehensive financial report.

The basic proprietary fund financial statements can be found on pages 44 through 46 of this report.

Combining Component Unit Financial Statements

Six of the City's eight discretely presented component units shown in the aggregate on the face of the government-wide financial statements have individual information presented in the form of combining statements immediately following the fund financial statements of the primary government.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 51.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. The City adopts an annual appropriated budget for its general, debt service and certain special revenue funds. A budgetary comparison schedule has been provided for the general and debt service funds to demonstrate compliance with this budget. Required supplementary information can be found on pages 85 through 94 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$481.7 million at the close of the most recent fiscal year. The "Comparative Schedule of Net Position" presents the financial performance that results in this amount, and shows a comparison with the prior fiscal year as well. The City's Total Net Position for the fiscal year ended September 30, 2020 of \$481.7 million is an \$8.5 million increase over the prior year.

Total Assets were \$790.4 million at the end of the current fiscal year, a \$36.6 million increase over last fiscal year. This is attributable largely to the continued investment in the City's capital assets, including substantial amounts of contributions from grants as in prior years. Total investments in capital assets increased by \$27.5 million.

Current assets for Governmental Activities increased by \$29.4 million, largely due to the net result of \$37.4 million in proceeds and premiums from a bond sale (see Note 8). The current assets for Business-Type Activities also decreased by \$20.3 million, largely due to ongoing capital expenditures from previous bond sales for capital assets.

An increase in net outstanding debt associated with the bond sale can be seen in a \$31.4 million increase in long-term liabilities of Governmental Activities. Similar decreases can be seen in long-term liabilities of Business-Type Activities with a decrease of \$7.5 million reflecting the retirement of City issued bonds and contract debt.

By far the largest portion of the City's net position, 99.9 percent or \$481.1 million, reflects its investment in capital assets net of depreciation (e.g., land, buildings, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending as of September 30, 2020. 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.

The total Net Pension Liability for the City's three pension funds decreased to \$75.1 million in the current fiscal year compared with \$84.4 million for the prior fiscal year. This was largely due to improved investment performance in the current fiscal year, assisted also by increased contribution rates for the firefighter and police plans (see Note 14).

COMPARATIVE SCHEDULE OF NET POSITION

September 30, 2020 and 2019

Amounts in (000's)

	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 126,772	\$ 97,346	\$ 85,611	\$ 105,892	\$ 212,383	\$ 203,238
Capital assets	239,423	228,153	338,602	322,378	578,025	550,531
Total Assets	<u>366,195</u>	<u>325,499</u>	<u>424,213</u>	<u>428,270</u>	<u>790,408</u>	<u>753,769</u>
Total Deferred Outflows of Resources	16,308	22,938	2,541	4,552	18,849	27,490
Other liabilities	14,928	15,469	9,833	9,162	24,761	24,631
Long-term liabilities	101,019	69,638	106,478	113,949	207,497	183,587
Total OPEB liability	11,380	9,465	-	-	11,380	9,465
Net pension liability	69,224	76,115	5,859	8,330	75,083	84,445
Total Liabilities	<u>196,551</u>	<u>170,687</u>	<u>122,170</u>	<u>131,441</u>	<u>318,721</u>	<u>302,128</u>
Total Deferred Inflows of Resources	7,381	5,431	1,482	487	8,863	5,918
Net Position (Deficit)						
Net investment in capital assets	198,501	191,799	282,578	277,164	481,079	467,518
Restricted	32,664	31,559	2,749	2,674	35,413	34,233
Unrestricted	(52,594)	(51,039)	17,775	21,056	(34,819)	(28,538)
Total Net Position (Deficit)	<u>\$ 178,571</u>	<u>\$ 172,319</u>	<u>\$ 303,102</u>	<u>\$ 300,894</u>	<u>\$ 481,673</u>	<u>\$ 473,213</u>

An additional portion of the City's net position, 7.4 percent or \$35.4 million, represents resources that are restricted by external authorities and requirements on how they may be used. The total unrestricted net position of \$34.8 million results from \$52.6 million negative net position of Governmental Activities, that is partially offset by \$17.8 million unrestricted net position of Business-Type Activities. The Governmental Activities negative net position includes almost all of the City's net pension liability because two of the three pension funds (police and fire) include public safety personnel funded strictly through the General Fund. The governmental funds provide \$69.2 million of the total \$75.1 million in net pension liabilities and \$11.4 million of OPEB liabilities.

COMPARATIVE SCHEDULE OF CHANGES IN NET POSITION

For the Years Ended September 30, 2020 and 2019

Amounts in (000's)

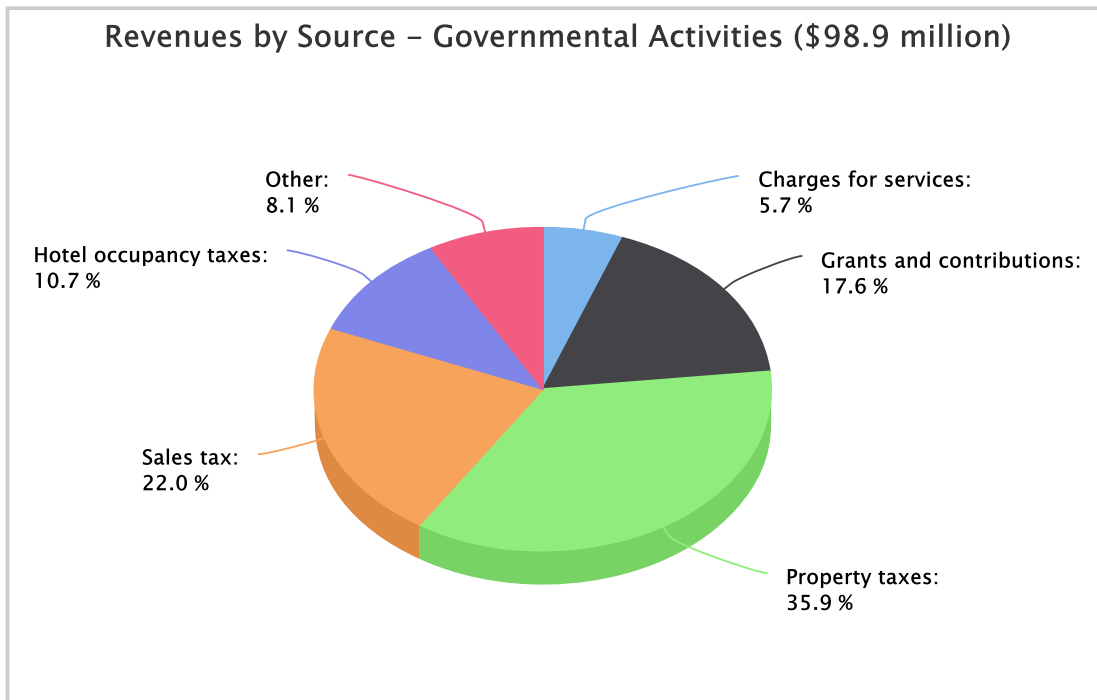
	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues:						
Charges for services	\$ 5,614	\$ 5,617	\$ 48,489	\$ 47,060	\$ 54,103	\$ 52,677
Operating grants and contributions	5,249	3,502	50	50	5,299	3,552
Capital grants and contributions	12,132	33,479	606	3,727	12,738	37,206
General revenues:						
Property taxes	35,474	32,692	-	-	35,474	32,692
Sales tax	21,808	22,633	-	-	21,808	22,633
Hotel occupancy taxes	10,602	12,824	-	-	10,602	12,824
Franchise and other taxes	5,874	6,420	-	-	5,874	6,420
Payments in lieu of taxes	315	248	-	-	315	248
Other	1,841	2,420	821	1,851	2,662	4,271
Total Revenues	<u>98,909</u>	<u>119,835</u>	<u>49,966</u>	<u>52,688</u>	<u>148,875</u>	<u>172,523</u>
Expenses						
General government	9,535	8,871	-	-	9,535	8,871
Public safety	40,476	38,414	-	-	40,476	38,414
Public works	10,481	10,653	-	-	10,481	10,653
Culture and recreation	17,350	19,637	-	-	17,350	19,637
Planning and community development	5,546	7,512	-	-	5,546	7,512
Transportation system	4,224	4,693	-	-	4,224	4,693
Interest on long-term debt	910	2,232	-	-	910	2,232
Combined utility system	-	-	38,071	36,776	38,071	36,776
Sanitation services	-	-	6,830	5,342	6,830	5,342
Drainage utility	-	-	3,364	3,064	3,364	3,064
Airport	-	-	1,958	1,768	1,958	1,768
Total Expenses	<u>88,522</u>	<u>92,012</u>	<u>50,223</u>	<u>46,950</u>	<u>138,745</u>	<u>138,962</u>
Increase (decrease) in net position before transfers	10,387	27,823	(257)	5,738	10,130	33,561
Transfers	<u>(2,478)</u>	<u>(13,099)</u>	<u>2,478</u>	<u>13,099</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	7,909	14,724	2,221	18,837	10,130	33,561
Net position - beginning	172,319	154,149	300,894	282,057	473,213	469,767
Prior period adjustments	(1,657)	3,446	(13)	-	(1,670)	3,446
Net position - ending	<u>\$ 178,571</u>	<u>\$ 172,319</u>	<u>\$ 303,102</u>	<u>\$ 300,894</u>	<u>\$ 481,673</u>	<u>\$ 506,774</u>

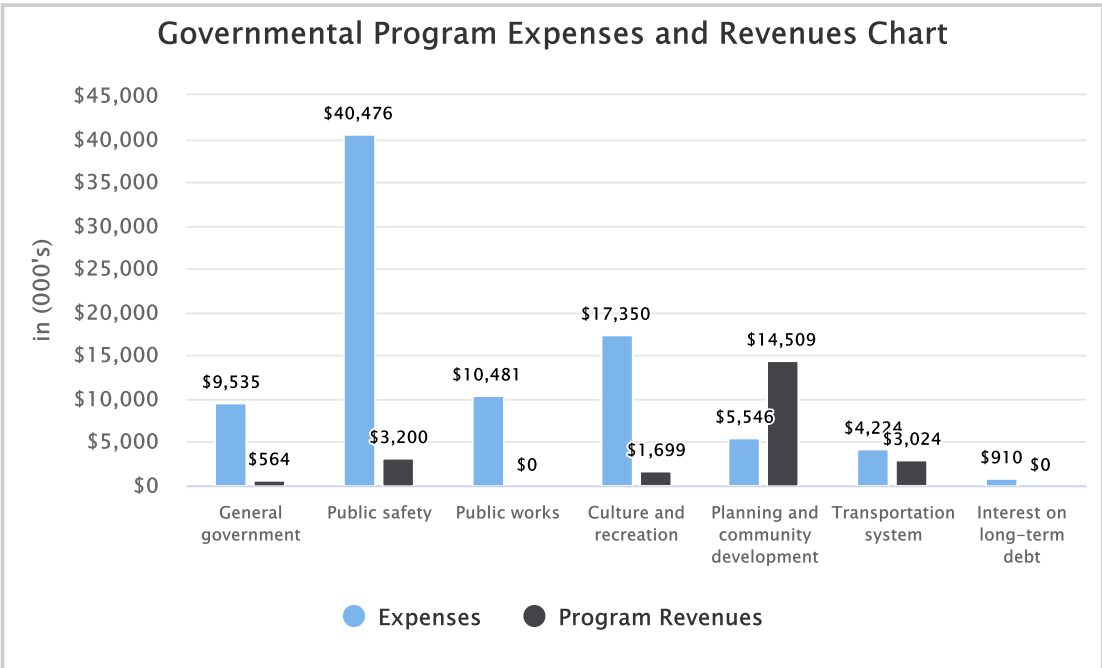
Governmental Activities

Governmental activities increased the City's net position by \$7.9 million. Key elements of this net increase are as follows:

- A decrease in capital grants and contributions of \$21.3 million from \$33.5 million to \$12.1 million and a decrease in operating grants and contributions of \$1.7 million.
- Of the capital grants and contributions noted above, \$2.5 million is presented as being transferred out of Governmental Activities and into Business-Type Activities where it was invested in capital assets held by the City's enterprise funds, primarily the Combined Utility System fund.
- Virtually all of the \$12.1 million in capital grants and contributions shown in Governmental Activities revenue is being invested in the City's infrastructure.

Governmental activities are largely funded from property, sales and other taxes. Public safety is the major public service funded with governmental revenues. Planning and Community Development program revenues as shown here include federal grants awarded to the City for Hurricane Ike recovery and annual allocations of CDBG grants. The grant revenues for planning and community development were transferred to business-type activities for repairs and upgrades to the water and sewer systems.

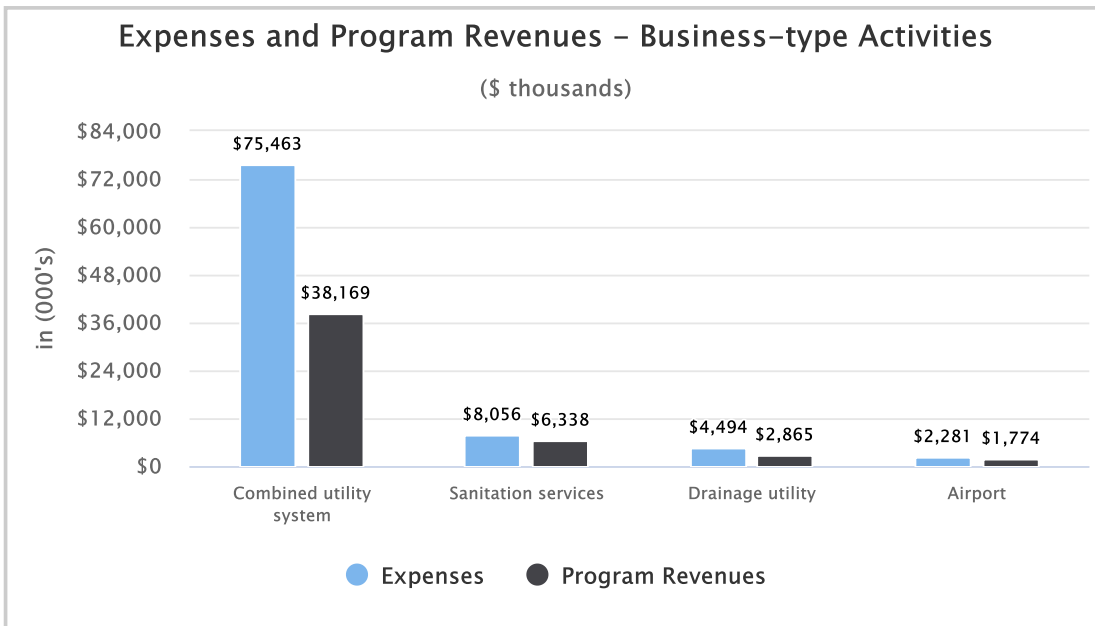
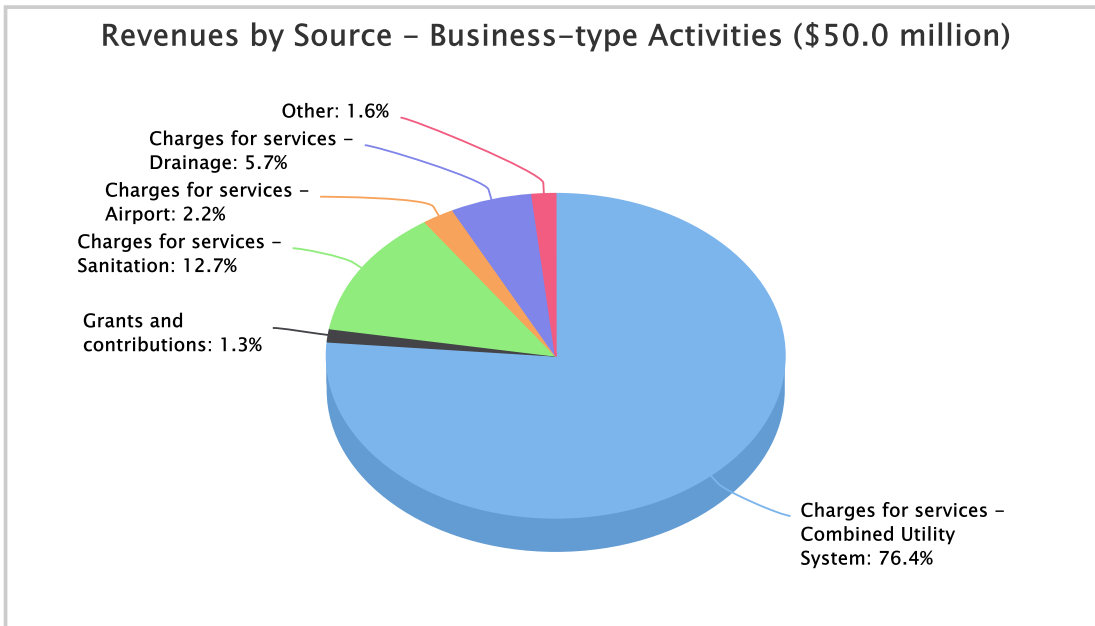




Business-type Activities

Business-type activities increased the City’s net position by \$2.2 million. Highlights for individual enterprise funds are as follows.

- Revenues for business-type activities totaled \$50.0 million, \$0.3 million less than total expenses for business-type activities, which were \$50.2 million.
- Transfers in from governmental activities were the result of grant funded contributions to business-type assets.
- Business-type activities generated \$2.7 million less in revenue due largely to the net effect of a \$3.1 million decrease in capital grants and contributions offset primarily by an increase of \$1.4 million in charges for services.



Financial Analysis of the City's Funds

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

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

The General Fund balance includes \$13.9 million, or ninety days of budgeted operating expenses assigned to be used for unforeseen emergencies and for one-time expenditures as approved by the City Council. The City also maintains a \$50 million emergency bridge loan (see Note 8) capacity that is available under provisions of state law for cash flow, debris removal and infrastructure repairs in the event of a statewide

and/or national emergency. If draws are made on the loan, proceeds may be repaid on a short-term or long-term basis up to ten years.

FEMA grant funds received for Hurricane Ike related work are almost expended and the remaining projects should be completed within the next twelve to eighteen months. CDBG Disaster grant funds are being expended for major transportation and facility projects that should be completed over a slightly longer time period.

The \$62 million General Obligation Bond Funds will continue to be expended in accordance with the street and drainage program designations authorized by the voters in May 2017 and the one year capital budget and five year Capital Improvement Plan (CIP) approved each year by the City Council. The complete bond program for streets and drainage projects will require five years to complete. The second sale of \$37 million (net of cost of issuance) took place in October 2019 as anticipated in the FY 2020-2024 CIP and the FY 2020 Budget (see Note 8). This exhausted the remaining bond election authorization.

The Infrastructure and Debt Service Fund is not reported as a part of the General Fund but as its own governmental fund. This fund is the recipient of an annual set aside of General Fund revenue in accordance with a City Charter requirement. In FY 2020, General Fund contributions to this fund equaled eight percent of the General Fund budget. The Infrastructure and Debt Service Fund's separate reporting status is appropriate so as to demonstrate compliance with the City Charter. These funds are programmed through the CIP along with all other capital funds.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Combined Utility System fund has an unrestricted net position at fiscal year end of \$15.4 million. The cash that is restricted and held in reserve as required by bond covenants includes \$3.3 million restricted for future debt service payments based on average annual future revenue supported debt service payments and \$44.0 million to be used for capital projects.

General Fund Budgetary Highlights

FY 2020 was extremely challenging with the advent of COVID-19 in March 2020. It became necessary to conduct business differently than before, including wearing face masks, maintaining social distancing and keeping person to person contact to a minimum. In April, the administration revised revenue estimates downward in anticipation of the economic effects of the closures and shutdowns required to control the spread of the virus. General Fund revenue was expected to total \$56.8 million, \$2.5 million under budget. Faced with this possibility, the administration identified \$2.5 million in General Fund cost avoidance and spending reductions that offset the projected revenue loss. These anticipated results were published in the FY 2020 Second Quarter Budget Status Report released in April.

The ending General Fund balance went up largely because total revenue at year end exceeded the April projections. Facilitated by strong tourist turnouts in the summer months and the federal fiscal stimulus, the sales tax total for the year turned out to be \$1.44 million higher than anticipated in the revised April projections although sales tax revenue still fell short of the original budget by \$819,000. Other economically sensitive General Fund revenue also fell short of Budget, including mixed drink taxes and fines and forfeitures. This was accomplished without treating eighty percent of the City's CARES Act allocation as a General Fund receivable for FY 2020. The City received its twenty percent advance in FY 2020, but chose not to carry the balance as a receivable for FY 2020. Reimbursement of the balance of the City's grant amount is anticipated during FY 2021. General Fund revenue for FY 2020 ended at \$58.49 million total including transfers in and sale of capital assets, \$847,000 under the \$59.34 million revenue budget.

Total General Fund expenditures ended the year \$2.69 million under budget due to the spending controls implemented in April. Additionally, a prior period adjustment of \$1.53 million was approved in the third and last budget amendment by the City Council to recognize unreimbursed grant administrative expenses from the FY 2010-2013 period for the CDBG Disaster Housing Program. As a result, underspending offset the total of all prior period adjustments and the budget revenue shortfall. And the resulting ending fund balance of \$16.75 million was \$243,000 higher than budgeted, exceeding the City's policy minimum of ninety days of operating cost by 19 days.

The General Fund expenditure budget was amended three times in fiscal year 2020 using quarterly reports that provided year end projections of revenue and expenditures. These amendments were approved by the City Council in ordinance form as proposed and recommended by the City Manager. Each amendment was for municipal purposes as allowed by Section 102.010 of the Texas Local Government Code. The City Charter authorizes the City Manager to transfer budget amounts within a department's total budget

as adopted or amended by City Council. A separate schedule is provided on page 85 that demonstrates compliance with this requirement. Also, the City Charter mandated transfer from the General Fund to the Infrastructure and Debt Service Fund during FY 2020 equaled eight percent of the General Fund budget, or \$4.7 million as required.

Capital Assets and Debt Administration

At the end of fiscal year 2020, the City’s governmental activities and business-type activities held capital assets net of depreciation of \$239.4 million and \$338.6 million, respectively. This includes a variety of capital assets and infrastructure, as reflected in the following schedule. This represents a net increase of \$11.3 million or 4.9 percent over the end of the last fiscal year for governmental activities and a net increase of \$16.2 million or 5.0 percent for business-type activities.

Amounts in (000's)	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Land	\$ 21,364	\$ 20,895	\$ 2,907	\$ 2,786	\$ 24,271	\$ 23,681
Construction in progress	44,924	34,808	60,223	29,105	105,147	63,913
Infrastructure	106,044	107,727	120,241	131,235	226,285	238,962
Buildings and Improvements	55,231	51,990	135,715	139,744	190,946	191,734
Contractual water rights	-	-	8,410	9,507	8,410	9,507
Vehicles, equipment and furniture	11,860	12,733	11,107	10,001	22,967	22,734
Total Capital Assets	\$ 239,423	\$ 228,153	\$ 338,603	\$ 322,378	\$ 578,026	\$ 550,531

Additional information on capital assets can be found in Note 7 to the financial statements.

Construction in progress is at the \$105.1 million level, an increase of \$41.2 from prior year, with projects plans approved for appropriations in the adopted capital budget for FY 2020 of \$86.5 million. Two major projects were completed in FY 2020, the Little League Soccer Complex (\$5 million) and municipal incinerator demolition (\$4.3 million). The most significant major projects still in progress are listed below:

- 24" Waterline - 59th St Pump Station to Airport Pump Station (\$9.2 million)
- Airport wastewater treatment plant refurbishment (\$7.9 million)
- Various street milling and overlay projects (\$7.3 million)
- 45th Street reconstruction from Broadway to Seawall (\$10.8 million)
- Cedars Pump Station rehab (\$3.2 million).
- 59th Street Tank Rehabilitation (\$8 million)
- 59th Street Ground Storage Tank (\$5.4 million)

Long-Term Debt

At the end of the current fiscal year, the City had total bonds, certificates of obligation and other obligations outstanding of \$192 million. This total included \$17.5 million in discounts and premiums that were a part of bond sales that are being amortized as a part of the City’s long-term debt.

Amounts in (000's)	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
General obligation bonds	\$ 56,867	\$ 28,775	\$ 10,483	\$ 11,970	\$ 67,350	\$ 40,745
Special obligation bonds	20,580	21,625	-	-	20,580	24,553
Contracts payable	-	-	5,698	8,623	5,698	8,623
Revenue bonds	-	-	16,760	18,540	16,760	18,540
Certificates of obligation	-	1,391	63,825	64,580	63,825	64,488
Accreted interest on capital appreciation bonds	-	1,689	-	-	-	244
Notes payable	263	388	-	-	263	388
Discount and premiums	9,506	3,681	8,013	8,700	17,519	12,381
	\$ 87,216	\$ 57,549	\$ 104,779	\$ 112,413	\$ 191,995	\$ 169,962

During FY 2020, the City increased its long-term debt by approximately \$22.0 million. Debt service is being paid on the City's outstanding long-term debt as shown below. Annual principal and interest payments are budgeted based on the projects actually provided with the proceeds from the borrowings.

<i>Amounts in (000's)</i>	Property Tax Supported	Combined Utility System Revenue Supported	Central Services Revenue Supported	Hotel Occupancy Tax Revenue Supported	Total
Property-Tax Supported Debt					
General Obligation Bonds	\$ 56,867	\$ 10,483	\$ -	\$ -	\$ 67,350
Certificates of Obligation	-	63,825	-	-	63,825
Subtotal	<u>56,867</u>	<u>74,308</u>	-	-	131,175
Special Obligation Bonds	-	-	-	20,580	20,580
Revenue Bonds	-	16,760	-	-	16,760
Contracts Payable	-	5,698	-	-	5,698
Notes Payable	-	-	264	-	264
Total Principal Payments	<u>\$ 56,867</u>	<u>\$ 96,766</u>	<u>\$ 264</u>	<u>\$ 20,580</u>	<u>\$ 174,477</u>

Additional information on long-term debt can be found in Note 8 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Galveston's economy is tied to the national economy through tourism and trade, as well as the Texas state and Houston regional economy and their strong energy base. For these reasons, the City has a diversified basis for its economy that profits from local, regional, national and even international factors. The national economy took a major step back and is still recovering from last year's job losses that resulted from the closures necessitated to help control the spread of the COVID-19 virus. Throughout the summer months, when the budget was formulated, there was a slow but steady recovery underway. The major unknown was when vaccines might begin to become available, and how long the vaccination effort would take once begun.

The FY 2021 Budget was based on the uncertainty of the summer months, and a few certainties. Local construction permits have remained healthy throughout the last year and it is clear that Galveston's economic outlook is stable. Regional employment forecasts showed gradual recovery that might take as little as eighteen months or three years or more. This guided the sales tax assumptions. The property tax roll for FY 2021 was known in July 2020. This roll, and the \$0.56 property tax rate adopted by City Council provided a firm basis for property tax revenue expectations based on prior years' collections experience.

The FY 2021 Adopted Budget includes \$149.3 million for maintenance and operations, a 1.9 percent increase from FY 2020. One-time appropriations are budgeted at \$1.06 million, and the capital budget, based on the first year of the FY 2021-2025 Capital Improvement Plan is adopted to cover project appropriations totalling \$69.6 million, \$19 million, or 21.5 percent less than last year. The total budget is \$218.9 million, a 6.8 percent drop from last year's \$234.9 million budget.

The property tax rate was reduced from \$0.579885 to \$0.56, including \$0.5075 for maintenance and operations and \$0.0525 for debt service. In accordance with the City Charter, the budget includes a General Fund transfer equal to eight percent of the budget (\$4.75 million) to the Infrastructure and Debt Service Fund. This transfer is being used to pay for projects in excess of \$100,000 and also to pay debt service for property tax supported bonds as required by the Charter.

For budget purposes, water and sewer rates are being held constant as revenues continued to perform well. Citywide operating priorities included \$1.5 million for public safety including \$1.2 million for police and fire classified personnel pay increases and \$316,000 for permanently funding officers' positions funded with a COPS staffing grant. Other priorities include cost of living pay adjustments averaging two percent for non-civil service personnel, as well as generally flat budget amounts for the rest of the City's operations outside of public safety. City staff were reduced overall with the elimination of six positions.

Requests for Information

This financial report is designed to provide a general overview of the City of Galveston's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Galveston, P.O. Box 779, Galveston, TX 77553, or physically located at 823 Rosenberg, Suite 300, Galveston, TX 77550.

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Basic Financial Statement

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2020 Annual Comprehensive Financial Report



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STATEMENT OF NET POSITION

September 30, 2020

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 22,497,385	\$ 10,383,808	\$ 32,881,193	\$ 35,153,463
Accounts receivable, net of allowance for doubtful accounts	6,095,033	11,765,566	17,860,599	11,134,599
Internal balances	(10,589,832)	10,589,832	-	-
Due from other governments	20,693,952	-	20,693,952	-
Restricted cash and investments	86,822,522	52,363,675	139,186,197	17,427,230
Inventories	577,741	320,134	897,875	11,136
Prepaid items	675,367	187,547	862,914	1,248,294
Total current assets	<u>126,772,168</u>	<u>85,610,562</u>	<u>212,382,730</u>	<u>64,974,722</u>
Non-current assets:				
Net investment in direct financing and capital leases	-	-	-	1,261,259
Capital assets not being depreciated	66,288,025	63,129,442	129,417,467	36,235,665
Capital assets net of depreciation	173,134,808	275,472,637	448,607,445	416,792,177
Total non-current assets	<u>239,422,833</u>	<u>338,602,079</u>	<u>578,024,912</u>	<u>454,289,101</u>
Total Assets	<u>366,195,001</u>	<u>424,212,641</u>	<u>790,407,642</u>	<u>519,263,823</u>
Deferred Outflows of Resources				
Deferred charge on bond issuance	375,879	909,815	1,285,694	117,276
Deferred outflows relating to other post-employment benefits (OPEB)	2,203,094	-	2,203,094	-
Deferred outflows relating to pension activities	13,728,537	1,630,745	15,359,282	1,177,383
Total Deferred Outflows of Resources	<u>16,307,510</u>	<u>2,540,560</u>	<u>18,848,070</u>	<u>1,294,659</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	11,705,933	5,325,323	17,031,256	15,902,985
Due to other governments	140,366	203,317	343,683	305,020
Accrued interest	1,233,923	1,689,607	2,923,530	558,878
Unearned revenue	1,847,370	290,614	2,137,984	660,488
Customer deposits	-	2,323,717	2,323,717	-
Long-term liabilities due within one year	9,118,743	7,840,060	16,958,803	8,295,403
Total current liabilities	<u>24,046,335</u>	<u>17,672,638</u>	<u>41,718,973</u>	<u>25,722,774</u>
Non-current liabilities:				
Long-term liabilities due in more than one year	91,899,778	98,638,414	190,538,192	51,899,759
Total OPEB liability (health insurance)	11,379,952	-	11,379,952	-
Net pension liability	69,224,423	5,858,658	75,083,081	3,906,450
Total non-current liabilities	<u>172,504,153</u>	<u>104,497,072</u>	<u>277,001,225</u>	<u>55,806,209</u>
Total Liabilities	<u>196,550,488</u>	<u>122,169,710</u>	<u>318,720,198</u>	<u>81,528,983</u>
Deferred Inflows of Resources				
Deferred inflows relating to OPEB	1,473,634	-	1,473,634	-
Deferred inflows relating to pension activities	5,906,938	1,481,515	7,388,453	-
Total Deferred Inflows of Resources	<u>7,380,572</u>	<u>1,481,515</u>	<u>8,862,087</u>	<u>-</u>
Net Position				
Net investment in capital assets	198,501,256	282,578,074	481,079,330	414,839,474
Restricted:				
Capital projects	18,127,192	-	18,127,192	-
Grants	935,961	-	935,961	-
Beach preservation	1,573,309	-	1,573,309	-
Infrastructure and debt service	3,576,889	-	3,576,889	-
Debt service	3,250,742	2,749,289	6,000,031	8,961,579
Tourism, convention and hotel industry	5,200,023	-	5,200,023	-
Unrestricted	(52,593,921)	17,774,613	(34,819,308)	15,228,446
Total Net Position	<u>\$ 178,571,451</u>	<u>\$ 303,101,976</u>	<u>\$ 481,673,427</u>	<u>\$ 439,029,499</u>

See Notes to Financial Statements.

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental Activities:				
General government	\$ 9,535,075	\$ 563,972	\$ -	\$ -
Public safety	40,476,252	1,759,071	940,564	500,000
Public works	10,480,989	-	-	-
Culture and recreation	17,349,886	1,574,998	124,500	-
Planning and community development	5,546,261	1,487,497	1,516,348	11,505,071
Transportation system	4,224,143	228,758	2,668,083	127,025
Interest on long-term debt	909,839	-	-	-
Total Governmental Activities	<u>88,522,445</u>	<u>5,614,296</u>	<u>5,249,495</u>	<u>12,132,096</u>
Business-type activities:				
Combined utility system	38,071,412	38,168,655	-	-
Sanitation	6,830,203	6,337,973	-	-
Drainage	3,364,245	2,865,032	-	-
Airport	1,958,008	1,117,792	50,000	605,854
Total Business-type Activities	<u>50,223,868</u>	<u>48,489,452</u>	<u>50,000</u>	<u>605,854</u>
Total Primary Government	<u>\$ 138,746,313</u>	<u>\$ 54,103,748</u>	<u>\$ 5,299,495</u>	<u>\$ 12,737,950</u>
Component Units	72,491,870	57,328,420	-	1,014,261
Total Component Units	<u>\$ 72,491,870</u>	<u>\$ 57,328,420</u>	<u>\$ -</u>	<u>\$ 1,014,261</u>

General revenues

- Property taxes
- Sales tax
- Hotel occupancy taxes
- Franchise and other taxes
- Payments in lieu of taxes
- Unrestricted investment earnings
- Miscellaneous

Transfers

Total general revenues, special items and transfers

- Change in net position

Net position - beginning

- Prior period adjustments

Net position - ending

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (8,971,103)	\$ -	\$ (8,971,103)	
(37,276,617)	-	(37,276,617)	
(10,480,989)	-	(10,480,989)	
(15,650,388)	-	(15,650,388)	
8,962,655	-	8,962,655	
(1,200,277)	-	(1,200,277)	
(909,839)	-	(909,839)	
<u>(65,526,558)</u>	<u>-</u>	<u>(65,526,558)</u>	
-	97,243	97,243	
-	(492,230)	(492,230)	
-	(499,213)	(499,213)	
-	(184,362)	(184,362)	
-	<u>(1,078,562)</u>	<u>(1,078,562)</u>	
<u>\$ (65,526,558)</u>	<u>\$ (1,078,562)</u>	<u>\$ (66,605,120)</u>	
			\$ (14,149,189)
			<u>\$ (14,149,189)</u>
35,473,687	-	35,473,687	2,695,895
21,807,826	-	21,807,826	-
10,601,834	-	10,601,834	10,277,207
5,873,889	-	5,873,889	1,029,054
315,490	-	315,490	-
1,050,567	788,517	1,839,084	(1,668,963)
790,979	32,687	823,666	1,736,870
(2,478,302)	<u>2,478,302</u>	-	-
<u>73,435,970</u>	<u>3,299,506</u>	<u>76,735,476</u>	<u>14,070,063</u>
7,909,412	2,220,944	10,130,356	(79,126)
172,318,837	300,894,352	473,213,189	434,496,353
<u>(1,656,798)</u>	<u>(13,320)</u>	<u>(1,670,118)</u>	<u>-</u>
<u>\$ 178,571,451</u>	<u>\$ 303,101,976</u>	<u>\$ 481,673,427</u>	<u>\$ 439,029,499</u>

**BALANCE SHEET
GOVERNMENTAL FUNDS**
September 30, 2020

	General Fund	Hurricane Ike Fund	CDBG Disaster Fund Non-Housing	General Obligation Bonds 2019 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets						
Cash and investments	\$ 10,633,815	\$ -	\$ -	\$ -	\$ 6,673,417	\$ 17,307,232
Receivables, net of allowance for uncollectibles	3,839,109	-	-	-	1,253,792	5,092,901
Due from other governments	3,171,696	6,082,853	6,356,939	-	4,720,939	20,332,427
Due from other funds	3,291,203	223,099	-	-	1,550,838	5,065,140
Inventories	-	-	-	-	309,440	309,440
Prepaid items	51,356	-	-	-	6,345	57,701
Restricted cash and investments	-	4,161,347	(1)	37,327,805	45,296,074	86,785,225
Total Assets	\$ 20,987,179	\$ 10,467,299	\$ 6,356,938	\$ 37,327,805	\$ 59,810,845	\$ 134,950,066
Liabilities						
Accounts payable	1,092,576	151,415	261,482	-	5,836,112	7,341,585
Accrued liabilities	1,701	39,207	1,802,500	-	855,838	2,699,246
Due to other funds	65,158	10,273,998	4,292,956	-	1,550,916	16,183,028
Due to other governments	138,984	-	-	-	1,382	140,366
Unearned revenue	854,871	2,679	-	-	989,819	1,847,369
Total Liabilities	2,153,290	10,467,299	6,356,938	-	9,234,067	28,211,594
Deferred Inflows of Resources						
Unavailable revenue - property taxes	1,372,779	-	-	-	223,607	1,596,386
Unavailable revenue - court fines	708,549	-	-	-	-	708,549
Total Deferred Inflows of Resources	2,081,328	-	-	-	223,607	2,304,935
Fund Balance						
Nonspendable:						
Inventories	-	-	-	-	309,440	309,440
Prepaid items	51,356	-	-	-	6,345	57,701
Restricted:						
Debt service	-	-	-	-	4,484,665	4,484,665
Beach preservation	-	-	-	-	1,573,309	1,573,309
Infrastructure and debt service	-	-	-	-	3,576,889	3,576,889
Capital projects	-	-	-	37,327,805	26,454,668	63,782,473
Grants	-	-	-	-	935,961	935,961
Tourism, convention and hotel industry:						
Convention center operator	-	-	-	-	3,400,736	3,400,736
City of Galveston	-	-	-	-	1,799,287	1,799,287
Committed:						
Governmental projects	-	-	-	-	1,723,887	1,723,887
Assigned:						
Emergency reserves	13,891,624	-	-	-	-	13,891,624
Other	-	-	-	-	6,089,666	6,089,666
Unassigned	2,809,581	-	-	-	(1,682)	2,807,899
Total Fund Balance	16,752,561	-	-	37,327,805	50,353,171	104,433,537
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 20,987,179	\$ 10,467,299	\$ 6,356,938	\$ 37,327,805	\$ 59,810,845	\$ 134,950,066

See Notes to Financial Statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION**

September 30, 2020

Total fund balance, governmental funds	\$ 104,433,537
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. The cost of the assets is \$394,286,550 and the accumulated depreciation is \$160,798,734.	233,487,816
Long-term non-financial receivables are not available to pay for current period expenditures and, therefore, are not reported as assets in the governmental funds.	
Property taxes receivable	1,596,386
Adjudicated municipal court fines	708,549
Certain liabilities, including bonds payable, compensated absences, claims and judgements, and net pension liability are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements. Liabilities at year end related to bonds payable, compensated absences, claims and judgement, and net pension liability consists of:	
Bonds payable, at maturity	(77,446,599)
Accrued interest on the bonds	(1,233,923)
Premium/discount of bonds payable	(9,506,138)
Compensated absences	(11,113,221)
Deferred charge on refunding of debt	375,879
Net pension liability	<u>(69,224,423)</u>
	(168,148,425)
Deferred outflows and deferred inflows relating to pension activities	7,821,599
The assets and liabilities of certain internal service funds are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.	<u>(1,328,011)</u>
Net Position of Governmental Activities in the Statement of Net Position	<u>\$ 178,571,451</u>

See Notes to Financial Statements.

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

For the Year Ended September 30, 2020

	General Fund	Hurricane Ike Fund	CDBG Disaster Fund Non-Housing	General Obligation Bonds 2019 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Property taxes	\$ 29,102,103	\$ -	\$ -	\$ -	\$ 6,251,206	\$ 35,353,309
Sales tax	16,355,869	-	-	-	16,053,791	32,409,660
Franchise and other taxes	5,873,889	-	-	-	-	5,873,889
Licenses and permits	1,320,998	-	-	-	-	1,320,998
Fines and forfeitures	1,393,994	-	-	-	69,606	1,463,600
Charges for services	212,275	-	-	-	1,610,367	1,822,642
Investment earnings	199,284	-	-	327,805	490,585	1,017,674
Intergovernmental	-	1,568,368	8,436,250	-	9,860,274	19,864,892
Payments in lieu of taxes	315,490	-	-	-	-	315,490
Other	1,304,530	-	-	-	781,843	2,086,373
Total Revenues	<u>56,078,432</u>	<u>1,568,368</u>	<u>8,436,250</u>	<u>327,805</u>	<u>35,117,672</u>	<u>101,528,527</u>
Expenditures						
Current:						
General government	7,284,260	25,702	-	-	1,685,935	8,995,897
Public safety	35,123,374	-	-	-	866,569	35,989,943
Highways and roads	3,541,633	112,502	-	-	3,134,420	6,788,555
Culture and recreation	2,770,563	-	-	-	12,766,142	15,536,705
Planning and community development	1,574,264	14,616	492,536	-	(333,017)	1,748,399
Transportation	-	-	-	-	3,471,524	3,471,524
Debt Service:						
Principal	-	-	-	-	5,549,306	5,549,306
Interest and other charges	-	-	-	-	4,507,092	4,507,092
Bond issuance costs	-	-	-	-	399,024	399,024
Capital Outlay	<u>701,054</u>	<u>1,415,548</u>	<u>7,943,714</u>	<u>-</u>	<u>17,524,963</u>	<u>27,585,279</u>
Total Expenditures	<u>50,995,148</u>	<u>1,568,368</u>	<u>8,436,250</u>	<u>-</u>	<u>49,571,958</u>	<u>110,571,724</u>
Excess (deficiency) of revenues over expenditures	5,083,284	-	-	327,805	(14,454,286)	(9,043,197)
Other Financing Sources (Uses)						
Proceeds from bond sales	-	-	-	-	31,205,000	31,205,000
Premiums on bonds	-	-	-	-	6,194,024	6,194,024
Sale of capital assets	107,044	-	-	-	208,254	315,298
Transfers in	2,303,708	-	-	37,000,000	8,880,281	48,183,989
Transfers (out)	(5,601,038)	-	-	-	(39,785,875)	(45,386,913)
Total Other Financing Sources and Uses	<u>(3,190,286)</u>	<u>-</u>	<u>-</u>	<u>37,000,000</u>	<u>6,701,684</u>	<u>40,511,398</u>
Net change in fund balance	<u>1,892,998</u>	<u>-</u>	<u>-</u>	<u>37,327,805</u>	<u>(7,752,602)</u>	<u>31,468,201</u>
Fund balance - beginning	<u>16,509,675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,112,459</u>	<u>74,622,134</u>
Prior period adjustments	(1,650,112)	-	-	-	(6,686)	(1,656,798)
Fund balance - ending	<u>\$ 16,752,561</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,327,805</u>	<u>\$ 50,353,171</u>	<u>\$ 104,433,537</u>

See Notes to Financial Statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

Net change in fund balance - total governmental funds:	\$ 31,468,201
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which depreciation (\$10,775,986) is exceeded by capital outlay expenditures (\$21,994,625) in the current period.	11,218,639
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.	(17,717)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	404,959
Governmental funds report the repayment of long-term receivables as revenues when received and available. In contrast these receipts are treated as a reduction in the receivable at the government wide level of reporting.	(1,053,333)
Contributions for defined benefit pension plans are recognized as expenditures in the governmental funds when the contributions are made. Pension expense is recognized in the government wide statement of activities based on changes in the long-term net pension liability.	8,430,665
Governmental funds report proceeds from new debt as a current financial resource. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.	(25,655,694)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.	
Changes in accrued interest	(531,955)
Changes in deferred charge bond issuance and unamortized premiums	(5,861,076)
Changes in accrued compensated absences	(1,318,281)
Accretion on capital interest bonds	1,689,589
Pension expense for the pension plan measurement year	(10,177,958)
Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and insurance programs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	<u>(686,627)</u>
Change in net position of governmental activities	<u>\$ 7,909,412</u>

See Notes to Financial Statements.

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

September 30, 2020

	Business-type Activities - Enterprise Funds			Governmental
	Combined Utility System	Other Enterprise Funds	Total	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 8,126,213	\$ 2,257,595	\$ 10,383,808	\$ 4,203,000
Accounts receivable, net of allowance for doubtful accounts	9,533,966	2,231,600	11,765,566	1,002,132
Due from other funds	10,547,418	725,360	11,272,778	12,537
Due from component units	-	-	-	361,525
Inventories	313,554	6,580	320,134	268,300
Prepaid items	69,827	117,720	187,547	617,666
Restricted cash and cash equivalents	50,935,131	1,428,544	52,363,675	-
Total current assets	<u>79,526,109</u>	<u>6,767,399</u>	<u>86,293,508</u>	<u>6,465,160</u>
Non-current assets:				
Capital assets not being depreciated:				
Land	1,360,000	1,546,705	2,906,705	-
Construction in progress	55,748,638	4,474,099	60,222,737	413,374
Capital assets (net of depreciation):				
Infrastructure	94,953,387	25,288,005	120,241,392	-
Buildings and improvements	132,779,351	2,935,360	135,714,711	3,740,293
Equipment and furniture	3,440,313	1,865,707	5,306,020	1,357,612
Licensed vehicles	2,464,477	3,336,232	5,800,709	423,738
Intangibles	8,409,805	-	8,409,805	-
Total non-current assets	<u>299,155,971</u>	<u>39,446,108</u>	<u>338,602,079</u>	<u>5,935,017</u>
Total Assets	<u>378,682,080</u>	<u>46,213,507</u>	<u>424,895,587</u>	<u>12,400,177</u>
Deferred Outflows of Resources				
Deferred charge on refunding	909,815	-	909,815	-
Deferred outflows relating to OPEB	-	-	-	2,203,094
Deferred outflows relating to pension activities	926,560	704,185	1,630,745	-
Total Deferred Outflows of Resources	<u>1,836,375</u>	<u>704,185</u>	<u>2,540,560</u>	<u>2,203,094</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	4,808,924	516,399	5,325,323	640,651
Accrued interest	1,689,607	-	1,689,607	-
Due to other funds	74,423	93,005	167,428	-
Due to other governments	152,036	51,281	203,317	-
Customer deposits	2,323,717	-	2,323,717	-
Unearned revenue	274,994	15,620	290,614	-
Long-term liabilities, due within one year	7,473,417	366,643	7,840,060	1,837,601
Total current liabilities	<u>16,797,118</u>	<u>1,042,948</u>	<u>17,840,066</u>	<u>2,478,252</u>
Non-current liabilities:				
Long-term liabilities, due in more than one year	98,245,591	392,823	98,638,414	1,114,962
Total OPEB liability	-	-	-	11,379,952
Net pension liability	3,328,782	2,529,876	5,858,658	-
Total non-current liabilities	<u>101,574,373</u>	<u>2,922,699</u>	<u>104,497,072</u>	<u>12,494,914</u>
Total Liabilities	<u>118,371,491</u>	<u>3,965,647</u>	<u>122,337,138</u>	<u>14,973,166</u>
Deferred Inflows of Resources				
Deferred inflows relating to OPEB	-	-	-	1,473,634
Deferred inflows relating to pension activities	841,770	639,745	1,481,515	-
Total Deferred Inflows of Resources	<u>841,770</u>	<u>639,745</u>	<u>1,481,515</u>	<u>1,473,634</u>
Net Position				
Net investment in capital assets	243,131,966	39,446,108	282,578,074	5,935,017
Restricted:				
Debt service	2,749,289	-	2,749,289	-
Unrestricted	15,423,939	2,866,192	18,290,131	(7,778,546)
Total Net Position	<u>\$ 261,305,194</u>	<u>\$ 42,312,300</u>	<u>\$ 303,617,494</u>	<u>\$ (1,843,529)</u>

The assets and liabilities of certain internal service funds are not included in the fund financial statements, but are included in the Business-type Activities of the Statement of Net Position.

(515,518)

Total Net Position per Government-Wide financial statements

\$ 303,101,976

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS**

For the Year Ended September 30, 2020

	Business-type Activities - Enterprise Funds			Governmental
	Combined Utility System	Other Enterprise Funds	Total	Internal Service Funds
Operating Revenues				
Charges for services	\$ 38,168,655	\$ 10,320,797	\$ 48,489,452	\$ 24,365,175
Total operating revenues	<u>38,168,655</u>	<u>10,320,797</u>	<u>48,489,452</u>	<u>24,365,175</u>
Operating Expenses				
Personnel services	9,293,693	6,136,171	15,429,864	4,524,577
Contractual services	3,155,400	2,782,215	5,937,615	4,501,197
Supplies and materials	2,147,437	262,371	2,409,808	2,269,165
Surface water contract	8,040,717	-	8,040,717	-
Insurance claims and premiums	-	-	-	13,499,927
Other expenses	2,166,034	583,592	2,749,626	268,250
Depreciation	9,283,116	2,388,107	11,671,223	610,257
Total operating expenses	<u>34,086,397</u>	<u>12,152,456</u>	<u>46,238,853</u>	<u>25,673,373</u>
Operating income (loss)	<u>4,082,258</u>	<u>(1,831,659)</u>	<u>2,250,599</u>	<u>(1,308,198)</u>
Non-Operating Revenues (Expenses)				
Interest and investment revenue	744,997	43,520	788,517	32,895
Insurance proceeds	-	-	-	179,023
Intergovernmental grants	-	50,000	50,000	-
Gain on disposal of capital assets	18	32,669	32,687	26,210
Interest expense	(3,550,953)	-	(3,550,953)	(14,807)
Total non-operating revenue (expenses)	<u>(2,805,938)</u>	<u>126,189</u>	<u>(2,679,749)</u>	<u>223,321</u>
Income (loss) before contributions and transfers	<u>1,276,320</u>	<u>(1,705,470)</u>	<u>(429,150)</u>	<u>(1,084,877)</u>
Capital contributions	3,340,977	2,085,455	5,426,432	421,968
Transfers in	(1)	55,000	54,999	-
Transfers (out)	(1,690,668)	(706,607)	(2,397,275)	(454,803)
Change in net position	<u>2,926,628</u>	<u>(271,622)</u>	<u>2,655,006</u>	<u>(1,117,712)</u>
Net position - beginning	<u>258,388,301</u>	<u>42,587,507</u>	<u>300,975,808</u>	<u>(722,281)</u>
Prior period adjustments	(9,735)	(3,585)	(13,320)	(3,536)
Net position - ending	<u>\$ 261,305,194</u>	<u>\$ 42,312,300</u>	<u>\$ 303,617,494</u>	<u>\$ (1,843,529)</u>
Change in net position per above			\$ 2,655,006	
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with Business Activities.			(434,062)	
Change in Business-Type Activities in Net Position per Government-Wide Financial Statements			<u>\$ 2,220,944</u>	

See Notes to Financial Statements.

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended September 30, 2020

	Business-type Activities - Enterprise Funds			Governmental
	Combined Utility System	Other Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities:				
Receipts from customers and users	\$ 38,340,550	\$ 9,876,740	\$ 48,217,290	\$ 12,651,518
Receipts for interfund services	-	66,156	66,156	11,393,267
Disbursed for employee services	(8,968,789)	(6,021,254)	(14,990,043)	(4,315,316)
Disbursed for goods and services	(10,453,016)	(3,540,867)	(13,993,883)	(18,487,815)
Net cash provided (used) by operating activities	<u>18,918,745</u>	<u>380,775</u>	<u>19,299,520</u>	<u>1,241,654</u>
Cash Flows from Non-Capital Financial Activities:				
Transfers from other funds	-	55,000	55,000	-
Transfers to other funds	(1,690,668)	(706,607)	(2,397,275)	(454,803)
Net cash provided (used) by noncapital financing activities	<u>(1,690,668)</u>	<u>(651,607)</u>	<u>(2,342,275)</u>	<u>(454,803)</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from the sale of equipment	18	32,669	32,687	26,210
Intergovernmental grants	-	50,000	50,000	-
Insurance proceeds	-	-	-	179,023
Interest payments on debt	(4,219,878)	-	(4,219,878)	(123,953)
Principal payments on debt	(6,946,262)	-	(6,946,262)	(14,807)
Acquisition and construction of capital assets	(21,162,910)	(1,300,979)	(22,463,889)	(257,079)
Net cash provided (used) by capital and related financing activities	<u>(32,329,032)</u>	<u>(1,218,310)</u>	<u>(33,547,342)</u>	<u>(190,606)</u>
Cash Flows from Investing Activities				
Interest received	744,997	43,520	788,517	32,898
Net cash provided (used) by investing activities	<u>744,997</u>	<u>43,520</u>	<u>788,517</u>	<u>32,898</u>
Net increase (decrease) in cash and equivalents	<u>(14,355,958)</u>	<u>(1,445,622)</u>	<u>(15,801,580)</u>	<u>629,143</u>
Cash and equivalents, beginning of year	73,417,302	5,131,761	78,549,063	3,573,857
Cash and equivalents, at end of year	<u>\$ 59,061,344</u>	<u>\$ 3,686,139</u>	<u>\$ 62,747,483</u>	<u>\$ 4,203,000</u>
Unrestricted cash and equivalents	\$ 8,126,213	\$ 2,257,595	\$ 10,383,808	\$ 4,203,000
Restricted cash and equivalents	50,935,131	1,428,544	52,363,675	-
	<u>\$ 59,061,344</u>	<u>\$ 3,686,139</u>	<u>\$ 62,747,483</u>	<u>\$ 4,203,000</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 4,091,993	\$ (1,831,659)	\$ 2,260,334	\$ (1,308,198)
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation and amortization	9,283,116	2,388,107	11,671,223	610,257
(Increase) decrease in accounts receivable	17,624	(59,632)	(42,008)	(25,822)
(Increase) decrease in inventory	(76,441)	(6,580)	(83,021)	(29,160)
(Increase) decrease in prepaid items	(18,285)	(111,384)	(129,669)	(143,918)
(Increase) decrease in interfund receivables and payables	4,586,682	(318,178)	4,268,504	(291,164)
(Increase) decrease in deferred outflows/inflows related to pension activities	1,670,875	1,252,309	2,923,184	-
(Increase) decrease in deferred outflows/inflows relating to OPEB	-	-	-	(92,652)
Increase (decrease) in accounts payable and accrued expenses	549,948	210,070	760,018	213,134
Increase (decrease) in customer deposits	154,271	-	154,271	-
Increase (decrease) in claims payable	-	-	-	185,402
Increase (decrease) in compensated absences payable	85,190	(97,309)	(12,119)	209,261
Increase (decrease) in deferred revenue	4,933	(4,887)	46	-
Increase (decrease) in total OPEB liability	-	-	-	1,914,514
Increase (decrease) in net pension liability	(1,431,161)	(1,040,082)	(2,471,243)	-
Net cash provided (used) by operating activities	<u>\$ 18,918,745</u>	<u>\$ 380,775</u>	<u>\$ 19,299,520</u>	<u>\$ 1,241,654</u>
Non-cash Transactions:				
Capital contributions	\$ 3,340,977	\$ 2,085,455	\$ 5,426,432	\$ 421,969

See Notes to Financial Statements.

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**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION**

	Pension Trust Funds as of December 31, 2019	Agency Fund as of September 30, 2020
Assets		
Cash and temporary investments	\$ 1,188,419	\$ 721,519
Receivables		
Accounts receivable	75,000	-
Interest and dividends	118,038	-
Loans to participants	223,027	-
Prepaid items	459	-
Investments		
Money market funds	1,601,193	-
U.S. Government agencies	321,623	-
Bonds	5,775,109	-
Common stocks	19,913,694	-
Equity mutual funds	63,620,522	-
Bond mutual funds	24,258,267	-
Alternative investments	1,229,685	-
Hedge funds	8,121,319	-
Real estate	2,078,149	-
Total Assets	<u>128,524,504</u>	<u>\$ 721,519</u>
Liabilities		
Accounts and refunds payable	42,937	721,519
Total Liabilities	<u>42,937</u>	<u>\$ 721,519</u>
Net Position - Restricted for Pension Benefits		
Held in trust for benefits and other purposes	128,481,567	
Total Net Position - Restricted for Pension Benefits	<u>\$ 128,481,567</u>	

See Notes to Financial Statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year ended December 31, 2019

	<u>Pension Trust Fund</u>
Additions	
Contributions:	
Employer	\$ 7,629,339
Plan members	<u>4,605,174</u>
Total contributions	12,234,513
Investment Earnings:	
Net increase in fair value of investments	18,203,562
Interest and dividends	2,927,260
Less investment expenses	<u>(374,661)</u>
Net investment income	20,756,161
Other income	-
Total Additions	32,990,674
Deductions	
Benefits paid to members and beneficiaries	12,247,392
Refunds of contributions	519,209
Administrative expenses	<u>601,533</u>
Total Deductions	<u>13,368,134</u>
Change in net position	19,622,540
Net position - restricted for pensions, beginning of year	<u>108,859,027</u>
Net position - restricted for pensions, end of year	<u>\$ 128,481,567</u>

See Notes to Financial Statements.

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Note 1 – Summary of Significant Accounting Policies

The City of Galveston, Texas (the City) was incorporated in March 1839, and presently is a Home Rule City under statutes of the State of Texas. The current City Charter was adopted April 19, 1960, and initiated the Council-Manager form of government. The City provides the following services: public safety (police and fire), utilities (water, sewer, drainage and sanitation), streets and storm sewers, health and social services, culture, recreation, public improvements, planning and zoning, airport and general administrative services.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The aggregate governmental and business-type discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended Component Units Reported with the Primary Government

Blended component units provide services exclusively or almost exclusively for the City, or their board of directors are substantially the same as the City Council. The following blended component units are reported:

Industrial Development Corporation

The Industrial Development Corporation (the IDC) was formed in 1993 to provide for street repairs, beach renourishment and sewer improvements. The IDC Board of Directors is appointed by the City Council. Its Board of Directors is substantially the same as the City Council. Its activities are funded by a special local sales tax. The City manages the fiscal affairs of the IDC. The IDC operations are devoted to providing services for the City. The IDC fund is included in the City's non-major governmental funds as of year-end.

Pension Funds

The City of Galveston Employee's Retirement Plan for City Employees, Galveston Firefighters' Pension Fund, and the City of Galveston Employee's Retirement Plan for Police (the Pension Funds) were created in accordance with state statutes to provide benefits to non-civil service, firemen, police and City employees. The responsibility for administration and operation of the plan rests with each plan's board. Each pension plan is funded by a contribution mix from employees and the City. The Pension Funds are included in the City's pension trust funds as of December 31, 2019.

Discretely Presented Component Units

Discretely presented component units are legally separate entities for which the City is not financially accountable (because it does not impose will or have a financial benefit or burden relationship, even though the City Council appoints the voting majority of the component units' governing board) and, in management's opinion, whose exclusion would render the reporting entity's financial statements incomplete or misleading.

Following are the City's discretely presented component units:

The Park Board of Trustees of the City of Galveston, Texas

The Park Board of Trustees of the City of Galveston, Texas, (the Park Board), was created by state statute to provide improvements and maintenance to City waterfront parks and beaches. The Park Board, which is fiscally dependent on the City's hotel occupancy tax and beach parking receipts, is legally separate from the City. The Park Board, which is appointed by the City Council, has a nine-member board responsible for operations. The Park Board financial records are the board's responsibility. Complete financial statements for the Park Board may be obtained at the following address:

Park Board of Trustees of the City of Galveston, Texas
601 Tremont, Suite 200
Galveston, Texas 77550

Galveston Island Redevelopment Authority

Galveston Island Redevelopment Authority (GIRDA) is a local government corporation created and organized under the provisions of the Texas Transportation Corporation Act, Chapter 431, Transportation Code, and authorized and approved by the City under Resolution No. 02-071 adopted on August 22, 2002. The GIRDA has oversight responsibility for tax increment reinvestment zone thirteen. This tax zone was established to provide funds for development and improvement projects within a specific geographic area of the City. The GIRDA is fiscally dependent on the City's property tax receipts over undeveloped assessments (base value) to provide funding for the development and improvement projects. The City Council appoints the board members who operate and account for each tax zone activity consistent with the state statute for economic benefit of the City. The City accounts for the tax zones (consolidated into the GIRDA) and separate audited reports are available. Complete financial statements for the GIRDA may be obtained at the following address:

Galveston Island Redevelopment Authority
1011 Tremont Street
Galveston, Texas 77550

GIRDA had been responsible previously for zones twelve and fourteen as well. On December 12, 2019, the City Council passed Ordinance No. 19-076 which closed Tax Increment Reinvestment Zones Twelve and Fourteen ("the TIRZ") effective December 31, 2019. The City entered into an Interlocal Agreement with the County of Galveston relating to the procedures for the closing of the TIRZ as well as the distribution of tax increments held by the Galveston Island Redevelopment Authority.

Public Improvement District- Campeche Shores

Campeche Shores Public Improvement District (Campeche District) was established by the City to provide funds for development and improvement projects specifically for Campeche Shores District. An agreement between GIRDA and Campeche Shores LP dated April 28, 2005, details the responsibilities between all parties, including the City. Under the authority of GIRDA, the City has established a Public Improvement District Fund for the district. The City Council appoints an advisory board who aid and assist the City in the preparation of the assessment roll, collection of assessments and the operation and management of Campeche District for the benefit of the City. Each year, following the levy and collection of assessments, the City shall transfer the amount to GIRDA. GIRDA is fiscally dependent on these funds to pay the administrative costs and to reimburse Campeche Shores LP for any and all costs associated with the public improvements which serve the citizens of the City. Separately issued financial statements are not available.

Public Improvement District- Beachside Village

Beachside Village Public Improvement District (Beachside District) was established by the City on February 11, 2010 to provide funds for street, drainage and utility public improvement projects, specifically in Beachside Village Public Improvement District. The GIRDA has an agreement with Kahala Development, Limited Partnership, which details the responsibilities between all parties, including the City. The City Council appoints an advisory board who aid and assist the City in the preparation of the assessment roll, collection of assessments and the operation and management of Beachside District for the benefit of the City. Each year, following the levy and collection of assessments levied against property within the district, the City shall transfer the amount to GIRDA. GIRDA is fiscally dependent on these funds to pay the administrative costs and to reimburse Kahala Development for the costs of constructing the public improvements which serve the citizens of the City. Separately issued financial statements are not available.

Public Improvement District - Bayside at Waterman's

Bayside at Waterman's Public Improvement District was established by the City on October 28, 2014 for the development of approximately 162 single family residences and associated rights-of-way, landscaping, and infrastructure necessary to provide roadways, drainage, and utilities within approximately 21.5 acres located in the corporate limits of the City.

An agreement between Bayside at Waterman's Public Improvement District and Laffite's Harbor Development, LP was signed December 10, 2014. Wilmington Trust agreed to be the Trustee and Paying

Agent/Registrar as of December 1, 2014 for bonds issued relating to the development of the district. The bonds mature September 1, 2044. The average annual interest rate for bonds is approximately 5.85%.

On November 7, 2017, Lafitte's Harbor Development I LP filed for Chapter 11 Bankruptcy at the United States Bankruptcy Court for the Southern District of Texas, Houston Division. All debt service payments have been made on schedule as of March 2020 using reserves programmed for that purpose and assessments collected. The City has no financial or legal responsibility for payment of the bonds. The City's only responsibility is to pursue collections of assessments which is performed by a third party contractor on behalf of the City.

The Galveston Housing Finance Corporation and City of Galveston Property Finance Authority

The Galveston Housing Finance Corporation was created by state statute to provide the making of home mortgages and the making of loans to lending institutions for the purpose of making home mortgages. The City of Galveston Property Finance Authority, Inc. was created by State Statute for the purpose of acquiring, owning, holding, leasing and selling real or personal property to or for the benefit of the City of Galveston for the furtherance of its public purposes, and collecting, receiving, borrowing, lending or otherwise obtaining and lending funds to or for the use of the City or to others for the City's public purposes. These corporations are managed by the GIRDA board, which is appointed and may be removed at will by the City Council. The Galveston Housing Finance Corporation and the City of Galveston Property Finance Authority, Inc. financial records are each corporation's responsibility. Separately issued financial statements are not available.

Complete financial statements for the Galveston Housing Finance Corporation and the City of Galveston Property Finance Authority, Inc. may be obtained at the following address:

The Galveston Housing Finance Corporation /
The City of Galveston Property Finance Authority, Inc.
2127 Broadway
Galveston, Texas 77550

The Board of Trustees of the Galveston Wharves

The Board of Trustees of the Galveston Wharves (Galveston Wharves) was created by the City Charter on October 17, 1940 to manage, control, and maintain the wharves. The Board of Trustees of the Galveston Wharves, which is appointed by the City Council, is a seven-member board, which is responsible for operating the wharves and is fiscally dependent on the City to approve the issuance of bonded debt. The Galveston Wharves financial records are the board's responsibility. The Galveston Wharves have a December 31 fiscal year-end.

Complete financial statements for the Galveston Wharves may be obtained at the following address:

Board of Trustees of the Galveston Wharves
123 Rosenberg
Galveston, Texas 77550

Related Organizations and Jointly Governed Organizations

The City is not legally or financially accountable for certain entities even though the City may appoint a majority of the organizations' boards; therefore the financial statements of the Galveston Housing Authority and the Rosenberg Library are not included in these statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase,

use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column in the appropriate governmental fund and proprietary fund statements.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Budgets for all funds, including enterprise and governmental funds are based on the current financial resources focus and modified accrual basis of accounting as well. Budget to actual schedules include adjustments to include this budgetary focus.

Property taxes, sales taxes, franchise taxes, license fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by the government.

The government reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. The General Fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues for the General Fund are property taxes, sales and use taxes, franchise taxes, permit fees, and fines and forfeitures. Expenditures are for general government, finance, public safety, public works, culture and recreation, planning and community development and transit operations.

CDBG Disaster Recovery Non-housing funds are made available from 2008 Supplemental Community Development Block Grant funding associated with the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, (Public Law 11 0-329) appropriated by Congress through the United States Department of Housing and Urban Development. Projects included in the funding are for the wastewater treatment plant, sewer lift station, water systems, historic building front preservation, economic development loans, fire station #4 and fire apparatus.

The government reports the following major proprietary funds:

The **Combined Utility System Fund** (formerly the Waterworks System Fund and Sewer System Fund) accounts for the provision of water and a sewer system to the residents of the City, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Additionally, the government reports the following fund types:

Internal Service Funds account for central services related to mailing, printing, data processing, insurance costs, employee benefits, construction management, and garage services provided to other City departments and functions of the government on a cost reimbursement basis.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. These include the following:

The **Pension Trust Funds** account for the activities of the City Employees Retirement Plan, the Galveston Firefighters' Pension Fund and the Police Retirement Fund.

The **Agency Funds** are used to account for assets held by the City as an agent for individuals, private organizations and other governments. This fund is custodial in nature and does not involve measurement of results of operations. Agency funds include fiber crete maintenance funds, cemetery trust funds, confiscated monies pending disposition, etc.

As a general rule, the effect of interfund activity has been eliminated from the Government-wide financial statements.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for goods and services. Operating expenses for enterprise funds include the cost of goods and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Cash and Investments

Cash and temporary investments include amounts in demand deposits, as well as short-term highly liquid investments with original maturities of three months or less. State Statutes and the City's investment policy authorize the City to invest in obligations of the U.S. Government and its agencies or instrumentalities and state obligations, certificates of deposits, repurchase agreements, Texas Local Government Investment Pools. All investments are recorded at fair value based on quoted market prices at year-end date. TexPool and TexTerm are external investment pools established by an interlocal contract under state law.

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. The City pools excess cash of the various individual funds to purchase investments. These pooled investments are reported in the combined balance sheet as cash and temporary investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund based on its respective share of pooled investments.

The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

E. Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds," respectively, on the balance sheet. 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. The property tax receivable allowance is equal to 24.6 percent of total property taxes including the related penalty and interest accrual as of year-end. The allowance for enterprise fund charges for services is 36.5 percent of total outstanding charges as of year-end.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are payable on or before January 31. No penalties or interest shall be collected if payment in full is made by January 31. City property taxes are recognized as current receivables when levied; however, such amounts are deferred and not reported as revenues until collections are received. At year end, all

property taxes receivable are classified as delinquent. Penalties and interest accrued at year end are also recognized as receivables.

F. Inventories and Prepaid Items

Inventories are valued at cost, which approximates market value, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond September 30, 2020 are recorded as prepaid items.

G. 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 are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in service concession arrangements are recorded at acquisition value rather than fair market value.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Asset Description	Estimated Useful Life
Buildings	25 to 75 years
Improvements	5 to 50 years
Equipment	2 to 40 years
Sewer plants	50 to 75 years
Sewer lines	40 to 75 years
Water plants, wells and hydrants	50 to 75 years
Water tanks and valves	50 years
Water meters	10 years
Infrastructure	5 to 75 years
Contractual water rights	10 to 30 years

H. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be paid from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be paid from proprietary fund operations are accounted for in those funds.

The government-wide financial statements and proprietary fund type fund financial statements report long-term debt and other long-term obligations as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred

and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premiums or discounts.

The fund financial statements report 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, net of issuance costs. Premiums or discounts associated with the debt are reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Fund Balances and Net Position

The governmental fund financial statements of the City will present fund balances based on classifications including a hierarchy that is based primarily on the extent to which the City is bound to honor restrictions on the specific purposes for which amounts in a particular governmental fund can be spent. The five classifications used in the governmental fund financial statements will be as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. These amounts would include inventories and prepaid items as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. These guidelines are used for restricted net position.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal resolution of the City Council, which has the highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. The action must be taken by the close of the reporting period. The amount of the commitment can be determined and approved by the City Council at a later date.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or by the City Council's designee, pursuant to the City's fund balance policy.

Unassigned: This classification includes the residual fund balance for the General Fund. The general fund should be the only fund that reports an unassigned fund balance.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications are available.

K. Restricted Cash and Investments

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Other restricted accounts reflect money set aside by City Council action for improvements or to meet contractual obligations.

L. Inter-fund Transactions

Inter-fund services provided and received are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other inter-fund transactions are reported as transfers.

M. Legal Compliance- Budgets

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

Pursuant to City Charter, at least 45 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed operating and capital projects budget for the fiscal year commencing October

1. The proposed budget includes proposed expenditures and the means of financing them. A statement of capital projects planned for the next succeeding five fiscal years, with estimates of their costs is also submitted at this time.

The adoption of the budget shall require a favorable vote of at least a majority of all the members of the Council. In the event that the budget has not been adopted by the beginning of the fiscal year the latest budget proposed by the City Manager shall take and remain in effect until the budget is finally adopted by the Council.

The City Charter requires that no funds shall be expended nor shall any obligation for the expenditure of money be incurred unless an appropriation exists in the duly adopted budget. Annual appropriations style budgets are adopted for the General Fund, Special Revenue Funds including the Island Transit, Rosenberg Library, and the Debt Service Fund, and all Enterprise Funds. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, debt service funds and enterprise funds.

Budgets are adopted and accounted for on a modified accrual basis, with the following exceptions:

Annual budgets are not adopted for certain special revenue funds, primarily relating to grant based projects. These grant projects are controlled through project length budgets that may span multiple fiscal years.

Capital and planning grant activities in the Island Transit Fund are not budgeted on an annual basis and are controlled in a manner similar to the grant project funds noted above. Budgeted amounts are reported herein as amended throughout the year. There were three formal, ordinance approved budget amendments during FY 2020. Total appropriations increased to accommodate the prior year adjustment of \$1.5 million in the General Fund but remained in compliance with the City Charter requirement limiting the total budget to a seven percent increase overall each year. Appropriation balances lapse at year-end and may be re-appropriated by City Council.

Obligations outstanding at year-end through purchase orders, contracts and other commitments are re-appropriated in the subsequent year.

During the fiscal year, the City Council may transfer any unencumbered appropriation balance or portion thereof from one department to another at any time. The City Manager has authority, without City Council approval, to transfer appropriation balances from one expenditure account to another, inclusive within a single office, department or agency of the City.

Expenditures may not exceed appropriations at the department category level, as established by policy of the City Council. The administrative level of control is at the department category level and the legal level of control is at the department level by fund.

N. Estimates

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

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City’s three defined benefit pension plans (the “Plans”) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by the individual Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Other Post-Employment Benefits

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City’s self-insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees. Information regarding the City’s total liability for this plan is obtained through a report

prepared by the City's third-party actuary in compliance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Q. 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 three items that qualify for reporting in this category:

- Deferred outflows of resources for pension – Reported for the City in the government-wide and enterprise fund financial statement of net position. One portion of this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability, and will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five-year period.
- Deferred outflows of resources for other postemployment benefits (OPEB) – Reported for the City in the government-wide and enterprise fund financial statement of net position. One portion of this deferred outflow results from contributions to the OPEB plan made after the measurement date of the OPEB liability. The other OPEB related deferred outflows result primarily from differences between projected and actual earnings on plan investments. These amounts will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with the OPEB through the OPEB plan.
- Deferred loss on refunding reported in the statement of net position – this deferred outflow results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 or fund balance 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 two items that qualifies for reporting in this category:

- Deferred gain on refunding reported in the statement of net position – This deferred inflow results from the difference in carrying value the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred inflows of resources for pension – This deferred inflow results from the differences between expected and actual actuarial experiences and changes in actuarial assumptions will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan. The other OPEB related deferred outflows result primarily from differences between projected and actual earnings on plan investments.

R. New Accounting Standards

The following standards have been issued, but have not been implemented as not yet effective.

- *GASB Statement No. 84, Fiduciary Activities*. This Statement establishes standards of accounting and financial reporting for fiduciary activities.
- *GASB Statement No. 87, Leases*. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors.
- *GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period.

Note 2 - Deposits (Cash) and Investments

Credit Risk. The primary stated objective of the City of Galveston's adopted Investment Policy (the Investment Policy) is the safety of principal and avoidance of principal loss. Credit risk within the City's portfolio among the authorized investments approved by the City's adopted Investment Policy is represented only in time and demand deposits, repurchase agreements, municipal obligations, and non-rated U.S. Securities and Exchange Commission (SEC) registered money market mutual funds.

All other investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the U.S. Government, its agencies or instrumentalities and Local Government Investment Pools. State law and the Investment Policy restricts both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further requires full insurance and/or collateral from these depositories.

Collateral, with a 110% margin, is required and collateral is limited to obligations of the U.S. Government, its agencies or instrumentalities and municipal obligations rated no less than AA or equivalent by two nationally recognized rating agencies. Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are monitored and priced at market on a daily basis as a contractual responsibility of the bank. All bank deposits, totalling \$20.8 million, were fully insured and collateralized. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

By policy and state law, repurchase agreements are limited to those with defined termination dates executed with a Texas bank or a primary dealer, as defined by the Federal Reserve. The agreements require an industry standard, written master repurchase agreement and a minimum 102% margin on collateral as well as delivery versus payment settlement and independent safekeeping. Repurchase agreements may not exceed one year to stated maturity with the exception of flex repurchase agreements with a stated termination date not to exceed the planned completion date of the project(s).

The Investment Policy restricts investment in Security and Exchange Commission registered mutual funds to money market mutual funds striving to maintain a \$1 net asset value as further defined by state law. Neither state law nor the Policy requires a rating.

The City invests in TexPool, which was created under the Interlocal Cooperation Act, Texas Government Code Ann. Chapter 791 and the Texas Public Funds Investment Act. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is sole officer, director and shareholder. The advisory board of TexPool is composed of the State Comptroller and other members appointed pursuant to the requirements of the Texas Public Funds Investment Act.

The City also invests in Texas Daily which is an individual investment portfolio established by the TexTerm Advisory Board pursuant to the TexTerm Common Investment Contract that established the Pool. Texas Daily is a local government investment portfolio that allows governments to pool their funds for investment under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, the PFIA and other similar cooperative statutes and under the statutes governing investment of funds by those local governments. TexTerm is directed by an advisory board of experienced local government officials, finance directors and treasurers and is managed by a team of industry leaders that are focused on providing professional investment services to investors. The City's investment in this pool is the same as the value of the pool shares, which are valued based on quoted market rates.

The City began investing funds in Local Government Investment Cooperative (LOGIC) in FY 2019. LOGIC is a local government investment pool created by Texas local government officials who understand the specific needs and challenges of investing public funds. LOGIC is administered by HilltopSecurities and JPMorgan Chase. Together these organizations bring to the LOGIC program the two leaders in financial services with a proven track record in local government investment pool management and extensive industry resources. The City's investment in this pool is the same as the value of the pool shares, which are valued based on quoted market rates. Due to the uncertainty in the commercial paper market as a result of the COVID-19 pandemic, the City transferred substantially all of the balances in the LOGIC investment pools to TexPool in FY 2020.

Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency. The City Policy further restricts investments to AAA-rated local government investment pools.

As of September 30, 2020,

- Investments in AAAM-rated local government investment pools represented 82.1% of the total portfolio, and
- Holdings in AA+-rated US Government securities represented 5.8% of the total portfolio.
- Bank deposits represented 12.1% of the total portfolio.

The City of Galveston recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The City's adopted Investment Policy establishes diversification as a major objective of the investment program. The Policy has established limits for concentration by market sector as shown below:

	Fair Value / Amortized Cost	Credit Quality Rating		Percentage of Investments
		S & P	Moody's	
Investment Type:				
Bank Accounts:				
Frost Bank-Sweep Repo	\$ 10,008,000			5.82%
US Bank-HOT Funds	5,531,202			3.21%
Frost Bank-Deposit Accounts	5,261,892			3.06%
Total Bank Accounts	<u>20,801,094</u>			<u>12.09%</u>
Local Government Investment Pools:				
TexPool	140,017,939	AAAm		81.37%
Texas Term	1,249,749	AAAm		0.73%
Local Government Investment Cooperative (LOGIC)	98	AAAm		0.00%
Total Local Government Investment Pools	<u>141,267,786</u>			<u>82.10%</u>
Investment Securities:				
Federal Home Loan Bank	3,999,680	AA+	Aaa	2.32%
US Treasury Securities	5,998,830	AA+	Aaa	3.49%
Total Investment Securities	<u>9,998,510</u>			<u>5.81%</u>
Total Investment Portfolio	<u>\$ 172,067,390</u>			<u>100.00%</u>

Interest Rate Risk.

In order to limit interest and market rate risk from changes in interest rates, the City's adopted investment policy establishes a maximum maturity of 36 months for operating funds and five years for reserve funds.

A segmented time distribution analysis for the Primary Government portfolio by market sector is shown below.

Investment Type	Investment Maturities in Years	Investment Maturities in Years
	Less than 1 year	1 - 5 years
	\$ 5,998,830	\$ -
U.S. Treasury Notes and Bills		
U.S. Agency Securities:		
Federal Home Loan Bank	3,999,680	-
Local Government Pools	141,267,786	-
Total	<u>\$ 151,266,296</u>	<u>\$ -</u>

Custodial Credit Risk. To control custody and safekeeping risk, the City's investment policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held in the City's name by an independent party. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of FIRREA (U.S. Financial Institutions Reform, Recovery and Enforcement Act of 1989). The counter-party of each type of transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

Quoted market prices are the basis of the fair value for the U.S. Treasury and Agency securities. There were no changes in the valuation technique and no nonrecurring fair value measurements during the current year.

Investments' fair value measurements are as follows as of September 30, 2020:

	Fair Value / Amortized Cost	Fair Value Measurements Using			Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Investment Securities:					
Federal Home Loan Bank	3,999,680	-	3,999,680	-	44
US Treasury Securities	5,998,830	5,998,830	-	-	71
Total Investment Securities	<u>\$ 9,998,510</u>	<u>\$ 5,998,830</u>	<u>\$ 3,999,680</u>	<u>\$ -</u>	<u>60</u>

Note 3 – Property Tax

According to the Tax Code of the State of Texas, property values are established through appraisal and appeals processes administered by the Galveston County Appraisal District. As provided by law, the Galveston City Council has designated the Galveston County Tax Assessor-Collector as the City Tax Assessor-Collector. Reports and information provided in this Comprehensive Annual Financial Report for property values and collections, including current and delinquent taxes, originate with these two County agencies.

The City may levy taxes up to \$2.50 per \$100 of net appraised assessed value under state law; however amendments to the City Charter approved by the voters placed additional limits on the city's total property tax rate. Approved in a charter election on January 20, 1979, language in Article VII Section 2 of the City Charter provides that the maximum property tax rate will be \$0.70 per \$100 of taxable valuation. This is inclusive of taxes levied to retire debt service, and the tax amount levied each year for the Rosenberg Library.

Subsequently, the voters of the City of Galveston approved language in Article VII, Section 2(b) of the City Charter that reduces the maximum tax rate each year based on sales tax collections. When the certified property tax roll is delivered by the Chief Appraiser in late July, the Tax Assessor-Collector calculates the City's effective tax rate in accordance with State law, including the sales tax collection allowance.

This allowance is based on receipts from one-fourth of the City's two percent sales tax generated for the prior July to June twelve month period. The effective tax rate calculation then requires a reduction in the total property tax rate equal to the property tax rate that would produce the same amount of sales tax collected as described. For FY 2020, the maximum property tax rate was \$0.60157. Within these guidelines, the adopted tax rate per \$100 of taxable valuation, for the year ended September 30, 2020, was \$0.579885. The tax rate to finance general governmental services was set at \$0.527385 and the tax rate for all other purposes, including debt service, was set at \$0.0525 per \$100 of assessed valuation.

Under the Texas Property Tax Code, property taxes are certified by the Chief Appraiser on or by July 25. The County Tax Assessor-Collector, acting in that capacity for the City, then presents the certified roll to the City Council accompanied by the No-New-Revenue and Voter Approval tax rates calculated for that tax year. The City Council must adopt a budget first and then adopt a property tax rate by September 30, or within sixty days after receipt of the tax roll from the Chief Appraiser. Taxes are due on a current basis by January 31. Late penalties and interest apply thereafter, including a twenty percent delinquent attorney's collection fee on July 1 should taxes not be paid prior to that time. There is no specific date for liens to be placed on properties for nonpayment of taxes.

Note 4 - Sales Tax

The City's sales tax rate is 2.0 percent for the year ended September 30, 2020. This rate includes 1.0 percent that generates receipts for general municipal operations that is deposited in the General Fund. Also deposited in the General Fund is the 0.5 percent sales tax collected for property tax rate reduction purposes (see Note 3). The remaining 0.5 percent is levied for economic development purposes and is deposited in the Industrial Development Corporation's funds.

On November 4, 2008, voters extended the economic development amount for the IDC fund for 20 years, to expire on April 1, 2029. Effective through March 31, 2029, the IDC fund collections are allocated strictly according to the language adopted by the voters. That language dedicates this economic development tax into four equal portions for beach renourishment, for streets, sewer and drainage improvement projects, for economic development programs and projects, and park improvements. Each of these portions of the tax are accounted for in what are reported in this annual report as four non-major governmental funds.

Note 5 - Accounts Receivable

Receivables, as of September 30, 2020 for the City's individual major funds, non-major funds and internal service funds, including the applicable allowances for uncollectible accounts, are as follows:

GOVERNMENTAL FUNDS

	General Fund	Hurricane Ike Fund	CDBG Disaster Fund Non- Housing	Non -Major Governmental Funds	Total	Internal Service Funds
Receivables:						
Property taxes	\$ 2,660,427	\$ -	\$ -	\$ 360,284	\$ 3,020,711	\$ -
Sales and use taxes	2,893,142	-	-	964,380	3,857,522	-
Franchise taxes	347,040	-	-	40,664	387,704	-
Hotel taxes	-	-	-	548,557	548,557	-
Court fines	3,019,956	-	-	-	3,019,956	-
Customer accounts	430,275	-	-	-	430,275	48,303
Intergovernmental	278,554	6,082,853	6,356,939	3,208,002	15,926,348	361,525
Other	783,028	-	-	989,521	1,772,549	953,829
Allowance for uncollectibles	(3,401,617)	-	-	(136,677)	(3,538,294)	-
Total	<u>\$ 7,010,805</u>	<u>\$ 6,082,853</u>	<u>\$ 6,356,939</u>	<u>\$ 5,974,731</u>	<u>\$ 25,425,328</u>	<u>\$ 1,363,657</u>

BUSINESS TYPE ACTIVITIES

	Combined Utility System	Other Enterprise Funds	Total
Receivables:			
Customer accounts	\$ 14,314,051	\$ 3,924,325	\$ 18,238,376
Other	177,076	-	177,076
Allowance for uncollectibles	(4,957,161)	(1,692,725)	(6,649,886)
Total	<u>\$ 9,533,966</u>	<u>\$ 2,231,600</u>	<u>\$ 11,765,566</u>

Note 6 - Interfund Transfers and Receivables

Interfund transfers for the primary government are as follows for the year ended September 30, 2020:

	Transfer In Fund				Totals
	General Fund	General Obligation Bonds 2019 Capital Projects	Non-Major Governmental Funds	Other Enterprise Funds	
Transfer Out Fund					
General Fund	\$ -	\$ -	\$ 5,601,037	\$ -	\$ 5,601,037
Non-Major Governmental Funds	100,708	37,000,000	2,630,168	55,000	39,785,876
Combined Utility System Fund	1,637,000	-	53,669	-	1,690,670
Other Enterprise Funds	566,000	-	140,607	-	706,607
Internal Service Funds	-	-	454,802	-	454,802
	<u>\$ 2,303,708</u>	<u>\$ 37,000,000</u>	<u>\$ 8,880,283</u>	<u>\$ 55,000</u>	<u>\$ 48,238,992</u>

CITY OF GALVESTON, TEXAS
Notes to Financial Statements

The following is a detail of the interfund transfers:

Transfer In Fund	Transfer Out Fund	Purpose
General Fund	Non-Major Governmental Funds	General Admin Charges & Quartermaster Operations
General Fund	Combined Utility System Fund	General Admin Charges & Payment in lieu of taxes
General Fund	Other Enterprise Funds	General Admin Charges & Payment in lieu of taxes
General Obligation Bonds 2019 Capital Projects Fund	Debt Service Fund	Proceeds from Bond Issuance
Police Quartermaster Fund	General Fund	Quartermaster Operations
Infrastructure & Debt Service Fund	General Fund	Charter Mandated Transfer (8% of General Fund Budgeted Revenues)
Separation Pay Fund	General Fund	Budgeted Separation Pay
Island Transit Fund	Convention Center Surplus Fund	Trolley System
Lasker Pool Fund	IDC Parks Fund	Operational activity
Debt Service Fund	Infrastructure & Debt Service Fund	Debt service payments
Separation Pay Fund	Combined Utility System Fund	Budgeted Separation Pay
Separation Pay Fund	Other Enterprise Funds	Budgeted Separation Pay
Technology Improvement Fund	Central Service Fund	Improvement Projects
Other Enterprise Funds	IDC Economic Development Fund	Airport Improvement project

The following is a detail of interfund receivables and payables for the primary government as of September 30, 2020:

	Receivable Funds: Due From					Totals
	General Fund	Hurricane Ike Fund	Non-Major Governmental Funds	Combined Utility System Fund	Other Enterprise Funds	
Payable Funds: Due To						
General Fund	\$ -	\$ 65,158	\$ -	\$ -	\$ -	\$ 65,158
Hurricane Ike Fund	1,642,754	-	749,470	7,431,914	443,900	10,273,998
CDBG Disaster Fund Non-Housing	909,803	-	-	3,101,692	281,460	4,292,955
Non-Major Governmental Funds	731,531	-	798,996	13,812	-	1,550,916
Combined Utility System Fund	-	74,423	-	-	-	74,423
Other Enterprise Funds	7,115	83,518	2,372	-	-	93,005
	<u>\$ 3,291,203</u>	<u>\$ 223,099</u>	<u>\$ 1,550,838</u>	<u>\$ 10,547,418</u>	<u>\$ 725,360</u>	<u>\$ 16,350,455</u>

The following is a detail of interfund receivables and payables:

Receivable Funds: Due From	Payable Funds: Due To	
General Fund	Hurricane Ike	Negative Fund Cash Amounts
General Fund	CDBG Disaster Fund Non-Housing	Negative Fund Cash Amounts
General Fund	Non-Major Governmental Funds	Negative Fund Cash Amounts
General Fund	Other Enterprise Funds	Negative Fund Cash Amounts
Hurricane Ike	General Fund	City's Share of Disaster Recovery Projects
Hurricane Ike	Combined Utility System Fund	City's Share of Disaster Recovery Projects
Hurricane Ike	Other Enterprise Funds	City's Share of Disaster Recovery Projects
Non-Major Governmental Funds	Hurricane Ike	Negative Fund Cash Amounts
Non-Major Governmental Funds	Non-Major Governmental Funds	Negative Fund Cash Amounts
Non-Major Governmental Funds	Other Enterprise Funds	Accrue City's portion of sales tax
Combined Utility System Fund	Hurricane Ike	Disaster Recovery Projects
Combined Utility System Fund	CDBG Disaster Fund Non-Housing	Negative Fund Cash Amounts
Combined Utility System Fund	Non-Major Governmental Funds	Hurricane Harvey Disaster Recovery Projects
Other Enterprise Funds	Hurricane Ike	Negative Fund Cash Amounts
Other Enterprise Funds	CDBG Disaster Fund Non-Housing	Negative Fund Cash Amounts
Internal Service Funds	Hurricane Ike	Negative Fund Cash Amounts
Internal Service Funds	Non-Major Governmental Funds	Hurricane Harvey Disaster Recovery Projects

Note 7 - Capital Assets

The following is a detail of capital asset activity for the year ended September 30, 2020:

	Balance September 30, 2019	Increases	Decreases / Transfers	Balance September 30, 2020
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 20,894,632	\$ 468,961	\$ -	\$ 21,363,593
Construction in progress	34,807,811	21,116,351	(10,999,730)	44,924,432
Total capital assets not being depreciated	<u>55,702,443</u>	<u>21,585,312</u>	<u>(10,999,730)</u>	<u>66,288,025</u>
Other capital assets:				
Infrastructure	198,785,749	42,600	5,127,874	203,956,223
Buildings and improvements	71,553,092	154,351	5,004,366	76,711,809
Licensed vehicles	24,274,358	666,185	(181,684)	24,758,859
Machinery and equipment	20,604,980	225,779	732,422	21,563,181
Improvements other than buildings	11,923,107	-	-	11,923,107
Total other capital assets	<u>327,141,286</u>	<u>1,088,915</u>	<u>10,682,978</u>	<u>338,913,179</u>
Less accumulated depreciation for:				
Infrastructure	(96,897,057)	(6,524,095)	-	(103,421,152)
Buildings and improvements	(19,563,461)	(1,917,705)	-	(21,481,166)
Licensed vehicles	(16,712,474)	(1,560,347)	163,967	(18,108,854)
Machinery and equipment	(15,433,817)	(1,054,504)	135,068	(16,353,253)
Improvements other than buildings	(6,084,357)	(329,589)	-	(6,413,946)
Total accumulated depreciation	<u>(154,691,166)</u>	<u>(11,386,240)</u>	<u>299,035</u>	<u>(165,778,371)</u>
Other capital assets, net	172,450,120	(10,297,325)	10,982,013	173,134,808
Totals	<u>\$ 228,152,563</u>	<u>\$ 11,287,987</u>	<u>\$ (17,717)</u>	<u>\$ 239,422,833</u>
	Balance September 30, 2019	Increases	Decreases / Transfers	Balance September 30, 2020
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 2,785,608	\$ -	\$ 121,097	\$ 2,906,705
Construction in progress	29,105,603	26,050,117	5,067,017	60,222,737
Total capital assets not being depreciated	<u>31,891,211</u>	<u>26,050,117</u>	<u>5,188,114</u>	<u>63,129,442</u>
Other capital assets:				
Improvements other than buildings	208,583,890	-	(8,060,199)	200,523,691
Building and system	175,749,915	-	19,808	175,769,723
Machinery and equipment	14,741,075	817,622	1,329,897	16,888,594
Licensed vehicles	13,670,078	1,007,949	-	14,678,027
Contractual water rights	31,822,375	-	-	31,822,375
Total other capital assets	<u>444,567,333</u>	<u>1,825,571</u>	<u>(6,710,494)</u>	<u>439,682,410</u>
Less accumulated depreciation for:				
Improvements other than buildings	(77,349,255)	(4,436,275)	1,503,229	(80,282,301)
Building and system	(36,006,157)	(4,048,851)	-	(40,055,008)
Machinery and equipment	(10,828,530)	(792,936)	38,890	(11,582,576)
Licensed vehicles	(7,581,863)	(1,295,455)	-	(8,877,318)
Contractual water rights	(22,314,864)	(1,097,706)	-	(23,412,570)
Total accumulated depreciation	<u>(154,080,669)</u>	<u>(11,671,223)</u>	<u>1,542,119</u>	<u>(164,209,773)</u>
Other capital assets, net	290,486,664	(9,845,652)	(5,168,375)	275,472,637
Totals	<u>\$ 322,377,875</u>	<u>\$ 16,204,465</u>	<u>\$ 19,739</u>	<u>\$ 338,602,079</u>

CITY OF GALVESTON, TEXAS
Notes to Financial Statements

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

General government	\$ 370,664
Public safety	1,038,000
Public works	5,705,487
Culture and recreation	2,729,080
Planning and community development	261,269
Transportation system	671,483
In addition, depreciation on capital assets held by the City's internal service funds is charged to various functions based on their usage of the assets	610,257
Total Governmental Activities	<u>\$ 11,386,240</u>
Combined utility system	\$ 9,283,116
Sanitation	621,188
Drainage	756,628
Airport	1,010,291
Total Business-Type Activities	<u>\$ 11,671,223</u>

Construction in progress and remaining commitment, as of September 30, 2020 are as follows:

<u>Project Description</u>	<u>Project Authorization</u>	<u>Project Cost to Date</u>	<u>Remaining Commitment</u>
Governmental Activities:			
Various street milling and overlay projects	\$ 21,382,365	\$ 7,326,734	\$ 14,055,631
Public Services Facility	11,666,086	11,471,471	194,615
45th Street/Broadway to Seawall reconstruction	9,962,134	8,273,900	1,688,234
Little League and Sandhill Soccer Complexes	5,125,000	-	5,125,000
27th Corridor master plan	6,354,333	4,529,920	1,824,413
Rail Trolley rehabilitation and rail cars	5,226,483	4,814,116	412,367
29th Street/Ave O to Ave R 1/11 extension of storm sewer main	5,147,500	196,982	4,950,518
25th Street/Broadway to Seawall reconstruction	4,681,000	1,811,529	2,869,471
Various Island Transit projects	1,298,042	509,541	788,501
Various other projects	10,087,598	5,990,239	4,097,359
Total Governmental Activities	<u>\$ 80,930,541</u>	<u>\$ 44,924,432</u>	<u>\$ 36,006,109</u>
Business-type Activities:			
Combined Utility System Fund Projects			
Various waterline repairs & replacements	\$ 22,891,800	\$ 10,324,030	\$ 12,567,770
Inflow & infiltration line repairs	10,463,113	1,451,876	9,011,237
30" Causeway waterline	10,231,500	697,149	9,534,351
Pirates Beach & Seawolf Park WWTP recon & expansion	8,531,488	933,110	7,598,378
Lift station pump & electrical repairs	8,144,000	403,567	7,740,433
Fire hydrant replacement program	6,682,784	2,651,335	4,031,449
Airport pump station tank upgrade and new ground storage tanks	8,498,850	1,967,114	6,531,736
Airport wastewater treatment plant refurbishment	7,906,104	7,902,880	3,224
Various street utility improvements	3,057,679	998,938	2,058,741
45th Street/Broadway to Seawall reconstruction	2,893,748	2,487,914	405,834
Various other Combined Utility System projects	30,362,332	25,930,724	4,431,608
Sanitation Fund Projects			
Various Sanitation projects	202,639	132,277	70,362
Drainage Fund Projects			
Storm drain rehabilitation	15,347,904	1,352,264	13,995,640
Storm water management	840,678	830,897	9,781
Various other Drainage projects	2,512,574	1,386,696	1,125,878
Airport Fund Projects			
Various Airport projects	1,635,637	771,966	863,671
Total Business-type Activities	<u>\$ 140,202,830</u>	<u>\$ 60,222,737</u>	<u>\$ 79,980,093</u>

Note 8 - Long-Term Debt

A. Governmental Activities

Long-term liability activity for the year ended September 30, 2020, is as follows:

	Balance September 30, 2019	Increases	(Decreases)	Balance September 30, 2020	Amounts Due Within One Year
Bonds payable:					
General obligation bonds	\$ 28,775,284	\$ 31,205,000	\$ (3,113,685)	\$ 56,866,599	\$ 2,645,100
Accreted interest on capital appreciation bonds	1,689,589	79,790	(1,769,379)	-	-
Special obligation bonds	21,625,000	-	(1,045,000)	20,580,000	1,110,000
Certificates of obligation	1,390,621	-	(1,390,621)	-	-
Unamortized premiums and discounts	3,680,629	-	5,825,513	9,506,142	-
	<u>57,161,123</u>	<u>31,284,790</u>	<u>(1,493,172)</u>	<u>86,952,741</u>	<u>3,755,100</u>
Other liabilities:					
Notes payable	387,661	-	(123,953)	263,708	129,148
Claims payable - workers compensation	506,285	427,372	(209,070)	724,587	333,306
Claims payable - health insurance	993,540	8,171,117	(8,204,017)	960,640	960,640
Accrued claims and judgements	-	-	-	-	-
Compensated absences	10,589,303	4,350,791	(2,823,249)	12,116,845	3,940,549
Total Governmental Activities	<u>\$ 69,637,912</u>	<u>\$ 44,234,070</u>	<u>\$ (12,853,461)</u>	<u>\$ 101,018,521</u>	<u>\$ 9,118,743</u>
				Long-term debt due in more than one year	<u>\$ 91,899,778</u>

Compensated absences are liquidated by the funds based on the department personnel to whom the claims relate. Health claims and workers' compensation claims are liquidated by the Health Insurance Internal Service Fund and the Workers' Compensation Internal Service Fund which are reported as a governmental activity.

The City sponsors three (3) single-employer defined benefit pension plans: the Employees Retirement Plan for Police, the Retirement Plan for City Employees and the Firefighters' Pension Plan (see Note 14).

The City also has a Texas Tax and Revenue Emergency Anticipation Note, Series 2016-E in the amount of \$50 million for the purpose of providing funds to pay for any contractual obligation incurred or to be incurred as a result of or to address the effect of a statewide and/or national emergency. The City has not drawn down any funds from this note as of September 30, 2020.

Accreted Interest on Premium of Capital Appreciation Bonds

A portion of the Series 2004 Combination Tax and Revenue Certificates of Obligation Bonds were capital appreciation bonds. The principal and interest on these obligations were paid in full upon maturity on February 1, 2020. The accretion expense recognized in the current fiscal year was \$79,790, which is reflected in the accompanying general long-term debt accounts.

CITY OF GALVESTON, TEXAS
Notes to Financial Statements

The following are descriptions of the governmental activities long-term obligations:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
General Obligation Bonds				
Series 2011 Obligation Refunding Bonds	\$ 7,520,000	2023	2.0 to 4.0	\$ 2,375,000
Series 2014 Obligation Refunding Bonds *	3,717,000	2023	2.0 to 4.0	2,083,200
Series 2016 Obligation Refunding Bonds *	2,460,831	2033	2.0 to 5.0	2,228,400
Series 2017 Public Improvement Bonds	22,600,000	2046	2.0 to 4.0	19,750,000
Series 2019 Public Improvement Bonds	31,205,000	2039	3.0 to 5.0	30,429,999
Total General Obligation Bonds				<u>\$ 56,866,599</u>
Special Obligation Bonds				
Series 2012A Hotel Occupancy Tax Refunding Bonds	\$ 14,350,000	2034	3.0 to 5.0	\$ 10,990,000
Series 2012B Hotel Occupancy Tax Refunding Bonds	13,215,000	2032	3.0 to 5.0	9,590,000
Total Special Obligation Bonds				<u>\$ 20,580,000</u>
Note Payable **				
2007 Note Payable	\$ 1,531,488	2022	3.5-4.0	\$ 263,708
Total Note Payable				<u>\$ 263,708</u>

* The original issue was \$5,900,000 for the Series 2014 Obligation Refunding Bonds and \$17,365,000 for the Series 2016 Obligation Refunding Bonds. The original issue amounts reported represent the portion allocated to governmental activities only.

** The Note Payable is carried by an Internal Service Fund.

Annual debt service requirements to maturity for governmental activity bonds are as follows:

Year Ending Sept. 30	General Obligation Bonds		Special Obligation Bonds	
	Principal	Interest	Principal	Interest
2021	\$ 2,645,100	\$ 2,528,243	\$ 1,110,000	\$ 756,113
2022	2,848,200	2,423,888	1,185,000	700,613
2023	3,075,400	2,299,078	1,270,000	641,363
2024	2,512,600	2,164,608	1,350,000	592,588
2025	2,623,900	2,048,428	1,425,000	538,188
2026-2030	14,823,700	8,207,570	8,285,000	1,960,088
2031-2035	16,972,700	4,438,061	5,955,000	486,681
2036-2037	11,364,999	1,028,400	-	-
	<u>\$ 56,866,599</u>	<u>\$ 25,138,276</u>	<u>\$ 20,580,000</u>	<u>\$ 5,675,631</u>
Notes Payable				
Year Ending Sept. 30	Principal	Interest		
2021	\$ 129,148	\$ 9,613		
2022	134,560	4,200		
	<u>\$ 263,708</u>	<u>\$ 13,813</u>		

Current Year Issuance of Debt – Governmental Activities

On May 6, 2017, voters authorized the issuance of \$62 million in tax supported General Obligation Bonds. On October 31, 2019, the City issued the second installment of Public Improvement Bonds, Series 2019 in the amount of \$31,205,000. The interest rate ranges from 3.0% to 5.0%. The bonds were issued at premium totalling \$6,194,024. The \$37.4 million in proceeds generated by the sale covered the cost of issuance of approximately \$400,000 and placed \$37 million in the City's construction fund. This utilized the remaining bond election authorization as defined by State law. Proceeds from the sale of the Bonds will be used to pay the costs of issuance and for the construction, acquisition, improvement and rehabilitation of streets, bridges, storm sewers and drainage, including curbs, gutters, sidewalks and other related public infrastructure, traffic systems and the acquisition of rights of way relating to such projects.

Business-Type Activities

Long-term liability activity for the year ended September 30, 2020 is as follows:

	Balance September 30, 2019	Increases	(Decreases)	Balance September 30, 2020	Amounts Due Within One Year
Bonds payable:					
Contracts (Gulf Coast Water Authority)	\$ 8,623,385	\$ -	\$ (2,924,947)	\$ 5,698,438	\$ 3,033,283
Revenue bonds	18,540,000	-	(1,780,000)	16,760,000	1,865,000
General obligation bonds	11,969,716	-	(1,486,316)	10,483,400	774,900
Certificates of obligation	64,580,000	-	(755,000)	63,825,000	1,265,000
Unamortized premiums and discounts	8,699,660	-	(687,007)	8,012,653	-
	<u>112,412,761</u>	<u>-</u>	<u>(7,633,270)</u>	<u>104,779,491</u>	<u>6,938,183</u>
Other liabilities:					
Compensated absences	1,536,142	780,445	(617,604)	1,698,983	901,877
Total Business-type Activities	<u>\$ 113,948,903</u>	<u>\$ 780,445</u>	<u>\$ (8,250,874)</u>	<u>\$ 106,478,474</u>	<u>\$ 7,840,060</u>

Long-term debt due in more than one year \$ 98,638,414

The following are descriptions of the business type activities long-term obligations:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Contracts (Gulf Coast Water Authority)				
Series 2011A GCWA Contract Refunding Revenue Bonds	17,730,000	2022	3.0 to 5.0	\$ 4,539,438
Series 2012 GCWA Contract Refunding Revenue Bonds	7,645,000	2022	2.3	1,159,000
Total Contracts (Gulf Coast Water Authority)				<u>\$ 5,698,438</u>
Revenue Bonds				
Series 2012 Waterworks and Sewer System Revenue and Refunding Bonds	6,180,000	2023	2.0 to 3.0	\$ 2,195,000
Series 2014 Waterworks and Sewer System Revenue and Refunding Bonds	19,640,000	2025	3.0 to 5.0	14,565,000
Total Revenue Bonds				<u>\$ 16,760,000</u>
General Obligation Bonds				
Series 2014 Obligation Refunding Bonds *	2,183,000	2023	2.0 to 4.0	\$ 331,800
Series 2016 Obligation Refunding Bonds *	14,904,169	2033	2.0 to 5.0	10,151,600
Total General Obligation Bonds				<u>\$ 10,483,400</u>
Certificates of Obligation				
Series 2017 Combination Tax and Revenue Bonds	33,330,000	2046	2.0 to 5.0	\$ 31,330,000
Series 2019 Combination Tax and Revenue Bonds	32,750,000	2049	2.0 to 5.0	32,495,000
Total Certificates of Obligation				<u>\$ 63,825,000</u>

* The original issue was \$5,900,000 for the Series 2014 Obligation Refunding Bonds and \$17,365,000 for the Series 2016 Obligation Refunding Bonds. The original issue amounts reported above represent the portion allocated to business type activities only.

Annual debt service requirements to maturity for business type activity long term debt are as follows:

Year Ending Sept. 30	Business-Type Activities			
	Revenue Bonds		Contracts	
	Principal	Interest	Principal	Interest
2021	\$ 1,865,000	\$ 794,100	\$ 3,033,283	\$ 264,541
2022	1,945,000	714,950	2,665,155	135,263
2023	2,035,000	632,300	-	-
2024	1,340,000	545,750	-	-
2025	1,405,000	478,750	-	-
2026-2030	8,170,000	1,264,750	-	-
2031-2033	-	-	-	-
	<u>\$ 16,760,000</u>	<u>\$ 4,430,600</u>	<u>\$ 5,698,438</u>	<u>\$ 399,804</u>

Year Ending Sept. 30	Certificates of Obligation		General Obligation Bonds	
	Principal	Interest	Principal	Interest
	2021	\$ 1,265,000	\$ 2,783,650	\$ 774,900
2022	1,295,000	2,752,650	606,800	438,562
2023	1,330,000	2,714,950	639,600	408,222
2024	1,385,000	2,661,750	807,400	376,242
2025	1,440,000	2,606,350	701,100	335,872
2026-2030	8,200,000	12,035,500	4,071,300	1,116,430
2031-2035	10,390,000	9,840,650	2,882,300	228,739
2036-2040	13,045,000	7,196,250	-	-
2041-2045	16,215,000	4,004,800	-	-
2046-2049	9,260,000	823,000	-	-
	<u>\$ 63,825,000</u>	<u>\$ 47,419,550</u>	<u>\$ 10,483,400</u>	<u>\$ 3,381,374</u>

The total net revenues of the Combined Utility System Fund are pledged for repayment of the Business-type Activity Revenue Bonds, General Obligation Bonds and Certificates of Obligation. The pledge will remain in force for the term of the bonds.

Description	Principal	Interest	Totals
Revenue bonds	\$ 1,865,000	\$ 794,100	\$ 2,659,100
Certificates of Obligation	1,265,000	2,783,650	4,048,650
General Obligation	774,900	477,307	1,252,207
Contracts	3,033,283	264,541	3,297,824
Total annual debt service	\$ 6,938,183	\$ 4,319,598	\$ 7,959,957
Operating revenues			\$ 38,168,655
Operating expenses			<u>34,086,397</u>
Net operating income			4,082,258
Add:			
Depreciation			9,283,116
Total net revenues			\$ 13,365,374
Debt service coverage			1.68

Defeased Debt

As a result of a prior year bond refunding, the City defeased certain outstanding bonds issued by placing the proceeds of new bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow accounts to provide for all future bonds are not included in the City's

financial statements. The total amount of governmental and business-type defeased bonds outstanding as of September 30, 2020 is \$12,900,000.

Long-Term Contracts - Waterworks System

On June 1, 2011, the City entered into a contract with GCWA whereby GCWA issued \$17,730,000 of Gulf Coast Water Authority Contract Revenue Refunding Bonds, Series 2011A with the City's percentage share of 98.15% and the City of League City's share being the remainder 1.85%. This will repay its outstanding Series 1998B and also pay the cost of issuance of the bonds. These Bonds allowed Galveston to receive treated water from the Texas City plant upon completion of its expansion. The notes mature in 2022 and will be repaid with pledged revenues from the City's waterworks system.

On October 30, 2013, the City entered into a contract with GCWA whereby GCWA issued \$7,645,000 of Gulf Coast Water Authority Contract Revenue Refunding Bonds, Series 2012. This will repay its outstanding Series 2002 and also pay the cost of issuance of the bonds. These Bonds were used to build and improve facilities for potable water transportation to and within the City. The notes mature in 2022 and will be repaid with pledged revenues from the City's waterworks system.

The pledged revenues are 1.9 times as compared to related current principal and interest requirements.

Discretely Presented Component Unit - Bayside at Waterman's Public Improvement District

Long-term liability activity for the year ended September 30, 2020 is as follows:

	Balance September 30, 2019	Increases	(Decreases)	Balance September 30, 2020	Amounts Due Within One Year
Bayside at Waterman's PID					
Special assessment revenue bonds	\$ 9,150,000	\$ -	\$ (175,000)	\$ 8,975,000	\$ 175,000
	<u>\$ 9,150,000</u>	<u>\$ -</u>	<u>\$ (175,000)</u>	<u>\$ 8,975,000</u>	<u>\$ 175,000</u>

The following are descriptions of the discretely presented component unit long-term obligations:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Bayside at Waterman's PID Bonds				
Series 2014 Special Assessment Revenue Bonds	\$ 9,600,000	2044	5.8 to 6.3	\$ 8,975,000
Total Bayside at Waterman's PID Bonds				<u>\$ 8,975,000</u>

Annual debt service requirements to maturity for Bayside at Waterman's Public Improvement District long term debt are as follows:

Year Ending Sept. 30	Bayside at Waterman's PID Revenue Bonds	
	Principal	Interest
	2021	\$ 175,000
2022	200,000	526,375
2023	200,000	515,125
2024	225,000	503,875
2025	225,000	491,219
2026-2030	1,325,000	2,252,563
2031-2035	1,775,000	1,808,375
2036-2040	2,375,000	1,206,250
2041-2044	2,475,000	388,938
	<u>\$ 8,975,000</u>	<u>\$ 8,228,939</u>

All of the special assessment revenue received by the District is obligated to pay for the special assessment revenue bonds noted above. The City has no financial or legal responsibility for payment of the bonds. The City's only responsibility is to pursue collections of assessments which is performed by a third-party consultant on behalf of the City.

Note 9 - Fund Equity

Net deficit reported by the Workers' Compensation Fund above reflects the inclusion \$0.7 million of total estimated workers' compensation claims payable. Net deficit reported by the Health Insurance Fund reflects the inclusion \$11.4 million of total OPEB liability. The City is reviewing options to fund the liability. See Note 13 for additional information on the total OPEB liability.

	<u>Deficit Balance</u>
Internal Service Funds:	
Workers' Compensation Fund	\$ (491,805)
Health and Life Insurance Fund	\$ (9,221,631)

Note 10 - Commitments and Contingencies

Grants

Amounts received or receivable from grantor 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 which may be disallowed by the grantor, cannot be determined at this time, although the City expects that any such amounts will be immaterial.

Environmental Liability

The City is aware of various sites contaminated by hazardous materials. There are no significant liabilities related to these sites of which the City is aware. The City also participates in the Texas Natural Resources Underground Storage Tank registration program and has each site insured for pollution liability. The City is also actively remediating several sites with grant funds from the General Land Office.

Note 11 - Risk Management

The City is exposed to various risks of loss related to torts, thefts, damage and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City has commercial insurance policies for liability and property insurance. The major insurance policies, including law enforcement and public official policies, have deductibles of \$5,000 per occurrence.

The City purchases automobile and law enforcement liability insurance from the Texas Municipal League (TML) Intergovernmental Risk Pool, a self-insurance fund using members contributions to pay covered losses. Participation in the pool is affirmed when a City signs an inter-local agreement. There is no requirement for a municipality to invest funds into the risk pool other than by insurance premiums for actual policies issued by TML.

There have been no significant reductions in insurance coverage from prior years. There have been no insurance settlements exceeding insurance coverage in the past five years.

The Casualty and Liability Internal Service Fund is used to account for the accumulation of assets charged to other funds of the City for insurance premiums and all other liabilities.

Workers Compensation

The City is self-insured for workers compensation. The third party administrator for the City is TML, with a per coverage retention of \$500,000. TML also provides the stop loss reinsurance for excess claims with an annual aggregate retention of \$1,000,000 and aggregate limit of liability of \$1,000,000.

All funds of the City participate in the program and make payments to the Workers Compensation Internal Service Fund based on estimates of the amounts needed to pay prior and current year claims. The claims liability is reported in the fund at September 30, 2020, and is based on requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

The City's long-term workers' compensation liability is recorded in the government-wide statement of net position. Current liability amounts are recorded in all funds having incurred charges. The estimates of liability are based on current claims outstanding and the estimate of reserves based on industry experience.

Changes in the City's workers compensation claims liability reserve amount for the past two fiscal years are as follows:

Fiscal Year	Beginning of Year Accrual	Current Year Estimates	Current Year Payments	End of Year Accrual
2019	\$ 602,399	\$ 112,557	\$ (208,671)	\$ 506,285
2020	506,285	427,372	(209,070)	724,587

Employee Health Insurance

Effective November 1, 2001, the City established a limited Risk Management Program for Health Insurance by setting up an Internal Service Fund to account for its insured and self-insured risk of loss. The Health and Life Insurance Fund is principally supported by contributions from the City and the employees. The City makes contributions to cover the employees, and the employees are required to make contributions to cover their dependents. The Health and Life Insurance Fund charges the various operating funds premiums for the City's contribution. The City has obtained excess loss insurance that limits the City's claims paid to \$200,000 per individual from Liberty Mutual Insurance, and \$4,879,000 in aggregate claims on an annual basis from Aetna, Inc.

Incurred but not reported (IBNR) claims as of year-end are estimated by the third party administrator based on prior claims experience. Changes in the City's IBNR health claims liability, for the past two fiscal years, are as follows:

Fiscal Year	Beginning of Year Accrual	Current Year Estimates	Current Year Payments	End of Year Accrual
2019	\$ 908,253	\$ 5,551,941	\$ (5,466,654)	\$ 993,540
2020	993,540	8,171,117	(8,204,017)	960,640

Note 12 - Major Contracts and Commitments

As of year-end, the City has the following major contracts and commitments in force. The following is a summary of these commitments:

Emergency Medical Services Contract

Through agreement with the Galveston County Health District (the District), the District provides emergency medical services including trained personnel for treatment and dispatching, transport of victims to hospitals, ambulances and supplies, public education regarding medical emergencies, and management and system evaluation. Operation and management is under control of the District. The City is responsible for operating deficits of this entity for up to \$225,000 per year.

Galveston County Jail

Through agreement with the County of Galveston (County), the County agrees to reserve 6 beds in the County Jail for individuals arrested by City police. The City will pay the County monthly the sum of \$69.43 per City inmate per calendar day or fraction thereof. Annually this equates to a minimum of approximately \$150,000 per year. The City pays the daily rate for months in which the average nightly occupancy is greater than 6.5 inmates.

Gulf Coast Water Authority

The Gulf Coast Water Authority (GCWA) supplies one hundred percent of Galveston's potable water supply. GCWA holds rights and maintains access to water originating in the Brazos River basin raw that flows through a system of canals and reservoirs to the Thomas Mackey water purification plant in Texas City. Purified water is pumped from the plant to the island through lines that cross the old causeway and/or the bay to the island. The City then assumes responsibility for pumping, storage and customer sales. Under the most recent amendment dated May 27, 2015, the City retains the right to use up to 21 million gallons per day at a flat cost of \$0.45192 per 1000 gallons. Water actually consumed is supplied to the City at the rate of \$0.6889 per 1000 gallons pumped. GCWA also makes improvements to the plant and its distribution system with bond proceeds, and the City pays its proportional share of this debt service to GCWA (see Note 8). In FY 2020, the City paid GCWA \$11.1 million for debt service, water rights and water consumption.

Note 13 - Post-Employment Benefits Other Than Pensions

Plan Description

The City defined benefit OPEB plan provides certain post-employment retirement benefits for its qualifying employees and spouses/dependents through a single-employer defined benefit health care plan administered by the City. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

Eligible participants, as defined by the City, may continue health care coverage during retirement by paying the total active contributions, including the City portion and the retiree portion. In the case of deferred retirement or death in service, the health care benefit is not available. However, in the case of disability retirement benefits, coverage is available if the employee is eligible for disability benefits through the City. Coverage under the health care plan ceases upon reaching Medicare eligibility. A separate, audited GAAP-basis postemployment benefit plan report is not available.

Employees covered by OPEB plan as of December 31, 2019 were as follows:

Inactive plan members or beneficiaries currently receiving benefits	21
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	<u>808</u>
Total plan members	<u><u>829</u></u>

Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2019 and determined by an actuarial valuation as of that date in accordance with GASB Statement No. 75. Total OPEB liability is generally liquidated by the General Fund and the Health and Life Insurance Fund.

Changes in Total OPEB Liability

Changes in the City's OPEB liability presented below are calculated for the year ended December 31, 2019 (measurement year):

Total OPEB Liability	
Service cost	\$ 777,658
Interest on the total OPEB Liability	360,881
Difference between expected and actual experience actual experience	(796)
Changes of assumption	1,030,796
Benefit payments	<u>(254,025)</u>
Net change in total OPEB liability	1,914,514
Total OPEB liability - beginning	9,465,438
Total OPEB liability - ending	<u>\$ 11,379,952</u>
 Covered payroll	 \$ 41,819,576
 Total OPEB liability as a percentage of covered payroll	 27.21%

Changes of assumption reflects a change in discount rate from 3.71% in 2018 to 2.75% in 2019

OPEB Expense

For the year ended September 30, 2020, the City recognized total OPEB expense of \$1,233,059.

Service cost	\$ 777,658
Interest on the total OPEB Liability	360,881
Recognition of current year inflow due to liabilities	(3,209)
Amortization of prior year inflow due to liabilities	97,729
Total OPEB expense	<u>\$ 1,233,059</u>

Deferred Outflows of Resources

At September 30, 2020, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 35,097	\$ 1,473,634
Changes of assumptions	1,923,585	-
Contributions subsequent to the measurement date	244,412	-
	<u>\$ 2,203,094</u>	<u>\$ 1,473,634</u>

The \$244,412 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:		
2021	\$	94,520
2022		94,520
2023		94,520
2024		94,520
2025		94,520
thereafter		411,636
	<u>\$</u>	<u>884,236</u>

Under the reporting parameters, the City's retiree health care plan is 0.0% funded with the actuarial accrued liability exceeding the actuarial assets by \$11,379,952 at December 31, 2019. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 27.21%.

Actuarial Methods and Assumptions

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Discount Rate

The discount rate for plans that do not have formal assets equals the tax-exempt municipal bond rate on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. The municipal bond rate is based on the daily rate closest to, but not later than, the measurement date of the Fidelity "20-year Municipal GO AA Index".

Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

Inflation Rate	2.50% per annum
Discount Rate	2.75% as of December 31, 2019
Actuarial Cost Method	Individual Entry-Age
Amortization Method	Average of expected remaining service life
Amortization Period	10.5393 closed period amortization
Payroll Growth	2.75% - 6.35% for General Employees 4.00% - 7.00% for Police 3.00% - 9.18% for Firefighters
Health Care Trend Rates	Initial rate of 7.20% declining to an ultimate rate of 4.25% after 15 years

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75% as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rates used:

	1% Decrease (1.75%)	Current Discount Rate (2.75%)	1% Increase (3.75%)
Total OPEB liability	\$ 12,568,450	\$ 11,379,952	\$ 10,308,625

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1- percentage-point lower or 1-percentage-point higher than the current rates used:

	1% Decrease (6.20% decreasing to 3.25%)	Healthcare Cost Trend Rates (7.20% decreasing to 4.25%)	1% Increase (8.20% decreasing to 5.25%)
Total OPEB liability	\$ 9,826,529	\$ 11,379,952	\$ 13,269,398

Note 14 - Employee Retirement System

Plan Descriptions

The City has three single employer defined benefit pension plans which provide pension benefits for substantially all of its full-time employees:

- City of Galveston Employees' Retirement Plan for City Employees
- City of Galveston Employees' Retirement Plan for Police
- Galveston Firefighters' Pension Fund

These pension plans were established under the authority of Title 8, Subchapter A of the Texas Government Code, Texas statutes (Vernon's Texas Civil Statutes, Articles 6243p and 6243e respectively) which establish the various benefit provisions. Independent Boards of Trustees administer each plan. The fiscal year of each pension fund ends December 31. The most recent available stand-alone financial statements of the pension funds are for the year ended December 31, 2019. The specific summary plan description for each Plan and the financial statements are available at the respective plan offices.

Benefits Provided

The City of Galveston Employees' Retirement Plan for City Employees ("ERP") provides retirement benefits for non-civil service employees, service-connected disability and death benefits to eligible members and surviving spouse and/or dependents. The normal retirement benefit under the Plan equals 2.25% of Average Monthly Compensation multiplied by a Participant's years of benefit service. The maximum normal retirement benefit is \$4,167 per month. Service retirement benefits are payable for the Participant's lifetime. In the event the Participant's death precedes that of his or her spouse, one half of the Participant's pension will be continued to the spouse for his or her lifetime or until remarried.

City of Galveston Employees' Retirement Plan for Police ("PRP") provides retirement benefits for police officers in two groups: *Group A* consists of members with 15 or more years of service as of January 1, 2006, who were members as of June 30, 2008. *Group B* consists of members who either (a) had less than 15 years of service as of January 1, 2006, and who were members as of June 30, 2008, or (b) were employed on or after July 1, 2008.

Normal and Late Retirement - Eligibility attainment age is sixty-five (65). Benefits for Group A members shall be the greater of (i) the monthly amount determined as 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, and (ii) the sum of the Preserved Benefit and Post Transition Accrued Benefit payable after the member reaches the eligible attainment age. Benefits for

Group B members will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years.

Early Retirement - Eligibility for an Early Pension is: (i) on or after the member's 55th birthday and before Normal Retirement Date with between ten and twenty years of vested service, or (ii) after the member has reached the attainment age of sixty-two (62). Reduced early pension benefits will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, reduced by 1/180th for each of the first 60 months and 1/360th for each of the next 60 months and shall commence either on the member's Normal Retirement Date or on the first day of any month following his Early Retirement and before his Normal Retirement Date.

Special Early Retirement - Eligibility for a Special Early Pension benefits for Group A members is either (i) completion of at least twenty years, but less than twenty five years, of vested service and attainment of age forty-five (45) or (ii) twenty five or more years of service regardless of age. Benefits will be equal to the members choice of (i) 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, (ii) the sum of his Preserved Benefit and his Post Transition Accrued Benefit, with one sum payable prior to age sixty-five (65) and a lower sum payable after age sixty-five (65), or (iii) a level monthly Pension that is the Actuarial Equivalent of the leveling option. The leveling option would maintain the same benefit payment throughout retirement. Eligibility for Group B members is completion of 20 or more years of service and attainment of age forty-five (45), but before attainment of age fifty (50). Benefits will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, reduced by 1/180th for each month by which the starting date of payments commences on the first of the month immediately following the latter of the member's fiftieth (50th) birthday or the date of retirement.

Galveston Firefighters' Pension Fund ("GFPP") provides retirement and incidental benefits for all civil service members of the City of Galveston, Texas Fire Department under the age of 35 at the date of entering service.

A member is eligible for service retirement upon completion of 20 years of service and attainment age of fifty (50). Benefits are calculated at 3% of the highest 60-month average salary times years of service. Benefits are payable for the member's lifetime; if the member's death precedes the death of the member's spouse, two-thirds of the member's pension will be continued for the spouse for his or her lifetime. However, benefits cease if the spouse remarries.

A member who has attained age 51.5 and 21.5 years of service may elect to receive benefits under the Retro Deferred Retirement Option Plan (DROP) option. This option is equal to the amount of monthly contributions that the member made to the fund during participation in the fund plus the total monthly retirement benefits the member would have received between the time the member entered DROP and the time the member retired under the plan.

Employees covered by the three plans as of September 30, 2020 were as follows:

	Employees Pension Plan	Fire Fighters Pension Plan	Police Pension Plan
Retirees and beneficiaries currently receiving benefits	356	89	143
Terminated employees entitled to but not receiving benefits	66	-	33
Terminated employees entitled to only a refund of contributions	166	-	-
Disabled	-	-	1
Active Employees	516	112	155
Total Participants	1,104	201	332

Contributions

Contribution rates for the City and employees for the fiscal year ended September 30, 2020 were as follows:

	Employees Pension Plan	Fire Fighters Pension Plan	Police Pension Plan
Participant contribution	6.00%	18.00%	12.00%
City contribution	9.00%	17.00%	18.00%

Pension contribution rates are determined by ordinance with respect to the Employee Plan. Collective bargaining agreements establish minimum contribution levels with respect to the Police and Firefighters Plans.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Plans' Fiduciary Net Position is determined on the same basis used by the pension plans.

	<u>Employees Pension Plan</u>	<u>Fire Fighters Pension Plan</u>	<u>Police Pension Plan</u>
Total Pension Liability	\$ 70,813,036	\$ 73,637,955	\$ 59,113,656
Fiduciary Net Position	<u>57,497,902</u>	<u>49,030,853</u>	<u>21,952,811</u>
Net Pension Liability	<u>\$ 13,315,134</u>	<u>\$ 24,607,102</u>	<u>\$ 37,160,845</u>
Fiduciary net position as a percentage of total pension liability	81.20%	66.58%	37.14%

Net Pension Liability is generally liquidated by the General Fund, Pension Reform Fund and Proprietary Funds.

On May 2, 2019, the Legislature of the State of Texas passed House Bill No 2763 ("HB 2763") relating to the police pension fund in certain municipalities. HB 2763 establishes requirements that a municipality must offset any negative financial impact to the fund, as determined by the actuary, caused solely by an action taken by the municipality, including a reduction in the number of police officers. The municipality will be required to provide additional funding to the police pension fund by making contribution increases until the negative impact is eliminated, as determined by the actuary. The bill also provides that current contribution rates (18 percent by the City and 12 percent by active plan members) will remain in place until January 1, 2025. After that time, any future deficit caused by forces beyond the City's control, including economic downturn, will result in any increased net pension liability being treated as a separate liability and split between the City and the plan members in the form of mandatory contributions. Therefore, the City and plan members are mandated to keep the plan's amortization period under 30 years effectively beginning in 2020.

HB 2763 also establishes minimum contribution levels. The City must contribute to the police pension fund 18 percent of payroll based on authorized staffing levels, as approved by the City Council and Collective Bargaining Agreement. The City shall calculate the difference between the actual payroll and the payroll in which the initial contribution was based and make a contribution to the police pension fund to cover the deficiency of the initial contribution. Furthermore, the rate of contributions to the police pension fund may not be reduced, nor shall a new benefit payable be established, if the change results in an increase to the amortization period of the unfunded actuarial liability that exceeds 25 years.

Changes in Net Pension Liability

Changes in the City's net pension liability presented below are calculated on the same basis as each of the plans for the year ended December 31, 2019 (measurement year):

	Employees' Retirement Plan for City Employees	Galveston Firefighters' Pension Fund	Employees' Retirement Plan for Police
	2019	2019	2019
Total pension liability:			
Service cost	\$ 2,315,618	\$ 1,415,927	\$ 1,622,016
Interest	4,953,301	5,156,123	3,979,593
Difference between expected and actual experience	(120,010)	374,319	(138,553)
Change in assumptions	-	3,564,858	(95,499)
Benefit payments, including refunds of employee contributions	(4,683,296)	(3,975,925)	(4,107,380)
Net change in total pension liability	2,465,613	6,535,302	1,260,177
Total pension liability - beginning	68,347,423	67,102,653	57,853,479
Total pension liability - ending (a)	<u>\$ 70,813,036</u>	<u>\$ 73,637,955</u>	<u>\$ 59,113,656</u>
Plan fiduciary net position:			
Contributions - employer	\$ 2,424,690	\$ 1,401,579	\$ 3,803,070
Contributions - employee	1,616,461	1,484,025	1,504,688
Net investment income	9,791,491	7,770,870	3,193,800
Benefit payments, including refunds of employee contributions	(4,683,296)	(3,975,925)	(4,107,380)
Administrative expense	(165,773)	(138,000)	(297,764)
Net change in plan fiduciary net position	8,983,573	6,542,549	4,096,414
Plan fiduciary net position - beginning	48,514,329	42,488,304	17,856,397
Plan fiduciary net position - ending (b)	<u>\$ 57,497,902</u>	<u>\$ 49,030,853</u>	<u>\$ 21,952,811</u>
Net pension liability - ending (a) - (b)	<u>\$ 13,315,134</u>	<u>\$ 24,607,102</u>	<u>\$ 37,160,845</u>

Pension Expense

For the year ended September 30, 2020, the City recognized total pension expense by plan is as follows:

	Employees Pension Plan	Fire Fighters Pension Plan	Police Pension Plan	Total
Service Cost	\$ 2,315,618	\$ 1,415,927	\$ 1,622,016	\$ 5,353,561
Interest on total pension liability	4,953,301	5,156,123	3,979,593	14,089,017
Administrative expenses	165,773	138,000	297,764	601,537
Member contributions	(1,616,461)	(1,484,025)	(1,504,688)	(4,605,174)
Expected investment return net of investment expenses	(3,488,002)	(3,245,245)	(1,241,607)	(7,974,854)
Recognition of economic/demographic gains or losses	(403,354)	(26,708)	(237,277)	(667,339)
Recognition of assumption changes or inputs	831,619	314,003	1,054,298	2,199,920
Differences between projected and actual earnings on plan investments	208,342	602,746	370,202	1,181,290
Pension Expense	<u>\$ 2,966,836</u>	<u>\$ 2,870,821</u>	<u>\$ 4,340,301</u>	<u>\$ 10,177,958</u>

Schedule of Deferred Outflows and Inflow of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the City at September 30, 2020 for each plan are as follows:

	Employees Pension Plan		Fire Fighters Pension Plan		Police Pension Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 288,618	\$ (759,826)	\$ 465,574	\$ (439,190)	\$ 251,078	\$ (991,499)	\$ 1,005,270	\$ (2,190,515)
Changes of assumptions	1,477,928		3,182,810	(572,046)	4,767,817	(376,938)	9,428,555	(948,984)
Difference between projected and actual earnings		(2,607,253)		(1,230,755)		(410,946)	-	(4,248,954)
Employers contribution subsequent to measurement date	1,939,692		1,133,044	-	1,852,721	-	4,925,457	-
	<u>\$ 3,706,238</u>	<u>\$ (3,367,079)</u>	<u>\$ 4,781,428</u>	<u>\$ (2,241,991)</u>	<u>\$ 6,871,616</u>	<u>\$ (1,779,383)</u>	<u>\$ 15,359,282</u>	<u>\$ (7,388,453)</u>

The \$4,925,457 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement date	Employees Pension Plan	Fire Fighters Pension Plan	Police Pension Plan	Total
2020	\$ (302,828)	\$ 70,480	\$ 834,151	\$ 601,803
2021	(314,473)	(107,933)	1,159,202	736,796
2022	222,069	573,707	1,252,256	2,048,032
2023	(1,201,580)	(617,829)	32,910	(1,786,499)
2024	(3,720)	488,166	(39,007)	445,439
thereafter	-	999,802	-	999,802
	<u>\$ (1,600,532)</u>	<u>\$ 1,406,393</u>	<u>\$ 3,239,512</u>	<u>\$ 3,045,373</u>

Actuarial Assumptions and Other Data

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>Employees Pension Plan</u>	<u>Fire Fighters Pension Plan</u>	<u>Police Pension Plan</u>
Inflation	2.75% per annum	2.85% per annum	4.00% per annum
Investment rate of return	7.25%, net of pension plan investment expenses	7.50%, net of pension plan investment expenses	7.00% per annum, net of pension plan investment expenses
Salary increases	2.75% general annual compensation increase plus an average of 1.4% per year for pay increases due to promotions and longevity over a 25-year career.	2.85% general annual compensation increase plus an average of 1.85% per year for pay increases due to promotions and longevity over a 30-year career.	3.00% grading down to 0% per annum for longevity and promotion based on years of service.
Mortality rates	RP-2000 Combined Healthy Mortality tables projected by scale AA to 2024.	RP-2000 Combined Healthy Mortality tables projected by scale AA to 2024.	PubS-2010 Employee and Healthy Annuitant mortality tables projected generationally with Scale MP-2018. For post-retirement spouse mortality, PubS-2010 Healthy Annuitant (opposite gender) mortality projected generationally with Scale MP-2018. All disabled members are assumed to be male using PubS-2010 Male Disability mortality tables and their spouses are assumed to be female using PubS-2010 Female Healthy Annuitant mortality tables, both projected generationally with Scale MP-2018.

Discount Rate

The discount rates reported are based on certified actuarial reports and are used to measure the total pension liability as of December 31, 2019 which is 7.25% for the Employees Pension Plan, 7.50% for the Firefighters Pension Plan and 7.00% for the Police Pension Plan. The discount rates used to measure the pension liability as of December 31, 2018 were 7.25% for the Employees Pension Plan, 7.5% for the Firefighters Pension Plan and 7.00% for the Police Pension Plan. The discount rate is an assumption that generally is not required to be updated between actuarial valuations dates.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of each plan as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower or 1-percentage-point higher than the current rates used:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Employees Pension Plan	\$ 21,347,053	\$ 13,315,134	\$ 6,534,588
	(6.50%)	(7.50%)	(8.50%)
Fire Fighters Pension Plan	\$ 28,450,702	\$ 24,607,102	\$ 14,098,810
	(6.00%)	(7.00%)	(8.00%)
Police Pension Plan	\$ 44,491,136	\$ 37,160,845	\$ 31,089,925

Note 15 - Prior Period Adjustments

During the fiscal year, the City made the following prior period adjustment to the government-wide and fund financial statements:

1. Wrote down the receivable from a inter-governmental agency.
2. Other miscellaneous adjustments relating to payroll deductions.

	Government-wide Statement of Activities		Fund Level Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	
	Governmental Activities	Business-type Activities	Combined Utility System	Other Enterprise Funds
	Net position at September 30, 2019, as previously reported	\$ 172,318,837	\$ 300,894,352	\$ 258,388,301
To recharacterize CDBG Disaster Recovery Housing Program Administration expenses and other miscellaneous payroll related items	(1,656,798)	(13,320)	(9,735)	(3,585)
Net position at September 30, 2019, as restated	<u>\$ 170,662,039</u>	<u>\$ 300,881,032</u>	<u>\$ 258,378,566</u>	<u>\$ 42,583,922</u>

Note 16 - Litigation/Contingency

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its activities, some of which seek damages that could impact the operations of the City. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; breach of contract and various claims from contractors for additional amounts under construction contracts. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City.

The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. Some cases in federal court for deprivation of civil rights do not have similar limitations.

Typically, the City is covered for claims under a policy through the Texas Municipal League Risk Pool. The City intends to defend itself vigorously against all suits; however, no prediction can be made, as of the date thereof, with respect to the liability of the City for such claims or the final outcome of such suits. The City typically utilizes its Risk Pool funds or the General Fund to liquidate claims and judgments; however, the City is authorized under Texas law to issue judgment bonds to pay final judgments against the City under appropriate circumstances.

Required Supplementary Information

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2020 Annual Comprehensive Financial Report



GALVESTON FIRE STATION No. 1



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**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL**

For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts		Actual - Budgetary Basis	Variance with Final Budget
	Original	Final	Actual	Reconciling Items		
Revenues						
Property taxes	\$ 29,069,000	\$ 29,069,000	\$ 29,102,103	\$ -	\$ 29,102,103	\$ 33,103
Sales tax	17,175,000	17,175,000	16,355,869	-	16,355,869	(819,131)
Mixed beverage tax	1,063,000	1,063,000	-	761,777 ¹	761,777	(301,223)
Franchise and other taxes	5,337,600	5,337,600	5,873,889	(761,777) ¹	5,112,112	(225,488)
Licenses and permits	1,243,100	1,243,100	1,320,998	-	1,320,998	77,898
Fines and forfeitures	1,591,200	1,591,200	1,393,994	(1,956) ¹	1,392,038	(199,162)
Charges for services	233,700	233,700	212,275	1,956 ¹	214,231	(19,469)
Investment earnings	325,000	325,000	199,284	-	199,284	(125,716)
Intergovernmental	148,500	148,500	315,490	(100,000) ¹	215,490	66,990
Other	863,000	863,000	1,304,530	100,000 ¹	1,404,530	541,530
Total Revenues	57,049,100	57,049,100	56,078,432	-	56,078,432	(970,668)
General government						
Legislative	603,146	617,344	506,330	-	506,330	111,014
Judicial	728,353	772,257	697,601	-	697,601	74,656
Executive	696,989	720,224	632,195	-	632,195	88,029
City auditor	833,109	287,176	275,704	-	275,704	11,472
Finance	1,620,769	1,682,129	1,682,038	-	1,682,038	91
Legal	278,551	861,684	771,110	-	771,110	90,574
Personnel	560,117	575,041	531,952	-	531,952	43,089
Taxation	271,723	288,673	288,666	-	288,666	7
Total general government	5,592,757	5,804,528	5,385,596	-	5,385,596	418,932
Public safety						
Police	20,896,648	21,676,738	21,514,645	83,000 ¹	21,597,645	79,093
Fire	11,583,074	12,364,952	12,164,432	-	12,164,432	200,520
Emergency management	138,308	146,341	140,435	-	140,435	5,906
Emergency medical service	615,200	615,200	615,122	-	615,122	78
City marshal	819,018	844,308	688,740	-	688,740	155,568
Total public safety	34,052,248	35,647,539	35,123,374	83,000	35,206,374	441,165
Public works and traffic	3,841,084	4,006,290	3,541,633	(25,067) ²	3,516,566	489,724
Culture and recreation	2,860,950	2,979,076	2,770,563	-	2,770,563	208,513
Planning and community development	1,786,963	1,853,696	1,574,264	-	1,574,264	279,432
Transportation system	800,000	800,000	-	200,000 ¹	200,000	600,000
Capital outlay	1,168,700	830,750	701,054	-	701,054	129,696
Governmental expenditures	2,614,834	408,649	404,800	-	404,800	3,849
Facilities maintenance	1,515,665	1,515,665	1,493,864	-	1,493,864	21,801
City Council contingency	-	-	-	-	-	-
Total expenditures	54,233,201	53,846,193	50,995,148	257,933	51,253,081	2,593,112
Other Financing Sources (Uses)						
Transfers in	2,257,700	2,257,700	2,303,708	-	2,303,708	46,008
Transfers out	(5,262,544)	(5,442,544)	(5,601,038)	257,933 ¹	(5,343,105) ³	99,439
Sale of capital assets	30,000	30,000	107,044	-	107,044	77,044
Total Other Financing Sources (Uses)	(2,974,844)	(3,154,844)	(3,190,286)	257,933	(2,932,353)	222,491
Net change in fund balance	(158,945)	48,063	1,892,998	-	1,892,998	1,844,935
Fund balance - beginning	16,509,675	16,509,675	16,509,675	-	16,509,675	-
Prior period adjustments	-	(1,650,113) ⁴	(1,650,112)	-	(1,650,112)	1
Fund balance - ending	\$ 16,350,730	\$ 14,907,625	\$ 16,752,561	\$ -	\$ 16,752,561	\$ 1,844,936

1) These represent reclasses for budget presentation purposes only.

2) These include amounts for close out FEMA project workorders.

3) This includes transfers totaling \$596,161 to the Separation Pay Fund and the charter mandated 8% of General Fund Budgeted Revenues transfer to the Infrastructure & Debt Service Fund in the amount of \$4,746,944.

4) This includes a transfer in the amount of \$1,526,606 from the General Fund balance to create a one-time line item to properly record Hurricane Ike CDBG Housing Program Administration expenses.

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Schedule of Changes in Net Pension Liability and Related Ratios
For the Last Six Measurement Years

	<u>2019</u>	<u>2018</u>
Total pension liability:		
Service cost	\$ 2,315,618	\$ 2,157,580
Interest	4,953,301	4,640,796
Effect of plan changes	-	735,115
Difference between expected and actual experience	(120,010)	(365,588)
Change in assumptions	-	1,531,884
Benefit payments, including refunds of employee contributions	(4,683,296)	(4,411,522)
Net change in total pension liability	2,465,613	4,288,265
Total pension liability - beginning	68,347,423	64,059,158
Total pension liability - ending (a)	<u>\$ 70,813,036</u>	<u>\$ 68,347,423</u>
Plan fiduciary net position:		
Contributions - employer	\$ 2,424,690	\$ 2,367,759
Contributions - employee	1,616,461	1,578,505
Net investment income	9,791,491	(2,431,839)
Benefit payments, including refunds of employee contributions	(4,683,296)	(4,411,523)
Administrative expense	(165,773)	(138,864)
Net change in plan fiduciary net position	8,983,573	(3,035,962)
Plan fiduciary net position - beginning	48,514,329	51,550,291
Plan fiduciary net position - ending (b)	<u>\$ 57,497,902</u>	<u>\$ 48,514,329</u>
Net pension liability - ending (a) - (b)	<u>13,315,134</u>	<u>19,833,094</u>
Plan fiduciary net position as a percentage of total pension liability	81.20%	70.98%
Covered payroll	\$ 26,741,018	\$ 26,061,778
Net pension liability as a percentage of covered payroll	49.79%	76.10%
Annual money-weighted rate of return, net of investment expense	20.35%	-4.75%

The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end. Net pension liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 68. Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

Employees' Retirement Plan for City Employees			
2017	2016	2015	2014
\$ 1,982,697	\$ 1,782,456	\$ 2,036,695	\$ 2,184,793
4,423,875	4,388,324	4,465,817	4,291,727
-	-	-	-
636,348	(1,388,765)	(932,848)	-
33,335	1,539,868	1,385,114	-
(4,106,737)	(3,921,559)	(4,102,964)	(3,820,447)
2,969,518	2,400,324	2,851,814	2,656,073
61,089,640	58,689,316	55,837,502	53,181,429
<u>\$ 64,059,158</u>	<u>\$ 61,089,640</u>	<u>\$ 58,689,316</u>	<u>\$ 55,837,502</u>
\$ 2,274,927	\$ 2,059,527	\$ 1,968,772	\$ 1,836,025
1,518,519	1,371,184	1,315,516	1,224,018
6,356,393	3,333,830	(856,751)	1,803,409
(4,106,737)	(3,921,559)	(4,102,964)	(3,820,447)
(133,005)	(145,136)	(127,457)	(123,414)
5,910,097	2,697,846	(1,802,884)	919,591
45,640,194	42,942,348	44,745,232	43,825,641
<u>\$ 51,550,291</u>	<u>\$ 45,640,194</u>	<u>\$ 42,942,348</u>	<u>\$ 44,745,232</u>
<u>12,508,867</u>	<u>15,449,446</u>	<u>15,746,968</u>	<u>11,092,270</u>
80.47%	74.71%	73.17%	80.13%
\$ 25,308,650	\$ 22,853,067	\$ 21,925,267	\$ 20,400,300
49.43%	67.60%	71.82%	54.37%
14.00%	7.82%	-1.94%	4.16%

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Schedule of Changes in Net Pension Liability and Related Ratios
For the Last Six Measurement Years

	<u>2019</u>	<u>2018</u>
Total pension liability:		
Service cost	\$ 1,415,927	\$ 1,374,686
Interest	5,156,123	4,945,665
Effect of plan changes	-	-
Difference between expected and actual experience	374,319	-
Change in assumptions	3,564,858	-
Benefit payments, including refunds of employee contributions	(3,975,925)	(3,316,088)
Net change in total pension liability	6,535,302	3,004,263
Total pension liability - beginning	67,102,653	64,098,390
Total pension liability - ending (a)	<u>\$ 73,637,955</u>	<u>\$ 67,102,653</u>
Plan fiduciary net position:		
Contributions - employer	\$ 1,401,579	\$ 2,369,263
Contributions - employee	1,484,025	1,413,412
Net investment income	7,770,870	(2,484,721)
Benefit payments, including refunds of employee contributions	(3,975,925)	(3,316,088)
Administrative expense	(138,000)	(145,205)
Net change in plan fiduciary net position	6,542,549	(2,163,339)
Plan fiduciary net position - beginning	42,488,304	44,651,640
Plan fiduciary net position - ending (b)	<u>\$ 49,030,853</u>	<u>\$ 42,488,301</u>
Net pension liability - ending (a) - (b)	<u>24,607,102</u>	<u>24,614,352</u>
Plan fiduciary net position as a percentage of total pension liability	66.58%	63.32%
Covered payroll	\$ 8,244,583	\$ 8,273,793
Net pension liability as a percentage of covered payroll	298.46%	297.50%
Annual money-weighted rate of return, net of investment expense	18.56%	-5.35%

Galveston Firefighters' Pension Fund			
2017	2016	2015	2014
\$ 1,347,728	\$ 1,323,916	\$ 1,271,356	\$ 1,216,609
4,780,763	4,960,114	4,715,969	4,523,782
-	(1,279,046)	-	-
(297,644)	(502,594)	268,323	-
-	(1,141,246)	121,483	-
(4,143,975)	(3,254,265)	(3,501,502)	(3,151,223)
1,686,872	106,879	2,875,629	2,589,168
62,411,518	62,304,639	59,429,010	56,839,842
<u>\$ 64,098,390</u>	<u>\$ 62,411,518</u>	<u>\$ 62,304,639</u>	<u>\$ 59,429,010</u>
\$ 1,091,996	\$ 1,072,865	\$ 996,543	\$ 986,610
1,247,995	1,226,133	1,138,906	1,127,549
6,445,125	2,187,709	(848,619)	1,486,347
(4,143,975)	(3,254,265)	(3,501,502)	(3,151,223)
(144,975)	(103,459)	(113,486)	(133,008)
4,496,166	1,128,983	(2,328,158)	316,275
40,155,474	39,026,491	41,354,649	41,038,374
<u>\$ 44,651,640</u>	<u>\$ 40,155,474</u>	<u>\$ 39,026,491</u>	<u>\$ 41,354,649</u>
<u>19,446,750</u>	<u>22,256,044</u>	<u>23,278,148</u>	<u>18,074,361</u>
69.66%	64.34%	62.64%	69.59%
\$ 7,799,969	\$ 7,663,331	\$ 7,118,164	\$ 7,044,338
249.32%	290.42%	327.02%	256.58%
16.45%	5.68%	-2.09%	4.16%

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Schedule of Changes in Net Pension Liability and Related Ratios
For the Last Six Measurement Years

	<u>2019</u>	<u>2018</u>
Total pension liability:		
Service cost	\$ 1,622,016	\$ 1,258,499
Interest	3,979,593	3,897,882
Effect of plan changes	-	-
Difference between expected and actual experience	(138,553)	(992,542)
Change in assumptions	(95,499)	5,113,954
Benefit payments, including refunds of employee contributions	<u>(4,107,380)</u>	<u>(4,275,151)</u>
Net change in total pension liability	1,260,177	5,002,642
Total pension liability - beginning	57,853,479	52,850,837
Total pension liability - ending (a)	<u>\$ 59,113,656</u>	<u>\$ 57,853,479</u>
Plan fiduciary net position:		
Contributions - employer	\$ 3,803,070	\$ 1,713,305
Contributions - employee	1,504,688	1,417,069
Net investment income	3,193,800	(1,134,296)
Benefit payments, including refunds of employee contributions	(4,107,380)	(4,275,151)
Administrative expense	<u>(297,764)</u>	<u>(408,688)</u>
Net change in plan fiduciary net position	4,096,414	(2,687,761)
Plan fiduciary net position - beginning	17,856,397	20,544,158
Plan fiduciary net position - ending (b)	<u>\$ 21,952,811</u>	<u>\$ 17,856,397</u>
Net pension liability - ending (a) - (b)	<u>37,160,845</u>	<u>39,997,082</u>
Plan fiduciary net position as a percentage of total pension liability	37.14%	30.86%
Covered payroll	\$ 12,539,068	\$ 11,808,927
Net pension liability as a percentage of covered payroll	296.36%	338.70%
Annual money-weighted rate of return, net of investment expense	18.01%	-5.74%

Employees' Retirement Plan for Police			
<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 1,073,161	\$ 1,106,580	\$ 1,054,361	\$ 1,140,739
3,932,216	3,834,917	3,646,049	3,669,170
-	-	-	-
(358,201)	519,531	157,590	(502,743)
2,398,032	223,990	590,641	(2,527,532)
(4,547,830)	(4,322,870)	(4,114,277)	(3,808,422)
2,497,378	1,362,148	1,334,364	(2,028,788)
50,353,459	48,991,311	47,656,947	49,685,735
<u>\$ 52,850,837</u>	<u>\$ 50,353,459</u>	<u>\$ 48,991,311</u>	<u>\$ 47,656,947</u>
\$ 1,486,488	\$ 1,255,887	\$ 1,257,637	\$ 1,240,469
1,371,862	1,255,887	1,254,637	1,240,469
2,581,753	1,493,582	(486,296)	1,101,143
(4,547,830)	(4,322,870)	(4,114,277)	(3,808,422)
(132,932)	(126,111)	(86,285)	(85,937)
759,341	(443,625)	(2,174,584)	(312,278)
19,784,817	20,228,442	22,403,026	22,715,304
<u>\$ 20,544,158</u>	<u>\$ 19,784,817</u>	<u>\$ 20,228,442</u>	<u>\$ 22,403,026</u>
<u>32,306,679</u>	<u>30,568,642</u>	<u>28,762,869</u>	<u>25,253,921</u>
38.87%	39.29%	41.29%	47.01%
\$ 11,432,183	\$ 10,465,725	\$ 10,455,308	\$ 10,337,242
282.59%	292.08%	275.10%	244.30%
13.68%	7.75%	2.26%	4.96%

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
Schedule of Contributions
Last Nine Fiscal Years

	Employees' Retirement Plan for City Employees								
	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contributions	\$ 2,508,671	\$ 2,506,334	\$ 2,334,748	\$ 2,153,885	\$ 2,024,974	\$ 2,278,432	\$ 2,040,170	\$ 2,108,505	\$ 2,026,248
Contribution in relation to the actuarially required contribution	\$ 2,508,671	\$ 2,506,334	\$ 2,334,748	\$ 2,177,518	\$ 2,024,974	\$ 1,858,266	\$ 1,836,025	\$ 1,583,356	\$ 1,616,976
Contribution deficiency (excess)	\$ (0)	\$ -	\$ -	\$ (23,633)	\$ -	\$ 420,166	\$ 204,145	\$ 525,149	\$ 409,272
Covered payroll	\$27,874,119	\$ 27,848,145	\$ 25,941,635	\$23,932,061	\$ 22,499,711	\$ 20,647,326	\$ 20,400,300	\$ 17,592,844	\$ 17,966,400
Contributions as a percentage of covered payroll	9.0%	9.0%	9.0%	9.1%	9.0%	9.0%	9.0%	9.0%	9.0%
	Galveston Firefighters' Pension Fund								
	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 1,450,275	\$ 1,467,673	\$ 1,280,134	\$ 1,082,739	\$ 1,023,954	\$ 985,160	\$ 986,610	\$ 945,945	\$ 918,961
Contribution in relation to the contractually required contribution	\$ 1,450,154	\$ 1,467,729	\$ 1,280,032	\$ 1,082,739	\$ 1,023,954	\$ 985,160	\$ 986,610	\$ 945,945	\$ 918,961
Contribution deficiency (excess)	\$ 121	\$ (56)	\$ 102	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 8,531,031	\$ 8,633,370	\$ 8,117,526	\$ 7,733,848	\$ 7,313,957	\$ 7,036,850	\$ 7,044,338	\$ 6,756,748	\$ 6,564,000
Contributions as a percentage of covered payroll	17.0%	17.0%	15.8%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
	Employees' Retirement Plan for Police								
	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 2,356,044	\$ 2,114,333	\$ 1,624,952	\$ 1,405,962	\$ 1,249,715	\$ 1,187,532	\$ 1,240,469	\$ 1,114,126	\$ 1,117,059
Contribution in relation to the contractually required contribution	\$ 2,356,823	\$ 2,114,922	\$ 1,625,097	\$ 1,407,567	\$ 1,249,715	\$ 1,187,532	\$ 1,240,469	\$ 1,114,126	\$ 1,117,059
Contribution deficiency (excess)	\$ (779)	\$ (589)	\$ (145)	\$ (1,605)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$13,089,134	\$12,853,090	\$11,623,408	\$10,815,095	\$ 10,414,292	\$ 9,896,098	\$ 10,337,242	\$ 9,281,758	\$ 9,308,825
Contributions as a percentage of covered payroll	(a) 18.00%	16.45%	13.98%	12.83%	12.0%	12.0%	12.0%	12.0%	12.0%

(a) Contributions by the City increased from 17% to 18% in October 2019.

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION

*Notes to Schedule of Contributions
For the Year Ended December 31, 2019*

	Employees' Retirement Plan for City Employees	Galveston Firefighters' Pension Fund	Employees' Retirement Plan for Police
Valuation Date:	31-Dec-19	31-Dec-19	31-Dec-19
<u>Methods and assumptions used to determine contribution rates:</u>			
Asset valuation method	Fair Value	Smoothed market value	Adjusted market value within a corridor range of 90% to 110% of fair market value.
Actuarial cost method	Entry Age Service	Entry Age Service	Entry Age Service
Amortization method	Level percentage of payroll, open.	Level percentage of payroll, closed.	Level percentage of payroll based on an assumed annual payroll growth of 3.50% per year.
Inflation	2.75% per annum	2.85% per annum	4.00% per annum
Investment rate of return	7.25%, net of pension plan investment expenses	7.50%, net of pension plan investment expenses	7.00% per annum, net of pension plan investment expenses
Administrative expense	Assumed to be 0.60% of payroll.	Assumed to be 1.55% of payroll.	Assumed to be 0.95% of payroll.
Salary increases	2.75% general annual compensation increase plus an average of 1.4% per year for pay increases due to promotions and longevity over a 25-year career.	2.85% general annual compensation increase plus an average of 1.85% per year for pay increases due to promotions and longevity over a 30-year career.	3.00% grading down to 0% per annum for longevity and promotion based on years of service.
Mortality rates	Mortality rates were based on the PubG-2010 below-medium income table for employees and for retirees, projected for mortality improvement generationally using the projection scale MP-2018	RP-2000 Combined Healthy Mortality tables projected by scale AA to 2024.	PubS-2010 Employee and Healthy Annuitant mortality tables projected generationally with Scale MP-2018. For post-retirement spouse mortality, PubS-2010 Healthy Annuitant (opposite gender) mortality projected generationally with Scale MP-2018. All disabled members are assumed to be male using PubS-2010 Male Disability mortality tables and their spouses are assumed to be female using PubS-2010 Female Healthy Annuitant mortality tables, both projected generationally with Scale MP-2018.

REQUIRED OPEB SUPPLEMENTARY INFORMATION
Schedule of Changes in Total OPEB Liability and Related Ratios
For the Two Last Measurement Years

	2019	2018
Total OPEB Liability		
Service cost	\$ 777,658	\$ 825,240
Interest on the total OPEB Liability	360,881	310,894
Difference between expected and actual experience	(796)	(1,817,888)
Changes of assumption	1,030,796	1,325,541
Benefit payments	(254,025)	(316,616)
Net change in total OPEB liability	1,914,514	327,171
Total OPEB liability - beginning	9,465,438	9,138,267
Total OPEB liability - ending	\$ 11,379,952	\$ 9,465,438
 Covered payroll	 \$ 41,819,576	 \$ 41,580,086
 Total OPEB liability as a percentage of covered payroll	 27.21%	 22.76%

The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end. Total OPEB liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 75. Ten years of data should be presented in this schedule but data was unavailable prior to 2017.

Notes to Schedule:

Changes of assumption: Changes of assumption reflects the effect of changes in the discount rate each period. The following are the discount rates used in each period:

2020	2.75%
2019	3.71%
2018	3.31%
2017	3.81%

Combining and Individual Fund Statements and Schedule

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2020 Annual Comprehensive
Financial Report



NON-MAJOR GOVERNMENTAL FUNDS**SPECIAL REVENUE FUNDS**

Special revenue funds are used to account for the proceeds of specific revenue sources legally restricted to expenditures for specific purposes.

Island Transit – To account for the receipt of and expenditure of federal, state, and local revenues designated for transit and other livable community projects.

Rosenberg Library Fund – To account for ad valorem taxes collected and transferred to the library, to be used for library purposes, as authorized by City Charter.

Parks and Recreation Improvement Fund – To account for receipt and expenditure of intergovernmental revenues designated for parks and recreation improvements.

Housing & Urban Development (HUD) Entitlement Grants Fund – To account for receipt and expenditure of annual federal CDBG Entitlement and HOME Investment Partnership allocations.

Project Specific Programs – To account for receipt and expenditures designated for governmental special projects; including Police/Fire general projects, Fire special revenue, Courts general projects, and other parks general projects.

Convention Center Operations Fund – To account for operating and capital reserves relating to the convention center.

Cable Television Public Education & Government Fund – To account for receipt and expenditures of public-access television tax revenue provided for the purpose of public, educational, and governmental information.

CDBG Disaster Fund Housing – To account for receipt and expenditure of federal revenue designated for disaster relief, long-term recovery, and restoration of housing including affordable rental housing in declared federal disaster areas in 2008.

Parking Management Fund – To account for receipts of downtown parking revenue and expenditures related to the operation and capital improvement of the downtown area.

Seawall Parking Fund – To account for net receipts of seawall parking revenue in excess of Park Board expenditures related to the operation of the seawall and beach. Balances can only be allocated by the City Council for capital improvements to the seawall and beach.

Arts and Historical Fund – To account for receipts of the 1/8 percent hotel occupancy tax, to be used for advertisement and capital repairs to historical buildings and statues.

Neighborhood Revitalization Fund – To account for receipt and expenditure of monies from the Industrial Development Board of the City of Galveston to be used for Capital Projects.

Public Safety Programs – To account for receipt and expenditures of federal, state and/or local grant monies restricted for governmental public safety programs and capital projects.

Infrastructure & Debt Service Fund – To account for receipt and expenditures restricted for governmental infrastructure capital projects as defined by the City Charter.

Judicial Programs – To account for receipt and expenditures designated for governmental judicial capital projects, including court building security and technology, and youth after-school programs.

Convention Center Surplus Fund – To account for local hotel occupancy tax allocated to operations and capital projects that enhance and promote tourism and the convention and hotel industry.

Lasker Pool - To account for receipts and expenditures for City pool operations.

Pension Reform Fund - To account for funds set aside to be used for reforming the City's three pension plans.

Recovery and Capital Reserve Fund – To account for receipt and expenditures committed for governmental projects.

Separation Pay Fund – To account for the final payout of employees accrued benefits at the separation of employment.

Revenue Producing Parks Fund – To account for receipts and expenditures of revenue generating beach parks.

Technology Replacement Fund – To account for City resources from other funds used to implement new and or upgraded computer hardware and software systems.

Hurricane Harvey Fund – To account for receipt and expenditures of grant monies restricted for Hurricane Harvey recovery efforts.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary and trust funds.

Island Transit Capital Projects – To account for capital outlay related to the Island Transit operations.

General Obligation Bonds 2017 Capital Projects – To account for capital outlay financed by the proceeds from the General Obligation Bonds, Series 2017.

Industrial Development Corporation Beach Renourishment Fund – To account for project costs renourish beaches as financed by the IDC and directed by the voters.

Industrial Development Corporation Economic Development Fund – To account for economic development projects as financed by the IDC and directed by the voters.

Industrial Development Corporation Parks Improvement Fund – To account for improvements to City parks financed by the IDC and directed by the voters.

Industrial Development Corporation Infrastructure Fund – To account for streets, drainage and sewer system improvement projects financed by the IDC and directed by the voters.

DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for debt service fund and payment of general long-term debt, principal, interest and related costs.

Debt Service Fund – To account for the payment of interest and principal on all property tax-supported general obligation long-term debt of the City. Water and sewer supported general obligation refunding bond debt service payment are paid by the respective enterprise fund. City bonds issued on behalf of the Wharves Authority are paid here and reimbursed by the Authority.

Hotel Occupancy Tax Debt Service Fund – To account for the accumulation of hotel occupancy taxes to fund reserves and debt service payments for bonds issued to build the convention center and adjoining parking garage.

BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
 September 30, 2020

	Island Transit	Rosenberg Library Fund	Housing & Urban Development Entitlement Grants Fund
Assets			
Cash and cash equivalents	\$ 78	\$ -	\$ -
Receivables (net of allowance for uncollectibles)	1,030	114,802	-
Due from other governments	276,479	-	418,353
Due from other funds	-	-	-
Inventories	309,440	-	-
Prepaid Items	-	-	1,681
Restricted cash and investments	-	-	855,276
Total Assets	<u>\$ 587,027</u>	<u>\$ 114,802</u>	<u>\$ 1,275,310</u>
Liabilities			
Accounts payable	\$ 64,631	\$ -	\$ (13,444)
Accrued expenditures	-	-	7,616
Due to other funds	172,771	6,088	427,591
Due to other governments	-	-	1,382
Due to component units	-	-	-
Unearned revenue	-	-	852,165
Total Liabilities	<u>237,402</u>	<u>6,088</u>	<u>1,275,310</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	-	108,714	-
Total Deferred Inflows of Resources	<u>-</u>	<u>108,714</u>	<u>-</u>
Fund Balance			
Nonspendable:			
Inventories	309,440	-	-
Prepaid items	-	-	1,681
Restricted:			
Debt service	-	-	-
Beach preservation	-	-	-
Infrastructure and debt service	-	-	-
Capital projects	-	-	-
Grants	40,185	-	-
Tourism, convention and hotel industry:			
Convention center operator	-	-	-
City of Galveston	-	-	-
Committed:			
Governmental projects	-	-	-
Assigned:			
Other	-	-	-
Unassigned	-	-	(1,681)
Total Fund Balance	<u>349,625</u>	<u>-</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 587,027</u>	<u>\$ 114,802</u>	<u>\$ 1,275,310</u>

Project Specific Programs	Convention Center Operations Fund	Cable Public Television Education & Government Fund	Parking Management Fund	Seawall Parking Fund	Arts and Historical Fund
\$ 4,144	\$ -	\$ -	\$ 569,089	\$ -	\$ 1,476,137
-	-	40,664	-	-	-
1,996,893	-	-	-	63,965	-
-	-	-	-	-	-
-	-	-	-	-	-
1,075,818	2,762,830	1,192,504	-	1,566,829	-
<u>\$ 3,076,855</u>	<u>\$ 2,762,830</u>	<u>\$ 1,233,168</u>	<u>\$ 569,089</u>	<u>\$ 1,630,794</u>	<u>\$ 1,476,137</u>
\$ 1,955,421	\$ 2,014,806	\$ -	\$ 2,970	\$ 57,485	\$ -
-	-	-	-	-	-
41,472	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,144	-	-	-	-	-
<u>2,001,037</u>	<u>2,014,806</u>	<u>-</u>	<u>2,970</u>	<u>57,485</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1,573,309	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	748,024	-	-	-	-
-	-	1,233,168	566,119	-	-
1,075,818	-	-	-	-	-
-	-	-	-	-	1,476,137
-	-	-	-	-	-
<u>1,075,818</u>	<u>748,024</u>	<u>1,233,168</u>	<u>566,119</u>	<u>1,573,309</u>	<u>1,476,137</u>
<u>\$ 3,076,855</u>	<u>\$ 2,762,830</u>	<u>\$ 1,233,168</u>	<u>\$ 569,089</u>	<u>\$ 1,630,794</u>	<u>\$ 1,476,137</u>

BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
 September 30, 2020

	Neighborhood Revitalization	Public Safety Programs	Convention Center Surplus Fund	Infrastructure and Debt Service Fund
Assets				
Cash and cash equivalents	\$ 419,310	\$ -	\$ -	\$ -
Receivables (net of allowance for uncollectibles)	-	-	982,403	-
Due from other governments	-	84,627	-	-
Due from other funds	-	-	-	47,011
Inventories	-	-	-	-
Prepaid items	-	-	-	-
Restricted cash and investments	-	819,109	1,670,381	3,985,146
Total Assets	<u>\$ 419,310</u>	<u>\$ 903,736</u>	<u>\$ 2,652,784</u>	<u>\$ 4,032,157</u>
Liabilities				
Accounts payable	\$ 3,501	\$ 9,522	\$ 72	\$ 353,870
Accrued expenditures	1,683	-	-	101,398
Due to other funds	-	83,609	-	-
Due to other governments	-	-	-	-
Due to component unit	-	-	-	-
Unearned revenue	-	14,829	-	-
Total Liabilities	<u>5,184</u>	<u>107,960</u>	<u>72</u>	<u>455,268</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance				
Nonspendable:				
Inventories	-	-	-	-
Prepaid items	-	-	-	-
Restricted:				
Debt service	-	-	-	-
Beach preservation	-	-	-	-
Infrastructure and debt service	-	-	-	3,576,889
Capital projects	-	-	-	-
Grants	-	795,776	-	-
Tourism, convention and hotel industry:				
Convention center operator	-	-	2,652,712	-
City of Galveston	-	-	-	-
Committed:				
Governmental projects	-	-	-	-
Assigned:				
Other	414,126	-	-	-
Unassigned	-	-	-	-
Total Fund Balance	<u>414,126</u>	<u>795,776</u>	<u>2,652,712</u>	<u>3,576,889</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 419,310</u>	<u>\$ 903,736</u>	<u>\$ 2,652,784</u>	<u>\$ 4,032,157</u>

Judicial Programs	Lasker Pool	Pension Reform Fund	Recovery and Capital Reserve Fund	Separation Pay Fund	Revenue Producing Parks	Technology Replacement Fund
\$ 260,167	\$ 200	\$ 1,066,054	\$ 482,888	\$ 419,465	\$ 418,206	\$ 1,557,679
-	-	-	-	-	-	-
-	-	-	-	-	-	85,700
-	-	-	-	-	-	-
4,664	-	-	-	-	-	-
227	351,445	-	208,993	-	-	-
<u>\$ 265,058</u>	<u>\$ 351,645</u>	<u>\$ 1,066,054</u>	<u>\$ 691,881</u>	<u>\$ 419,465</u>	<u>\$ 418,206</u>	<u>\$ 1,643,379</u>
\$ 83	\$ 5,986	\$ -	\$ 31,339	\$ -	\$ 438	\$ -
-	-	-	12,473	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
83	5,986	-	43,812	-	438	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
4,664	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	648,069	-	-	-
260,311	345,659	1,066,054	-	419,465	417,768	1,643,379
-	-	-	-	-	-	-
<u>264,975</u>	<u>345,659</u>	<u>1,066,054</u>	<u>648,069</u>	<u>419,465</u>	<u>417,768</u>	<u>1,643,379</u>
<u>\$ 265,058</u>	<u>\$ 351,645</u>	<u>\$ 1,066,054</u>	<u>\$ 691,881</u>	<u>\$ 419,465</u>	<u>\$ 418,206</u>	<u>\$ 1,643,379</u>

BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
 September 30, 2020

	Hurricane Harvey Fund	Coronavirus Relief Fund	Island Transit Capital Projects	General Obligation Bond 2017 Capital Projects
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Receivables (net of allowance for uncollectibles)	-	-	-	-
Due from other governments	839,778	-	76,464	-
Due from other funds	-	-	678,184	737,571
Inventories	-	-	-	-
Prepaid items	-	-	-	-
Restricted cash and investments	54,489	113,464	3,571,229	9,318,514
Total Assets	<u>\$ 894,267</u>	<u>\$ 113,464</u>	<u>\$ 4,325,877</u>	<u>\$ 10,056,085</u>
Liabilities				
Accounts payable	\$ -	\$ 13,464	\$ 15,684	\$ 1,217,207
Accrued expenditures	-	-	-	511,402
Due to other funds	757,960	-	61,425	-
Due to other governments	-	-	-	-
Due to component unit	-	-	-	-
Unearned revenue	89,540	-	29,141	-
Total Liabilities	<u>847,500</u>	<u>13,464</u>	<u>106,250</u>	<u>1,728,609</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance				
Nonspendable:				
Inventories	-	-	-	-
Prepaid items	-	-	-	-
Restricted:				
Debt service	-	-	-	-
Beach preservation	-	-	-	-
Infrastructure and debt service	-	-	-	-
Capital projects	-	-	4,219,627	8,327,476
Grants	-	100,000	-	-
Tourism, convention and hotel industry:				
Convention center operator	-	-	-	-
City of Galveston	-	-	-	-
Committed:				
Governmental projects	-	-	-	-
Assigned:				
Other	46,767	-	-	-
Unassigned	-	-	-	-
Total Fund Balance	<u>46,767</u>	<u>100,000</u>	<u>4,219,627</u>	<u>8,327,476</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 894,267</u>	<u>\$ 113,464</u>	<u>\$ 4,325,877</u>	<u>\$ 10,056,085</u>

Industrial Development Corporation Beach Renourishment Fund	Industrial Development Corporation Economic Development Fund	Industrial Development Corporation Parks Improvement Fund	Industrial Development Corporation Infrastructure Fund	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,673,417
-	-	-	-	114,893	-	1,253,792
241,095	241,095	241,095	241,095	-	-	4,720,939
593	593	593	593	-	-	1,550,838
-	-	-	-	-	-	309,440
-	-	-	-	-	-	6,345
4,874,289	3,026,221	1,608,376	3,756,020	1,716,543	2,768,372	45,296,074
<u>\$ 5,115,977</u>	<u>\$ 3,267,909</u>	<u>\$ 1,850,064</u>	<u>\$ 3,997,708</u>	<u>\$ 1,831,436</u>	<u>\$ 2,768,372</u>	<u>\$ 59,810,845</u>
\$ -	\$ 3,017	\$ 16,743	\$ 83,067	\$ 250	\$ -	\$ 5,836,112
-	162,998	-	58,268	-	-	855,838
-	-	-	-	-	-	1,550,916
-	-	-	-	-	-	1,382
-	-	-	-	-	-	-
-	-	-	-	-	-	989,819
-	<u>166,015</u>	<u>16,743</u>	<u>141,335</u>	<u>250</u>	-	<u>9,234,067</u>
-	-	-	-	114,893	-	223,607
-	-	-	-	114,893	-	223,607
-	-	-	-	-	-	309,440
-	-	-	-	-	-	6,345
-	-	-	-	1,716,293	2,768,372	4,484,665
-	-	-	-	-	-	1,573,309
-	-	-	-	-	-	3,576,889
5,115,977	3,101,894	1,833,321	3,856,373	-	-	26,454,668
-	-	-	-	-	-	935,961
-	-	-	-	-	-	3,400,736
-	-	-	-	-	-	1,799,287
-	-	-	-	-	-	1,723,887
-	-	-	-	-	-	6,089,666
-	-	-	-	-	-	(1,682)
<u>5,115,977</u>	<u>3,101,894</u>	<u>1,833,321</u>	<u>3,856,373</u>	<u>1,716,293</u>	<u>2,768,372</u>	<u>50,353,171</u>
<u>\$ 5,115,977</u>	<u>\$ 3,267,909</u>	<u>\$ 1,850,064</u>	<u>\$ 3,997,708</u>	<u>\$ 1,831,436</u>	<u>\$ 2,768,372</u>	<u>\$ 59,810,845</u>

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2020

	Island Transit	Rosenberg Library Fund	Housing & Urban Development Entitlement Grants Fund
Revenues			
Property taxes	\$ -	\$ 3,046,312	\$ -
Sales and use taxes	-	-	-
Fines and forfeitures	-	-	-
Charges for services	186,251	-	-
Investment earnings	-	-	-
Intergovernmental	2,668,083	-	1,516,348
Other	42,507	-	-
Total revenues	<u>2,896,841</u>	<u>3,046,312</u>	<u>1,516,348</u>
Expenditures			
Current:			
General government	-	-	-
Public safety	-	-	-
Highways and roads	-	-	-
Culture and recreation	-	3,046,312	-
Planning and community development	-	-	675,137
Transportation	3,461,817	-	-
Debt Service:			
Principal	-	-	-
Interest and other charges	-	-	-
Capital Outlay	-	-	836,117
Total expenditures	<u>3,461,817</u>	<u>3,046,312</u>	<u>1,511,254</u>
Excess (deficiency) of revenues over (under) expenditures	(564,976)	-	5,094
Other Financing Sources (Uses)			
Sale of capital assets	254	-	-
Transfers in	565,010	-	-
Transfers (out)	-	-	-
Total other financing sources (uses)	<u>565,264</u>	<u>-</u>	<u>-</u>
Net change in fund balance	288	-	5,094
Fund balance - beginning	<u>349,625</u>	<u>-</u>	<u>-</u>
Prior period adjustments	(288)	-	(5,094)
Fund balance - ending	<u>\$ 349,625</u>	<u>\$ -</u>	<u>\$ -</u>

Project Specific Programs	Convention Center Operations Fund	Cable Television Public Education & Government Fund	Parking Management Fund	Seawall Parking Fund	Arts and Historical Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	6,826,138	-	-	-	222,273
3,851	-	-	-	-	-
49,914	-	164,473	736,988	146,370	-
3,269	12,986	9,417	5,859	13,266	-
-	-	-	-	-	-
572,000	-	-	-	-	-
<u>629,034</u>	<u>6,839,124</u>	<u>173,890</u>	<u>742,847</u>	<u>159,636</u>	<u>222,273</u>
-	-	-	-	-	-
50,096	-	-	-	103,205	-
-	-	-	-	-	-
(5,527)	6,634,659	-	732,660	-	(1,425)
-	-	-	-	-	-
-	-	-	-	-	-
18,298	140,815	-	12,010	-	-
<u>62,867</u>	<u>6,775,474</u>	<u>-</u>	<u>744,670</u>	<u>103,205</u>	<u>(1,425)</u>
566,167	63,650	173,890	(1,823)	56,431	223,698
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	798	-	-
-	-	-	<u>798</u>	-	-
566,167	63,650	173,890	(1,025)	56,431	223,698
509,651	684,374	1,059,278	567,144	1,516,878	1,252,439
-	-	-	-	-	-
<u>\$ 1,075,818</u>	<u>\$ 748,024</u>	<u>\$ 1,233,168</u>	<u>\$ 566,119</u>	<u>\$ 1,573,309</u>	<u>\$ 1,476,137</u>

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2020

	Neighborhood Revitalization	Public Safety Programs	Convention Center Surplus Fund	Infrastructure and Debt Service Fund
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	-	-	1,731,380	-
Fines and forfeitures	-	-	-	-
Charges for services	-	52,934	-	-
Investment earnings	4,219	6,142	-	37,384
Intergovernmental	-	638,363	-	-
Other	-	238,065	-	2,674
Total revenues	<u>4,219</u>	<u>935,504</u>	<u>1,731,380</u>	<u>40,058</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	-	713,268	-	-
Highways and roads	-	-	-	1,019,192
Culture and recreation	33,927	-	964,600	-
Planning and community development	-	-	-	-
Transportation	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	38,490	-	143,235	2,543,552
Total expenditures	<u>72,417</u>	<u>713,268</u>	<u>1,107,835</u>	<u>3,562,744</u>
Excess (deficiency) of revenues over (under) expenditures	(68,198)	222,236	623,545	(3,522,686)
Other Financing Sources (Uses)				
Sale of capital assets	-	-	-	-
Transfers in	-	82,999	-	4,746,943
Transfers (out)	-	(31,614)	(466,159)	(1,816,011)
Total other financing sources (uses)	<u>-</u>	<u>51,385</u>	<u>(466,159)</u>	<u>2,930,932</u>
Net change in fund balance	(68,198)	273,621	157,386	(591,754)
Fund balance - beginning	<u>482,324</u>	<u>522,168</u>	<u>2,495,326</u>	<u>4,168,643</u>
Prior period adjustments	-	(13)	-	-
Fund balance - ending	<u>\$ 414,126</u>	<u>\$ 795,776</u>	<u>\$ 2,652,712</u>	<u>\$ 3,576,889</u>

Judicial Programs	Lasker Pool	Pension Reform Fund	Recovery and Capital Reserve Fund	Separation Pay Fund	Revenue Producing Parks	Technology Replacement Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
65,755	-	-	-	-	-	-
-	14,030	-	-	-	259,407	-
2,694	3,987	9,367	993	-	1,926	8,975
-	-	-	-	-	-	-
-	-	-	-	-	17	-
<u>68,449</u>	<u>18,017</u>	<u>9,367</u>	<u>993</u>	<u>-</u>	<u>261,350</u>	<u>8,975</u>
113,544	-	-	126,499	712,493	-	-
-	-	-	-	-	-	-
-	393,315	-	-	-	54,329	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	475,815	-	-	66,450
<u>113,544</u>	<u>393,315</u>	<u>-</u>	<u>602,314</u>	<u>712,493</u>	<u>54,329</u>	<u>66,450</u>
(45,095)	(375,298)	9,367	(601,321)	(712,493)	207,021	(57,475)
-	-	-	208,000	-	-	-
-	400,000	-	-	756,730	-	456,000
-	-	-	-	-	(19,093)	-
-	400,000	-	208,000	756,730	(19,093)	456,000
(45,095)	24,702	9,367	(393,321)	44,237	187,928	398,525
310,070	321,778	1,056,688	1,041,390	375,227	230,310	1,244,854
-	(821)	-	-	-	(470)	-
<u>\$ 264,975</u>	<u>\$ 345,659</u>	<u>\$ 1,066,055</u>	<u>\$ 648,069</u>	<u>\$ 419,464</u>	<u>\$ 417,768</u>	<u>\$ 1,643,379</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
 For the Year Ended September 30, 2020

	Hurricane Harvey Fund	Coronavirus Relief Fund	Island Transit Capital Projects	General Obligation Bond 2017 Capital Projects
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Charges for services	-	-	-	-
Investment earnings	-	-	37,067	157,633
Intergovernmental	954,435	796,018	127,025	-
Other	(73,420)	-	-	-
Total revenues	<u>881,015</u>	<u>796,018</u>	<u>164,092</u>	<u>157,633</u>
Expenditures				
Current:				
General government	-	696,018	-	37,381
Public safety	-	-	-	-
Highways and roads	-	-	-	295,205
Culture and recreation	-	-	-	-
Planning and community development	50,491	-	-	-
Transportation	-	-	9,707	-
Debt Service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Bond issuance cost	-	-	-	-
Capital Outlay	<u>887,835</u>	<u>-</u>	<u>168,771</u>	<u>10,204,328</u>
Total expenditures	<u>938,326</u>	<u>696,018</u>	<u>178,478</u>	<u>10,536,914</u>
Excess (deficiency) of revenues over (under) expenditures	(57,311)	100,000	(14,386)	(10,379,281)
Other Financing Sources (Uses)				
Proceeds from bonds sales	-	-	-	-
Premiums on bonds	-	-	-	-
Payment with escrow agent	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	5,440	-	51,148	-
Transfers (out)	-	-	1,204	-
Total other financing sources (uses)	<u>5,440</u>	<u>-</u>	<u>52,352</u>	<u>-</u>
Net change in fund balance	(51,871)	100,000	37,966	(10,379,281)
Fund balance - beginning	<u>98,638</u>	<u>-</u>	<u>4,181,661</u>	<u>18,706,757</u>
Prior period adjustments	-	-	-	-
Fund balance - ending	<u>\$ 46,767</u>	<u>\$ 100,000</u>	<u>\$ 4,219,627</u>	<u>\$ 8,327,476</u>

Industrial Development Corporation Beach Renourishment Fund	Industrial Development Corporation Economic Development Fund	Industrial Development Corporation Parks Improvement Fund	Industrial Development Corporation Infrastructure Fund	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Totals
\$ -	\$ -	\$ -	\$ -	\$ 3,204,894	\$ -	\$ 6,251,206
1,362,990	1,362,989	1,362,989	1,362,989	-	1,822,043	16,053,791
-	-	-	-	-	-	69,606
-	-	-	-	-	-	1,610,367
34,424	22,748	12,840	33,097	50,452	21,840	490,585
-	-	-	-	3,160,002	-	9,860,274
-	-	-	-	-	-	781,843
<u>1,397,414</u>	<u>1,385,737</u>	<u>1,375,829</u>	<u>1,396,086</u>	<u>6,415,348</u>	<u>1,843,883</u>	<u>35,117,672</u>
-	-	-	-	-	-	1,685,935
-	-	-	-	-	-	866,569
-	-	-	1,820,023	-	-	3,134,420
300,782	-	612,509	-	-	-	12,766,142
754	234,343	71	(1,293,813)	-	-	(333,017)
-	-	-	-	-	-	3,471,524
-	-	-	-	4,504,306	1,045,000	5,549,306
-	-	-	-	3,715,079	792,013	4,507,092
-	-	-	-	399,024	-	399,024
-	694,717	-	1,294,530	-	-	17,524,963
<u>301,536</u>	<u>929,060</u>	<u>612,580</u>	<u>1,820,740</u>	<u>8,618,409</u>	<u>1,837,013</u>	<u>49,571,958</u>
1,095,878	456,677	763,249	(424,654)	(2,203,061)	6,870	(14,454,286)
-	-	-	-	31,205,000	-	31,205,000
-	-	-	-	6,194,024	-	6,194,024
-	-	-	-	-	-	-
-	-	-	-	-	-	208,254
-	-	-	-	1,816,011	-	8,880,281
-	(55,000)	(400,000)	-	(37,000,000)	-	(39,785,875)
-	(55,000)	(400,000)	-	2,215,035	-	6,701,684
1,095,878	401,677	363,249	(424,654)	11,974	6,870	(7,752,602)
<u>4,020,099</u>	<u>2,700,217</u>	<u>1,470,072</u>	<u>4,281,027</u>	<u>1,704,319</u>	<u>2,761,502</u>	<u>58,112,459</u>
-	-	-	-	-	-	(6,686)
<u>\$ 5,115,977</u>	<u>\$ 3,101,894</u>	<u>\$ 1,833,321</u>	<u>\$ 3,856,373</u>	<u>\$ 1,716,293</u>	<u>\$ 2,768,372</u>	<u>\$ 50,353,171</u>

**SPECIAL REVENUE FUND - ISLAND TRANSIT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Year Ended September 30, 2020

	Actual Amounts			Actual - Budgetary Basis	Variance with Final Budget
	Budgeted Amounts Final	Actual	Reconciling Items		
Revenues					
Charges for services	\$ 300,000	\$ 186,251	\$ (39,367) ¹	\$ 146,884	\$ (153,116)
Intergovernmental	2,065,000	2,668,083	-	2,668,083	603,083
Other	113,200	42,507	39,367 ¹	81,874	(31,326)
Total revenues	<u>2,478,200</u>	<u>2,896,841</u>	<u>-</u>	<u>2,896,841</u>	<u>418,641</u>
Expenditures					
Current:					
Transportation	4,187,581	3,461,817	-	3,461,817	725,764
Total expenditures	<u>4,187,581</u>	<u>3,461,817</u>	<u>-</u>	<u>3,461,817</u>	<u>725,764</u>
Revenues over (under) expenditures	<u>(1,709,381)</u>	<u>(564,976)</u>	<u>-</u>	<u>(564,976)</u>	<u>1,144,405</u>
Other Financing Sources (Uses)					
Sale of capital assets	-	254	-	254	254
Transfers in	1,754,625	565,010	-	565,010	(1,189,615)
Total other financing sources (uses)	<u>1,754,625</u>	<u>565,264</u>	<u>-</u>	<u>565,264</u>	<u>(1,189,361)</u>
Changes in fund balance	<u>45,244</u>	<u>288</u>	<u>-</u>	<u>288</u>	<u>(44,956)</u>
Fund balance - beginning	<u>317,408</u>	<u>349,625</u>	<u>-</u>	<u>349,625</u>	<u>32,217</u>
Prior period adjustments	(288)	(288)	-	(288)	-
Fund balance - ending	<u>\$ 362,364</u>	<u>\$ 349,625</u>	<u>\$ -</u>	<u>\$ 349,625</u>	<u>\$ (12,739)</u>

1) Reconciling items represent reclassification in accordance with the budget presentation.

**SPECIAL REVENUE FUND - ROSENBERG LIBRARY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Year Ended September 30, 2020

	<u>Budgeted Amounts Final</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Property taxes	\$ 3,052,400	\$ 3,046,312	\$ (6,088)
Total revenues	<u>3,052,400</u>	<u>3,046,312</u>	<u>(6,088)</u>
Expenditures			
Current:			
Culture and recreation	3,052,400	3,046,312	6,088
Total expenditures	<u>3,052,400</u>	<u>3,046,312</u>	<u>6,088</u>
Changes in fund balance	-	-	-
Fund balance - beginning	-	-	-
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

For the Year Ended September 30, 2020

	<u>Budgeted Amounts Final</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Property taxes	\$ 3,203,100	\$ 3,204,894	\$ 1,794
Investment earnings	60,000	50,452	(9,548)
Wharves Authority	3,160,000	3,160,002	2
Total revenues	<u>6,423,100</u>	<u>6,415,348</u>	<u>(7,752)</u>
Expenditures			
Debt Service:			
Principal	4,729,306	4,504,306	225,000
Interest and other charges	3,974,300	3,715,079	259,221
Bond issuance cost	-	399,024	(399,024)
Total expenditures	<u>8,703,606</u>	<u>8,618,409</u>	<u>85,197</u>
Revenues over (under) expenditures	(2,280,506)	(2,203,061)	77,445
Other Financing Sources (Uses)			
Proceeds from bonds sales	-	31,205,000	31,205,000
Premiums on bonds	-	6,194,024	6,194,024
Transfers in	2,281,000	1,816,011	(464,989)
Transfers (out)	-	(37,000,000)	(37,000,000)
Total other financing sources (uses)	<u>2,281,000</u>	<u>2,215,035</u>	<u>(65,965)</u>
Changes in fund balance	494	11,974	11,480
Fund balance - beginning	<u>1,616,133</u>	<u>1,704,319</u>	<u>88,186</u>
Fund balance - ending	<u>\$ 1,616,627</u>	<u>\$ 1,716,293</u>	<u>\$ 99,666</u>

CITY OF GALVESTON, TEXAS**OTHER ENTERPRISE FUNDS**

To account for operations that are financed and operated in a manner similar to private business enterprises – (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through the user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Sanitation Services – To account for the provision of a sanitation system to the residents of the City, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Drainage Utility – To account for the provision of a utility drainage system to the residents of the City, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Airport – To account for the provision of a municipal airport including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

**COMBINING STATEMENT OF NET POSITION
OTHER ENTERPRISE FUNDS**

September 30, 2020

	Sanitation	Drainage	Airport	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 461,835	\$ 918,014	\$ 877,746	\$ 2,257,595
Accounts Receivable, net of allowance for doubtful accounts	1,468,850	570,381	192,369	2,231,600
Due from other funds	724,616	644	100	725,360
Inventories	-	6,580	-	6,580
Prepaid items	6,139	4,093	107,488	117,720
Restricted cash and investments	-	170,319	1,258,225	1,428,544
Total current assets	<u>2,661,440</u>	<u>1,670,031</u>	<u>2,435,928</u>	<u>6,767,399</u>
Non-current assets:				
Capital assets not being depreciated:				
Land and improvements	-	315,941	1,230,764	1,546,705
Construction in progress	132,276	3,569,857	771,966	4,474,099
Capital assets (net of depreciation):				
Infrastructure	30,071	6,058,859	19,199,075	25,288,005
Buildings and improvements	369,781	-	2,565,579	2,935,360
Equipment and furniture	285,438	1,503,789	76,480	1,865,707
Licensed vehicles	2,509,290	826,942	-	3,336,232
Total non-current assets	<u>3,326,856</u>	<u>12,275,388</u>	<u>23,843,864</u>	<u>39,446,108</u>
Total Assets	<u>5,988,296</u>	<u>13,945,419</u>	<u>26,279,792</u>	<u>46,213,507</u>
Deferred Outflows of Resources				
Deferred outflows relating to pension activities	444,749	222,374	37,062	704,185
Total Deferred Outflows of Resources	<u>444,749</u>	<u>222,374</u>	<u>37,062</u>	<u>704,185</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	291,859	89,031	135,509	516,399
Due to other funds	9,487	-	83,518	93,005
Due to other governments	51,281	-	-	51,281
Unearned revenue	15,620	-	-	15,620
Long-term liabilities, due within one year	242,282	103,279	21,082	366,643
Total current Liabilities	<u>610,529</u>	<u>192,310</u>	<u>240,109</u>	<u>1,042,948</u>
Non-current liabilities:				
Long-term liabilities, due in more than one year	336,510	48,664	7,649	392,823
Net pension liability	1,597,816	798,908	133,152	2,529,876
Total non-current Liabilities	<u>1,934,326</u>	<u>847,572</u>	<u>140,801</u>	<u>2,922,699</u>
Total Liabilities	<u>2,544,855</u>	<u>1,039,882</u>	<u>380,910</u>	<u>3,965,647</u>
Deferred Inflows of Resources				
Deferred inflows relating to pension activities	404,049	202,025	33,671	639,745
Total Deferred Inflows of Resources	<u>404,049</u>	<u>202,025</u>	<u>33,671</u>	<u>639,745</u>
Net Position				
Net investment in capital assets	3,326,856	12,275,388	23,843,864	39,446,108
Unrestricted	157,285	650,498	2,058,409	2,866,192
Total Net Position	<u>\$ 3,484,141</u>	<u>\$ 12,925,886</u>	<u>\$ 25,902,273</u>	<u>\$ 42,312,300</u>

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
OTHER ENTERPRISE FUNDS**

For the Year Ended September 30, 2020

	Sanitation	Drainage	Airport	Total
Operating Revenues				
Charges for services	\$ 6,337,973	\$ 2,865,032	\$ 1,117,792	\$ 10,320,797
Total operating revenues	<u>6,337,973</u>	<u>2,865,032</u>	<u>1,117,792</u>	<u>10,320,797</u>
Operating Expenses				
Personnel services	3,735,555	1,955,749	444,867	6,136,171
Contractual services	2,161,689	429,691	190,835	2,782,215
Supplies and materials	99,717	96,974	65,680	262,371
Other expenses	212,054	125,203	246,335	583,592
Depreciation	621,188	756,628	1,010,291	2,388,107
Total operating expenses	<u>6,830,203</u>	<u>3,364,245</u>	<u>1,958,008</u>	<u>12,152,456</u>
Operating income (loss)	<u>(492,230)</u>	<u>(499,213)</u>	<u>(840,216)</u>	<u>(1,831,659)</u>
Non-Operating Revenues (Expenses)				
Interest and investment revenue	11,991	11,180	20,349	43,520
Intergovernmental grants	-	-	50,000	50,000
Gain on disposal of capital assets	20,013	-	12,656	32,669
Total non-operating revenue (expenses)	<u>32,004</u>	<u>11,180</u>	<u>83,005</u>	<u>126,189</u>
Income (loss) before contributions and transfers	<u>(460,226)</u>	<u>(488,033)</u>	<u>(757,211)</u>	<u>(1,705,470)</u>
Capital contributions	67,970	1,411,631	605,854	2,085,455
Transfers in	-	-	55,000	55,000
Transfers (out)	(522,700)	(73,000)	(110,907)	(706,607)
Change in net position	<u>(914,956)</u>	<u>850,598</u>	<u>(207,264)</u>	<u>(271,622)</u>
Net position - beginning	<u>4,401,329</u>	<u>12,076,779</u>	<u>26,109,399</u>	<u>42,587,507</u>
Prior period adjustments	(2,232)	(1,491)	138	(3,585)
Net position - ending	<u>\$ 3,484,141</u>	<u>\$ 12,925,886</u>	<u>\$ 25,902,273</u>	<u>\$ 42,312,300</u>

**COMBINING STATEMENT OF CASH FLOWS
OTHER ENTERPRISE FUNDS**
For the Year Ended September 30, 2020

	Sanitation	Drainage	Airport	Total
Cash Flows from Operating Activities:				
Receipts from customers and users	\$ 6,061,249	\$ 2,786,080	\$ 1,029,411	\$ 9,876,740
Receipts for interfund services	-	-	66,156	66,156
Disbursed for employee services	(3,603,449)	(1,966,023)	(451,782)	(6,021,254)
Disbursed for goods and services	(2,405,773)	(660,751)	(474,343)	(3,540,867)
Net cash provided (used) by operating activities	<u>52,027</u>	<u>159,306</u>	<u>169,442</u>	<u>380,775</u>
Cash Flows from Non-Capital Financial Activities:				
Transfers from other funds	-	-	55,000	55,000
Transfers to other funds	(522,700)	(73,000)	(110,907)	(706,607)
Net cash provided (used) by noncapital financing activities	<u>(522,700)</u>	<u>(73,000)</u>	<u>(55,907)</u>	<u>(651,607)</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from the sale of equipment	20,013	-	12,656	32,669
Intergovernmental grants	-	-	50,000	50,000
Acquisition and construction of capital assets	(605,076)	(373,231)	(322,672)	(1,300,979)
Net cash used by capital and related financing activities	<u>(585,063)</u>	<u>(373,231)</u>	<u>(260,016)</u>	<u>(1,218,310)</u>
Cash Flows from Investing Activities				
Interest received	11,991	11,180	20,349	43,520
Net cash provided (used) by investing activities	<u>11,991</u>	<u>11,180</u>	<u>20,349</u>	<u>43,520</u>
Net increase (decrease) in cash and equivalents	(1,043,745)	(275,745)	(126,132)	(1,445,622)
Cash and equivalents, beginning of year	1,505,580	1,364,078	2,262,103	5,131,761
Cash and equivalents, at end of year	<u>\$ 461,835</u>	<u>\$ 1,088,333</u>	<u>\$ 2,135,971</u>	<u>\$ 3,686,139</u>
Unrestricted cash and equivalents	\$ 461,835	\$ 918,014	\$ 877,746	2,257,595
Restricted cash and equivalents	-	170,319	1,258,225	1,428,544
	<u>\$ 461,835</u>	<u>\$ 1,088,333</u>	<u>\$ 2,135,971</u>	<u>\$ 3,686,139</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (492,230)	\$ (499,213)	\$ (840,216)	(1,831,659)
Adjustments to reconcile operating income to cash provided by operating activities:				
Depreciation	621,188	756,628	1,010,291	2,388,107
(Increase) decrease in accounts receivable	40,802	(78,308)	(22,126)	(59,632)
(Increase) decrease in inventories	-	(6,580)	-	(6,580)
(Increase) decrease in prepaid items	(2,337)	(1,559)	(107,488)	(111,384)
(Increase) decrease in interfund receivables and payables	(317,434)	(644)	(100)	(318,178)
(Increase) decrease in deferred outflows/inflows relating to pension activities	763,980	418,567	69,762	1,252,309
Increase (decrease) in accounts payable and accrued expenses	74,819	(745)	135,996	210,070
Increase (decrease) in compensated absences payable	(48,050)	(37,762)	(11,497)	(97,309)
Increase (decrease) in deferred revenue	(4,887)	-	-	(4,887)
Increase (decrease) in net pension liability	(583,824)	(391,078)	(65,180)	(1,040,082)
Net cash provided by operating activities	<u>\$ 52,027</u>	<u>\$ 159,306</u>	<u>\$ 169,442</u>	<u>\$ 380,775</u>
Non-cash Transactions:				
Capital contributions	\$ 67,970	\$ 1,411,631	\$ 605,854	\$ 2,085,455

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - BUDGET AND ACTUAL
COMBINED UTILITY SYSTEM - OPERATING**

For the Year Ended September 30, 2020

	Budgeted Amounts Final	Actual Amounts		Actual - Budgetary Basis	Variance with Final Budget
		Actual	Reconciling Items		
Operating Revenues					
Charges for services	\$ 35,796,500	\$ 38,168,655	\$ -	\$ 38,168,655	\$ 2,372,155
Total operating revenues	<u>35,796,500</u>	<u>38,168,655</u>	<u>-</u>	<u>38,168,655</u>	<u>2,372,155</u>
Operating Expenses					
Personnel services	8,819,992	9,293,693	(475,059) ^{1,10}	8,818,634	1,358
Contractual services	2,990,312	3,155,400	(177,155) ^{2,10}	2,978,245	12,067
Supplies and materials	2,147,816	2,147,437	-	2,147,437	379
Surface water contract	11,124,386	8,040,717	2,924,947 ³	10,965,664	158,722
Other expenses	1,830,231	2,166,034	(340,220) ¹⁰	1,825,814	4,417
Administration charge	1,213,000	-	1,213,000 ⁵	1,213,000	-
Depreciation	-	9,283,116	(9,283,116) ⁶	-	-
Capital outlay	1,204,877	-	1,190,536 ⁷	1,190,536	14,341
Total operating expenses	<u>29,330,614</u>	<u>34,086,397</u>	<u>(4,947,067)</u>	<u>29,139,330</u>	<u>191,284</u>
Operating income (loss)	<u>6,465,886</u>	<u>4,082,258</u>	<u>4,947,067</u>	<u>9,029,325</u>	<u>2,563,439</u>
Non-Operating Revenues (Expenses)					
Interest and investment revenue	105,000	744,997	(582,688) ¹⁰	162,319	57,319
Principal expenditure	(4,021,315)	-	(4,021,316) ³	(4,021,316)	(1)
Gain on disposal of capital assets	-	18	-	18	18
Interest expense	(4,218,316)	(3,550,953)	(600,249) ⁸	(4,151,202)	67,114
Total non-operating revenue (expenses)	<u>(8,134,631)</u>	<u>(2,805,938)</u>	<u>(5,204,253)</u>	<u>(8,010,181)</u>	<u>124,450</u>
Income (loss) before contributions and transfers	<u>(1,668,745)</u>	<u>1,276,320</u>	<u>(257,186)</u>	<u>1,019,144</u>	<u>2,687,889</u>
Capital contributions		3,340,977	(3,340,977) ⁹	-	-
Transfers in		(1)		(1)	(1)
Transfers (out)	(487,240)	(1,690,668)	1,213,000 ^{4,5}	(477,668)	9,572
Change in net position	<u>(2,155,985)</u>	<u>2,926,628</u>	<u>(2,385,163)</u>	<u>541,475</u>	<u>2,697,460</u>
Net position - beginning	258,388,301	258,388,301	-	258,388,301	-
Prior period adjustments	(9,735)	(9,735)	-	(9,735)	-
Net position - ending	<u>\$ 256,222,581</u>	<u>\$ 261,305,194</u>	<u>\$ (2,385,163)</u>	<u>\$ 258,920,041</u>	<u>\$ 2,697,460</u>

1) This includes the accrual for compensated absences and GASB 68 pension expense which are not budgeted items.

2) This includes expenditures budgeted as capital outlay but not capitalizable assets and therefore reported as contractual services for GAAP basis.

3) This represents the principal payments on long-term debt which are budgeted as expenses (see Note #).

4) This represents interfund payments in lieu of taxes which are reflected as interfund transfers for GAAP basis.

5) This represents interfund administrative service charges which are reflected as interfund transfers for GAAP basis.

6) Depreciation is a non-cash expense and therefore not budgeted.

7) Capital outlay is budgeted as an expense but is capitalized and depreciated for GAAP basis.

8) This represents the amortization of deferred charge on bond issuance and bond issuance premiums which are non-cash expenses and therefore not budgeted.

9) Capital contributions are not budgeted items.

10) This represents non-budgeted Improvement Fund transactions.

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - BUDGET AND ACTUAL
SANITATION SERVICES**

For the Year Ended September 30, 2020

	Budgeted Amounts Final	Actual Amounts		Actual - Budgetary Basis	Variance with Final Budget
		Actual	Reconciling Items		
Operating Revenues					
Charges for services	\$ 6,394,669	\$ 6,337,973	\$ -	\$ 6,337,973	\$ (56,696)
Total operating revenues	<u>6,394,669</u>	<u>6,337,973</u>	<u>-</u>	<u>6,337,973</u>	<u>(56,696)</u>
Operating Expenses					
Personnel services	3,702,778	3,735,555	(244,742) ¹	3,490,813	211,965
Contractual services	2,164,129	2,161,689	-	2,161,689	2,440
Supplies and materials	101,450	99,717	-	99,717	1,733
Other expenses	212,859	212,054	-	212,054	805
Administration charge	240,000	-	240,000 ²	240,000	-
Depreciation	-	621,188	(621,188) ³	-	-
Capital outlay	606,000	-	605,077 ⁴	605,077	923
Total operating expenses	<u>7,027,216</u>	<u>6,830,203</u>	<u>(20,853)</u>	<u>6,809,350</u>	<u>217,866</u>
Operating income (loss)	<u>(632,547)</u>	<u>(492,230)</u>	<u>20,853</u>	<u>(471,377)</u>	<u>161,170</u>
Non-Operating Revenues (Expenses)					
Interest and investment revenue	21,687	11,991	-	11,991	(9,696)
Gain (loss) on disposal of capital assets	20,000	20,013	-	20,013	13
Total non-operating revenue (expenses)	<u>41,687</u>	<u>32,004</u>	<u>-</u>	<u>32,004</u>	<u>(9,683)</u>
Income (loss) before contributions and transfers	<u>(590,860)</u>	<u>(460,226)</u>	<u>20,853</u>	<u>(439,373)</u>	<u>151,487</u>
Capital contributions	-	67,970	(67,970) ⁵	-	-
Transfers (out)	(282,700)	(522,700)	240,000 ²	(282,700)	-
Change in net position	<u>(873,560)</u>	<u>(914,956)</u>	<u>192,883</u>	<u>(722,073)</u>	<u>151,487</u>
Net position - beginning	<u>2,866,856</u>	<u>4,401,329</u>	<u>50,084</u>	<u>4,451,411</u>	<u>1,584,555</u>
Prior period adjustments	(2,232)	(2,232)	-	(2,232)	-
Net position - ending	<u>\$ 1,991,064</u>	<u>\$ 3,484,141</u>	<u>\$ 242,967</u>	<u>\$ 3,727,106</u>	<u>\$ 1,736,042</u>

1) This includes the accrual for compensated absences and GASB 68 pension expense which are not budgeted items.

2) This represents interfund administrative service charges which are reflected as interfund transfers for GAAP basis.

3) Depreciation is a non-cash expense and therefore not budgeted.

4) Capital outlay is budgeted as an expense but is capitalized and depreciated for GAAP basis.

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - BUDGET AND ACTUAL
DRAINAGE UTILITY**

For the Year Ended September 30, 2020

	Budgeted Amounts Final	Actual Amounts		Actual - Budgetary Basis	Variance with Final Budget
		Actual	Reconciling Items		
Operating Revenues					
Charges for services	\$ 2,906,340	\$ 2,865,032	\$ -	\$ 2,865,032	\$ (41,308)
Total operating revenues	<u>2,906,340</u>	<u>2,865,032</u>	<u>-</u>	<u>2,865,032</u>	<u>(41,308)</u>
Operating Expenses					
Personnel services	1,914,610	1,955,749	(41,138) ^{1,6}	1,914,611	(1)
Contractual services	403,025	429,691	(26,666) ³	403,028	(3)
Supplies and materials	96,974	96,974	-	96,974	-
Other expenses	125,205	125,203	-	125,203	2
Administration charge	53,000	-	53,000 ²	53,000	-
Capital outlay	375,356	-	375,356 ³	375,356	-
Depreciation	-	756,628	(756,628) ⁴	-	-
Total operating expenses	<u>2,968,170</u>	<u>3,364,245</u>	<u>(396,076)</u>	<u>2,968,172</u>	<u>(2)</u>
Operating income (loss)	<u>(61,830)</u>	<u>(499,213)</u>	<u>396,076</u>	<u>(103,140)</u>	<u>(41,310)</u>
Non-Operating Revenues (Expenses)					
Interest and investment revenue	20,000	11,180	(1,732) ⁶	9,454	(10,546)
Total non-operating revenue (expenses)	<u>20,000</u>	<u>11,180</u>	<u>(1,732)</u>	<u>9,454</u>	<u>(10,546)</u>
Income (loss) before contributions and transfers	<u>(41,830)</u>	<u>(488,033)</u>	<u>394,344</u>	<u>(93,686)</u>	<u>(51,856)</u>
Capital contributions	-	1,411,631	(1,411,631) ⁵	-	-
Transfers (out)	(20,000)	(73,000)	53,000 ²	(20,000)	-
Change in net position	<u>(61,830)</u>	<u>850,598</u>	<u>(964,287)</u>	<u>(113,686)</u>	<u>(51,856)</u>
Net position - beginning	<u>11,121,376</u>	<u>12,076,779</u>	<u>(921,243)</u>	<u>11,155,536</u>	<u>34,160</u>
Prior period adjustments	<u>(1,491)</u>	<u>(1,491)</u>		<u>(1,491)</u>	<u>-</u>
Net position - ending	<u>\$ 11,058,055</u>	<u>\$ 12,925,886</u>	<u>\$ (1,885,530)</u>	<u>\$ 11,040,359</u>	<u>\$ (17,696)</u>

1) This represents the accrual for compensated absences and GASB 68 pension expense which are not budgeted items.

2) This represents interfund administrative service charges which are reflected as interfund transfers for GAAP basis.

3) Capital outlay is budgeted as an expenditure but is capitalized and depreciated for GAAP basis.

4) Depreciation is a non-cash expense and therefore not budgeted.

5) Capital contributions are not budgeted items.

6) This represents non-budgeted Improvement Fund transactions.

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION - BUDGET AND ACTUAL
AIRPORT**

For the Year Ended September 30, 2020

	Budgeted Amounts Final	Actual Amounts		Actual - Budgetary Basis	Variance with Final Budget
		Actual	Reconciling Items		
Operating Revenues					
Charges for services	\$ 1,097,189	\$ 1,117,792	\$ -	\$ 1,117,792	\$ 20,603
Total operating revenues	<u>1,097,189</u>	<u>1,117,792</u>	<u>-</u>	<u>1,117,792</u>	<u>20,603</u>
Operating Expenses					
Personnel services	441,408	444,867	(4,257) ¹	440,610	798
Contractual services	238,594	190,835	47,619 ³	238,457	137
Supplies and materials	65,745	65,680	-	65,680	65
Other expenses	246,335	246,335	-	246,335	-
Administrative charge	61,000	-	61,000 ²	61,000	-
Capital outlay	55,301	-	55,301 ³	55,301	-
Depreciation	-	1,010,291	(1,010,291) ⁴	-	-
Total operating expenses	<u>1,108,383</u>	<u>1,958,008</u>	<u>(850,628)</u>	<u>1,107,383</u>	<u>1,000</u>
Operating income (loss)	<u>(11,194)</u>	<u>(840,216)</u>	<u>850,628</u>	<u>10,409</u>	<u>21,603</u>
Non-Operating Revenues (Expenses)					
Intergovernmental grants	-	50,000	-	50,000	50,000
Interest and investment revenue	12,000	20,349	(12,970) ⁷	7,386	(4,614)
Gain (loss) on disposal of capital assets	-	12,656	-	12,656	12,656
Total non-operating revenue (expenses)	<u>12,000</u>	<u>83,005</u>	<u>(12,970)</u>	<u>70,042</u>	<u>58,042</u>
Income (loss) before contributions and transfers	<u>806</u>	<u>(757,211)</u>	<u>837,658</u>	<u>80,451</u>	<u>79,645</u>
Capital contributions	-	605,854	(605,854) ⁵	-	-
Transfers in	-	55,000	(55,000)	-	-
Transfers (out)	(11,938)	(110,907)	100,390 ^{6,7}	(10,517)	1,421
Change in net position	<u>(11,132)</u>	<u>(207,264)</u>	<u>277,194</u>	<u>69,934</u>	<u>81,066</u>
Net position - beginning	<u>22,508,035</u>	<u>26,109,399</u>	<u>(3,286,469)</u>	<u>22,822,930</u>	<u>314,895</u>
Prior period adjustments	138	138	-	138	-
Net position - ending	<u>\$ 22,497,041</u>	<u>\$ 25,902,273</u>	<u>\$ (3,009,275)</u>	<u>\$ 22,893,002</u>	<u>\$ 395,961</u>

1) This represents the accrual for compensated absences and GASB 68 pension expense which are not budgeted items.

2) This represents interfund administrative service charges which are reflected as interfund transfers for GAAP basis.

3) Capital outlay is budgeted as an expenditure but is capitalized and depreciated for GAAP basis.

4) These items are non-cash expenses and therefore are not budgeted.

5) Capital contributions are not budgeted items.

6) This represents budgeted interfund administrative service charges which are reflected as interfund transfers for GAAP basis.

7) This represents non-budgeted Improvement Fund transactions.

INTERNAL SERVICE FUNDS

To account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Central Garage – To account for the financing of garage activities through charges to user departments.

Casualty and Liability Insurance – To account for City casualty and liability insurance costs and financing through charges to user departments.

Central Service – To account for the financing of providing mailing, printing and data processing services to user departments.

Construction Management – To account for the financing of construction project oversight.

Workers' Compensation Insurance – To account for City workers' compensation insurance costs and financing through charges to user departments.

Health and Life Insurance – To account for City health and life insurance costs and financing through charges to user departments and participating agencies including the Park Board and Wharves Authority.

**COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS**

September 30, 2020

	Central Garage	Casualty & Liability Insurance	Central Service	Construction Management
Assets				
Current assets:				
Cash and cash equivalents	\$ 791,018	\$ 36,178	\$ 1,353,942	\$ 269,053
Accounts receivable, net of allowance for doubtful accounts	48,303	34,123	-	-
Due from other funds	12,537	-	-	-
Due from other governments	-	-	-	-
Due from component units	-	-	-	-
Inventories	268,300	-	-	-
Prepaid items	-	518,166	98,933	567
Restricted cash and investments	-	-	-	-
Total current assets	<u>1,120,158</u>	<u>588,467</u>	<u>1,452,875</u>	<u>269,620</u>
Non-current assets:				
Capital assets not being depreciated:				
Construction in progress	413,374	-	-	-
Capital assets (net of depreciation):				
Buildings and improvements	21,929	-	3,718,364	-
Equipment and furniture	81,491	-	1,276,121	-
Licensed vehicles	278,554	-	145,184	-
Total non-current assets	<u>795,348</u>	<u>-</u>	<u>5,139,669</u>	<u>-</u>
Total Assets	<u>1,915,506</u>	<u>588,467</u>	<u>6,592,544</u>	<u>269,620</u>
Deferred Outflows of Resources				
Deferred outflows relating to OPEB	-	-	-	-
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	155,343	15,725	56,896	934
Due to other funds	-	-	-	-
Long-term liabilities, due within one year	98,575	13,790	315,376	115,914
Total current liabilities	<u>253,918</u>	<u>29,515</u>	<u>372,272</u>	<u>116,848</u>
Non-current liabilities:				
Long-term liabilities, due in more than one year	159,180	37,151	395,706	131,640
Total OPEB liability	-	-	-	-
Total non-current liabilities	<u>159,180</u>	<u>37,151</u>	<u>395,706</u>	<u>131,640</u>
Total Liabilities	<u>413,098</u>	<u>66,666</u>	<u>767,978</u>	<u>248,488</u>
Deferred Inflows of Resources				
Deferred inflows relating to OPEB	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Position				
Net investment in capital assets	795,348	-	5,139,669	-
Restricted for capital projects	-	-	-	-
Unrestricted	707,060	521,801	684,897	21,132
Total Net Position	<u>\$ 1,502,408</u>	<u>\$ 521,801</u>	<u>\$ 5,824,566</u>	<u>\$ 21,132</u>

Workers' Compensation Insurance	Health and Life Insurance	Total
\$ 248,053	\$ 1,504,756	\$ 4,203,000
-	919,706	1,002,132
-	-	12,537
-	-	-
-	361,525	361,525
-	-	268,300
-	-	617,666
-	-	-
<u>248,053</u>	<u>2,785,987</u>	<u>6,465,160</u>
-	-	413,374
-	-	3,740,293
-	-	1,357,612
-	-	423,738
-	-	5,935,017
<u>248,053</u>	<u>2,785,987</u>	<u>12,400,177</u>
-	2,203,094	2,203,094
-	2,203,094	2,203,094
15,267	396,486	640,651
-	-	-
<u>333,306</u>	<u>960,640</u>	<u>1,837,601</u>
<u>348,573</u>	<u>1,357,126</u>	<u>2,478,252</u>
391,285	-	1,114,962
-	11,379,952	11,379,952
<u>391,285</u>	<u>11,379,952</u>	<u>12,494,914</u>
<u>739,858</u>	<u>12,737,078</u>	<u>14,973,166</u>
-	1,473,634	1,473,634
-	1,473,634	1,473,634
-	-	5,935,017
-	-	-
(491,805)	(9,221,631)	(7,778,546)
<u>\$ (491,805)</u>	<u>\$ (9,221,631)</u>	<u>\$ (1,843,529)</u>

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS**
For the Year Ended September 30, 2020

	Central Garage	Casualty & Liability Insurance	Central Service	Construction Management
Operating Revenues				
Charges for services	\$ 4,081,629	\$ 2,072,430	\$ 4,274,631	\$ 606,303
Total operating revenues	<u>4,081,629</u>	<u>2,072,430</u>	<u>4,274,631</u>	<u>606,303</u>
Operating Expenses				
Personnel services	1,476,566	164,037	2,380,458	503,516
Contractual services	1,233,724	19,849	909,522	129,249
Supplies and materials	1,933,040	2,014	323,160	10,951
Insurance claims and premiums	-	1,736,933	-	-
Other expenses	-	-	152	(152)
Depreciation	55,803	-	554,454	-
Total operating expenses	<u>4,699,133</u>	<u>1,922,833</u>	<u>4,167,746</u>	<u>643,564</u>
Operating income (loss)	<u>(617,504)</u>	<u>149,597</u>	<u>106,885</u>	<u>(37,261)</u>
Non-Operating Revenues (Expenses)				
Interest and investment revenue	10,358	115	14,919	-
Insurance proceeds	179,023	-	-	-
Interest expense	-	-	(14,807)	-
Gain (loss) on disposal of capital assets	9,225	-	16,985	-
Total non-operating revenue (expenses)	<u>198,606</u>	<u>115</u>	<u>17,097</u>	<u>-</u>
Income (loss) before capital contributions and transfers	(418,898)	149,712	123,982	(37,261)
Capital contributions	389,980	-	31,988	-
Transfers in	-	-	-	-
Transfers (out)	1,198	-	(456,001)	-
Change in net position	<u>(27,720)</u>	<u>149,712</u>	<u>(300,031)</u>	<u>(37,261)</u>
Total net position - beginning	<u>1,530,128</u>	<u>372,201</u>	<u>6,125,153</u>	<u>58,829</u>
Prior period adjustments	-	(112)	(556)	(436)
Total net position - ending	<u>\$ 1,502,408</u>	<u>\$ 521,801</u>	<u>\$ 5,824,566</u>	<u>\$ 21,132</u>

Workers' Compensation Insurance	Health and Life Insurance	Total
\$ 447,984	\$ 12,882,198	\$ 24,365,175
<u>447,984</u>	<u>12,882,198</u>	<u>24,365,175</u>
-	-	4,524,577
-	2,208,853	4,501,197
-	-	2,269,165
569,512	11,193,482	13,499,927
-	268,250	268,250
-	-	610,257
<u>569,512</u>	<u>13,670,585</u>	<u>25,673,373</u>
<u>(121,528)</u>	<u>(788,387)</u>	<u>(1,308,198)</u>
1,082	6,421	32,895
-	-	179,023
-	-	(14,807)
-	-	26,210
<u>1,082</u>	<u>6,421</u>	<u>223,321</u>
(120,446)	(781,966)	(1,084,877)
-	-	421,968
-	-	-
<u>(120,446)</u>	<u>(781,966)</u>	<u>(454,803)</u>
<u>(371,359)</u>	<u>(8,437,233)</u>	<u>(722,281)</u>
-	(2,432)	(3,536)
<u>\$ (491,805)</u>	<u>\$ (9,221,631)</u>	<u>\$ (1,843,529)</u>

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
 For the Year Ended September 30, 2020

	Central Garage	Casualty & Liability Insurance	Central Service	Construction Management
Cash Flows from Operating Activities:				
Receipts from customers and users	\$ 371,304	\$ (34,123)	\$ -	\$ -
Receipts for interfund services	3,747,653	2,072,430	4,274,631	850,569
Disbursed for personnel services	(1,476,101)	(164,587)	(2,233,339)	(441,289)
Disbursed for goods and services	(3,201,949)	(1,868,234)	(1,338,862)	(140,227)
Net cash provided (used) by operating activities	<u>(559,093)</u>	<u>5,486</u>	<u>702,430</u>	<u>269,053</u>
Cash Flows from Non-Capital Financing Activities:				
Transfers from other funds	-	-	-	-
Transfers to other funds	1,198	-	(456,001)	-
Net cash provided (used) by noncapital financing activities	<u>1,198</u>	<u>-</u>	<u>(456,001)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from the sale of equipment	9,225	-	16,985	-
Insurance proceeds	179,023	-	-	-
Principal payments on debt	-	-	(123,953)	-
Interest payments on debt	-	-	(14,807)	-
Acquisition and construction of capital assets	(118,524)	-	(138,555)	-
Net cash provided (used) by capital and related financing activities	<u>69,724</u>	<u>-</u>	<u>(260,330)</u>	<u>-</u>
Cash Flows from Investing Activities				
Interest received	10,357	115	14,919	-
Net cash provided (used) by investing activities	<u>10,357</u>	<u>115</u>	<u>14,919</u>	<u>-</u>
Net increase/(decrease) in cash and equivalents	(477,814)	5,601	1,018	269,053
Cash and equivalents, beginning of year	1,268,832	30,577	1,352,925	-
Cash and equivalents, at end of year	<u>\$ 791,018</u>	<u>\$ 36,178</u>	<u>\$ 1,353,943</u>	<u>\$ 269,053</u>
Unrestricted cash and equivalents	\$ 791,018	\$ 36,178	\$ 1,353,942	\$ 269,053
	<u>\$ 791,018</u>	<u>\$ 36,178</u>	<u>\$ 1,353,942</u>	<u>\$ 269,053</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	(617,504)	149,597	106,885	(37,261)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	55,803	-	554,454	-
(Increase) decrease in accounts receivable	43,288	(34,123)	3,404	529,470
(Increase) decrease in inventory	(33,459)	-	4,299	-
(Increase) decrease in prepaid items	-	(89,125)	(66,922)	(567)
(Increase) decrease in interfund receivables and payables	(5,960)	-	-	(285,204)
(Increase) decrease in deferred outflows/inflows relating to OPEB	-	-	-	-
Increase (decrease) in accounts payable	(1,726)	(20,313)	(46,809)	388
Increase (decrease) in claims payable	-	-	-	-
Increase (decrease) in compensated absences payables	465	(550)	147,119	62,227
Increase (decrease) in total OPEB liability	-	-	-	-
Net cash provided (used) by operating activities	<u>\$ (559,093)</u>	<u>\$ 5,486</u>	<u>\$ 702,430</u>	<u>\$ 269,053</u>
Non-cash Transactions:				
Capital contributions	\$ 389,981	\$ -	\$ 31,988	\$ -

Workers' Compensation Insurance	Health and Life Insurance	Total
\$ -	\$ 12,314,337	\$ 12,651,518
447,984	-	11,393,267
-	-	(4,315,316)
(335,943)	(11,602,599)	(18,487,815)
<u>112,041</u>	<u>711,738</u>	<u>1,241,654</u>
-	-	-
-	-	(454,803)
-	-	(454,803)
-	-	26,210
-	-	179,023
-	-	(123,953)
-	-	(14,807)
-	-	(257,079)
-	-	(190,606)
1,086	6,421	32,898
<u>1,086</u>	<u>6,421</u>	<u>32,898</u>
113,127	718,159	629,143
134,926	786,597	3,573,857
<u>\$ 248,053</u>	<u>\$ 1,504,756</u>	<u>\$ 4,203,000</u>
\$ 248,053	\$ 1,504,756	\$ 4,203,000
\$ 248,053	\$ 1,504,756	\$ 4,203,000
(121,528)	(788,387)	(1,308,198)
-	-	610,257
-	(567,861)	(25,822)
-	-	(29,160)
-	12,696	(143,918)
-	-	(291,164)
-	(92,652)	(92,652)
15,267	266,328	213,134
218,302	(32,900)	185,402
-	-	209,261
-	1,914,514	1,914,514
<u>\$ 112,041</u>	<u>\$ 711,738</u>	<u>\$ 1,241,654</u>
\$ -	\$ -	\$ 421,969

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FIDUCIARY FUNDS

To account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. These funds include Pension Trust and Agency Funds.

Pension Trust – To account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future. These funds are reported on a calendar year basis for the year ended December 31, 2019.

Agency – Custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

FIDUCIARY FUNDS
COMBINING STATEMENT OF NET POSITION
 December 31, 2019

	City of Galveston Employee's Retirement Plan for Employees	Galveston Firefighters' Pension Fund	City of Galveston Employee's Retirement Plan for Police	Total
Assets				
Cash and temporary investments	\$ -	\$ 1,188,419	\$ -	\$ 1,188,419
Receivables				
Accounts receivable	-	-	75,000	75,000
Interest and dividends	10,302	52,409	55,327	118,038
Loans to participants	-	-	223,027	223,027
Prepaid items		459	-	459
Investments				
Money market funds	1,337,010	-	264,183	1,601,193
U.S. Government agencies	-	-	321,623	321,623
Bonds	-	-	5,775,109	5,775,109
Common stocks	-	19,913,694	-	19,913,694
Equity mutual funds	41,262,531	7,776,429	14,581,562	63,620,522
Bond mutual funds	14,905,390	9,352,877	-	24,258,267
Alternative investments	-	1,229,685	-	1,229,685
Hedge funds	-	8,121,319	-	8,121,319
Real estate	-	1,395,589	682,560	2,078,149
Total Assets	<u>57,515,233</u>	<u>49,030,880</u>	<u>21,978,391</u>	<u>128,524,504</u>
Liabilities				
Accounts payable	17,327	30	25,580	42,937
Total Liabilities	<u>17,327</u>	<u>30</u>	<u>25,580</u>	<u>42,937</u>
Net Position - Restricted for Pension Benefits				
Held in trust for benefits and other purposes	57,497,906	49,030,850	21,952,811	128,481,567
Total Net Position - Restricted for Pension Benefits	<u>\$ 57,497,906</u>	<u>\$ 49,030,850</u>	<u>\$ 21,952,811</u>	<u>\$ 128,481,567</u>

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended December 31, 2019

	City of Galveston Employee's Retirement Plan for Employees	Galveston Firefighters' Pension Fund	City of Galveston Employee's Retirement Plan for Police	Total
Additions				
Contributions:				
Employer	\$ 2,424,690	\$ 1,401,579	\$ 3,803,070	\$ 7,629,339
Plan members	1,616,461	1,484,025	1,504,688	4,605,174
Total contributions	<u>4,041,151</u>	<u>2,885,604</u>	<u>5,307,758</u>	<u>12,234,513</u>
Investment Earnings:				
Net increase (decrease) in fair value of investments	8,583,152	6,855,477	2,764,933	18,203,562
Interest and dividends	1,288,837	1,141,289	497,134	2,927,260
Less investment expenses	(80,498)	(225,896)	(68,267)	(374,661)
Net investment income (loss)	<u>9,791,491</u>	<u>7,770,870</u>	<u>3,193,800</u>	<u>20,756,161</u>
Other income	-	-	-	-
Total Additions	<u>13,832,642</u>	<u>10,656,474</u>	<u>8,501,558</u>	<u>32,990,674</u>
Deductions				
Benefits paid to members and beneficiaries	4,683,296	3,456,716	4,107,380	12,247,392
Refunds of contributions	-	519,209	-	519,209
Administrative expenses	165,769	138,000	297,764	601,533
Total Deductions	<u>4,849,065</u>	<u>4,113,925</u>	<u>4,405,144</u>	<u>13,368,134</u>
Change in net position	<u>8,983,577</u>	<u>6,542,549</u>	<u>4,096,414</u>	<u>19,622,540</u>
Net position - restricted for pensions, beginning of year	<u>48,514,329</u>	<u>42,488,301</u>	<u>17,856,397</u>	<u>108,859,027</u>
Net position - restricted for pensions, end of year	<u>\$ 57,497,906</u>	<u>\$ 49,030,850</u>	<u>\$ 21,952,811</u>	<u>\$ 128,481,567</u>

AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended September 30, 2020

	September 30, 2019	Additions	Deletions	September 30, 2020
Assets				
Cash and temporary investments	\$ 764,678	\$ 1,096,248	\$ (1,139,407)	\$ 721,519
Total Assets	<u>764,678</u>	<u>1,096,248</u>	<u>(1,139,407)</u>	<u>721,519</u>
Liabilities				
Accounts and refunds payable	764,678	338,595	(381,754)	721,519
Total Liabilities	<u>\$ 764,678</u>	<u>\$ 338,595</u>	<u>\$ (381,754)</u>	<u>\$ 721,519</u>

DISCRETELY PRESENTED COMPONENT UNITS

The following statements combine information from six of the City's eight discretely presented component units.

**DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET POSITION**

September 30, 2020

	Park Board of Trustees	Galveston Island Redevelopment Authority	Campeche Shores - Public Improvement District No. 1	Beachside Village - Public Improvement District
Assets				
Current assets:				
Cash and cash equivalents	\$ 13,311,766	\$ 276,529	\$ -	\$ 2,818
Investments	26,417	-	-	-
Accounts receivable, net of allowance for doubtful accounts	402,623	88,554	2,831	-
Inventories	11,136	-	-	-
Prepaid items	383,948	-	-	-
Other	7,300	-	-	-
Restricted cash and temporary investments	-	-	-	-
Total current assets	<u>14,143,190</u>	<u>365,083</u>	<u>2,831</u>	<u>2,818</u>
Non-current assets:				
Net investment in direct financing and capital leases	-	-	-	-
Capital assets not being depreciated	1,476,225	-	-	-
Capital assets (net of accumulated depreciation)	300,096,471	-	-	-
Total non-current assets	<u>301,572,696</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>315,715,886</u>	<u>365,083</u>	<u>2,831</u>	<u>2,818</u>
Deferred Outflows of Resources				
Deferred charge on refunding	-	-	-	-
Deferred outflows relating to pension activities	-	-	-	-
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	2,642,873	4,680,257	-	2,818
Due to other governments	115,776	-	-	-
Interest payable	11,485	-	-	-
Deferred revenue	134,630	-	-	-
Due within one year	502,025	465,000	-	-
Total current liabilities	<u>3,406,789</u>	<u>5,145,257</u>	<u>-</u>	<u>2,818</u>
Non-current liabilities:				
Due in more than one year	1,247,071	11,419,990	-	-
Net pension liability	-	-	-	-
Total non-current liabilities	<u>1,247,071</u>	<u>11,419,990</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>4,653,860</u>	<u>16,565,247</u>	<u>-</u>	<u>2,818</u>
Deferred Inflows of Resources				
Deferred gain on refunding	-	-	-	-
Deferred inflows relating to pension activities	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Position				
Net investment in capital assets	300,034,247	-	-	-
Restricted:				
Debt service	397,607	-	-	-
Unrestricted	10,630,172	(16,200,164)	2,831	-
Total Net Position	<u>\$ 311,062,026</u>	<u>\$ (16,200,164)</u>	<u>\$ 2,831</u>	<u>\$ -</u>

*As of December 31, 2019

Bayside at Waterman's - Public Improvement District	Board of Trustees of Galveston Wharves*	Total
\$ 1,249,749	\$ 20,312,601	\$ 35,153,463
-	-	26,417
-	10,640,591	11,134,599
-	-	11,136
-	657,900	1,041,848
-	199,146	206,446
-	17,400,813	17,400,813
<u>1,249,749</u>	<u>49,211,051</u>	<u>64,974,722</u>
-	1,261,259	1,261,259
-	34,759,440	36,235,665
<u>5,823,744</u>	<u>110,871,962</u>	<u>416,792,177</u>
<u>5,823,744</u>	<u>146,892,661</u>	<u>454,289,101</u>
<u>7,073,493</u>	<u>196,103,712</u>	<u>519,263,823</u>
117,276	-	117,276
-	1,177,383	1,177,383
<u>117,276</u>	<u>1,177,383</u>	<u>1,294,659</u>
-	8,577,037	15,902,985
-	189,244	305,020
-	547,393	558,878
-	525,858	660,488
<u>175,000</u>	<u>7,153,378</u>	<u>8,295,403</u>
<u>175,000</u>	<u>16,992,910</u>	<u>25,722,774</u>
8,800,000	30,432,698	51,899,759
-	3,906,450	3,906,450
<u>8,800,000</u>	<u>34,339,148</u>	<u>55,806,209</u>
<u>8,975,000</u>	<u>51,332,058</u>	<u>81,528,983</u>
-	-	-
-	-	-
-	-	-
(2,858,980)	117,664,207	414,839,474
-	8,563,972	8,961,579
<u>1,074,749</u>	<u>19,720,858</u>	<u>15,228,446</u>
<u>\$ (1,784,231)</u>	<u>\$ 145,949,037</u>	<u>\$ 439,029,499</u>

**DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES**
For the Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Capital Grants and Contributions	Park Board of Trustees	Galveston Island Redevelopment Authority
Component Unit:					
Park Board of Trustees	\$ 31,120,928	\$ 5,854,311	\$ 360,881	\$ (24,905,736)	
Galveston Island Redevelopment Authority	1,027,753	-	-		(1,027,753)
Campeche Shores - Public Improvement District No. 1	104,413	-	-		
Beachside Village - Public Improvement District	105,917	-	-		
Bayside at Waterman's - Public Improvement District	834,257	-	-		
Board of Trustees of Galveston Wharves*	39,298,602	51,474,109	653,380		
	<u>\$ 72,491,870</u>	<u>\$ 57,328,420</u>	<u>\$ 1,014,261</u>	<u>(24,905,736)</u>	<u>(1,027,753)</u>
General revenues					
Taxes:					
Property taxes				-	2,695,895
Hotel occupancy taxes				10,277,207	-
Special assessments				-	-
Miscellaneous				1,736,870	-
Unrestricted investment earnings				93,261	5,211
Total general revenues				<u>12,107,338</u>	<u>2,701,106</u>
Change in net position				(12,798,398)	1,673,353
Net position (deficit) - beginning				<u>323,860,424</u>	<u>(22,485,789)</u>
Extraordinary item				-	4,612,272
Net position (deficit) - ending				<u>\$ 311,062,026</u>	<u>\$ (16,200,164)</u>

*For the Year Ended December 31, 2019

**As restated.

Net (Expense) Revenue and Changes in Net Position

Campeche Shores - Public Improvement District No. 1	Beachside Village - Public Improvement District	Bayside at Waterman's - Public Improvement District	Board of Trustees of Galveston Wharves*	Totals
				\$ (24,905,736)
				(1,027,753)
(104,413)				(104,413)
	(105,917)			(105,917)
		(834,257)		(834,257)
			12,828,887	12,828,887
<u>(104,413)</u>	<u>(105,917)</u>	<u>(834,257)</u>	<u>12,828,887</u>	<u>(14,149,189)</u>
-	-	-	-	2,695,895
-	-	-	-	10,277,207
38,185	105,917	884,952	-	1,029,054
-	-	-	-	1,736,870
-	-	11,105	(1,778,540)	(1,668,963)
<u>38,185</u>	<u>105,917</u>	<u>896,057</u>	<u>(1,778,540)</u>	<u>14,070,063</u>
(66,228)	-	61,800	11,050,347	(79,126)
<u>69,059</u>	<u>-</u>	<u>(1,846,031)</u>	<u>134,898,690</u>	<u>434,496,353</u>
-	-	-	-	4,612,272
<u>\$ 2,831</u>	<u>\$ -</u>	<u>\$ (1,784,231)</u>	<u>\$ 145,949,037</u>	<u>\$ 439,029,499</u>

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Unaudited Statistical Section

.....

2020 Annual Comprehensive Financial Report



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UNAUDITED STATISTICAL SECTION

This part of the City’s Annual Comprehensive Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City of Galveston’s overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the City’s financial performance and “well-being” have changed over time 142

Revenue Capacity

These schedules contain information to help the reader assess the City’s most significant local revenue sources: sales and property taxes..... 152

Debt Capacity

These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future. 158

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place. 162

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs. 166

Sources: Unless otherwise noted, the information in these schedules is derived from the Annual Comprehensive Financial Reports for the relevant year.

**NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS**

*Amounts in (000's)
(Accrual Basis of Accounting)
(Unaudited)*

	Fiscal Year			
	2011	2012	2013	2014
Governmental Activities				
Net investment in capital assets	\$ 98,510	\$ 90,856	\$ 102,988	\$ 110,071
Restricted	25,326	25,670	22,388	26,170
Unrestricted	10,861	31,737	33,857	30,237
Total governmental activities net position	<u>\$ 134,697</u>	<u>\$ 148,263</u>	<u>\$ 159,233</u>	<u>\$ 166,478</u>
Business-type Activities				
Net investment in capital assets	\$ 99,989	\$ 80,157	\$ 181,656	\$ 181,656
Restricted	11,886	11,920	21,326	21,326
Unrestricted	22,183	70,504	18,221	18,220
Total business-type activities net position	<u>\$ 134,058</u>	<u>\$ 162,581</u>	<u>\$ 221,203</u>	<u>\$ 221,202</u>
Primary government				
Net investment in capital assets	\$ 198,499	\$ 171,013	\$ 284,644	\$ 291,727
Restricted	37,212	37,590	43,714	47,496
Unrestricted	33,044	102,241	52,078	48,457
Total primary government net position	<u>\$ 268,755</u>	<u>\$ 310,844</u>	<u>\$ 380,436</u>	<u>\$ 387,680</u>

* As restated.

Fiscal Year					
2015	2016	2017	2018	2019	2020
\$ 113,903	\$ 131,335	\$ 147,847	\$ 170,911	\$ 191,799	\$ 198,501
35,409	32,732	34,264	33,271	31,559	32,664
(27,164)	(18,881)	(27,203)	(46,587)	(51,039)	(52,594)
<u>\$ 122,148</u>	<u>\$ 145,186</u>	<u>\$ 154,908</u>	<u>\$ 157,595</u>	<u>\$ 172,319</u>	<u>\$ 178,571</u>
\$ 178,032	\$ 193,491	\$ 240,169	\$ 255,587	\$ 277,164	\$ 282,578
18,097	15,706	2,937	3,196	2,674	2,749
39,681	45,169	28,429	23,274	21,056	17,775
<u>\$ 235,810</u>	<u>\$ 254,366</u>	<u>\$ 271,535</u>	<u>\$ 282,057</u>	<u>\$ 300,894</u>	<u>\$ 303,102</u>
\$ 291,935	\$ 324,826	\$ 388,016	\$ 426,498	\$ 468,963	\$ 481,079
53,506	48,438	37,201	36,467	34,233	35,413
12,517	26,288	1,226	(23,313)	(29,983)	(34,819)
<u>\$ 357,958</u>	<u>\$ 399,552</u>	<u>\$ 426,443</u>	<u>\$ 439,652</u>	<u>\$ 473,213</u>	<u>\$ 481,673</u>

CHANGES IN NET POSITION

Last Ten Fiscal Years
Amounts in (000's)
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year			
	2011	2012	2013	2014
Expenses				
Governmental Activities:				
General government	\$ 7,413	\$ 5,164	\$ 6,874	\$ 7,864
Public Safety	27,056	26,919	28,075	29,542
Public works	23,631	6,925	6,847	6,504
Culture and recreation	8,820	9,672	9,082	11,300
Planning and community development	31,723	12,942	11,972	5,246
Transportation system	4,649	24,150	8,164	6,804
Interest on long-term debt	2,555	4,909	1,716	2,160
Total governmental activities expenses	<u>105,847</u>	<u>90,681</u>	<u>72,730</u>	<u>69,420</u>
Business-Type Activities:				
Combined utility system	26,577	24,992	25,659	26,907
Sanitation	4,108	4,176	4,382	4,781
Drainage	1,750	1,959	1,873	2,356
Airport	1,496	1,468	1,499	1,579
Total business-type activities expenses	<u>33,931</u>	<u>32,595</u>	<u>33,413</u>	<u>35,623</u>
Total primary government expenses	<u>139,778</u>	<u>123,276</u>	<u>106,143</u>	<u>105,043</u>
Program Revenues				
Governmental Activities:				
Charges for services:				
General government	1,841	2,159	1,884	1,873
Public safety	3,030	2,554	2,417	2,246
Public works	318	-	-	-
Culture and recreation	1	2	2	-
Planning and community development	1,441	1,379	1,402	1,845
Transportation system	650	840	1,575	1,875
Operating grants and contributions:				
General government	176	-	-	-
Public safety	537	181	249	254
Public works	281	-	-	-
Culture and recreation	734	116	139	180
Planning and community development	25,706	31,006	11,119	9,067
Transportation system	3,015	2,771	2,789	3,559
Capital grants and contributions:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	10,247	1,718	71	13
Culture and recreation	3	-	-	-
Planning and community development	12,398	23,385	27,313	24,112
Transportation system	1,392	3,525	3,858	799
Total governmental activities program revenues	<u>61,770</u>	<u>69,636</u>	<u>52,818</u>	<u>45,823</u>
Business-Type Activities				
Charges for services:				
Combined utility system	28,240	29,199	30,450	30,525
Sanitation	4,247	4,655	5,088	5,617
Drainage	2,507	2,517	2,564	2,584
Airport	804	1,186	1,236	1,230
Operating grants and contributions:				
Airport	-	-	-	-
Capital grants and contributions:				
Combined utility system	-	1,628	-	-
Drainage	-	330	-	-
Airport	2,700	2,413	26	999
Total business-type activities program revenues	<u>38,498</u>	<u>41,928</u>	<u>39,364</u>	<u>40,955</u>
Total primary government program revenues	<u>100,268</u>	<u>111,564</u>	<u>92,182</u>	<u>86,778</u>
Net (Expense) Revenue				
Governmental activities	(44,077)	(21,045)	(19,912)	(23,597)
Business-type activities	4,567	9,333	5,951	5,332
Total primary government net (expense) revenue	<u>\$ (39,510)</u>	<u>\$ (11,712)</u>	<u>\$ (13,961)</u>	<u>\$ (18,265)</u>

Fiscal Year						
2015	2016	2017	2018	2019	2020	
\$ 8,284	\$ 9,882	\$ 13,984	\$ 10,381	\$ 8,870	\$ 9,535	
32,840	31,839	34,793	36,194	38,415	40,476	
6,570	6,383	7,729	9,669	10,653	10,481	
12,240	18,416	18,754	17,633	19,637	17,350	
8,799	4,733	10,067	21,999	7,512	5,546	
8,424	6,013	5,705	5,125	4,693	4,224	
1,896	2,660	1,620	2,488	2,232	910	
<u>79,053</u>	<u>79,926</u>	<u>92,652</u>	<u>103,489</u>	<u>92,012</u>	<u>88,522</u>	
22,494	21,011	32,273	35,646	36,776	38,072	
2,537	2,949	5,739	6,566	5,342	6,830	
12,444	14,141	2,979	2,726	3,064	3,364	
1,709	1,774	1,887	1,796	1,768	1,958	
<u>39,184</u>	<u>39,875</u>	<u>42,878</u>	<u>46,734</u>	<u>46,950</u>	<u>50,224</u>	
<u>118,237</u>	<u>119,801</u>	<u>135,530</u>	<u>150,223</u>	<u>138,962</u>	<u>138,746</u>	
1,977	1,725	1,761	225	127	564	
2,113	2,378	2,658	1,870	2,017	1,759	
-	-	-	-	-	-	
-	42	198	1,436	1,604	1,575	
2,002	1,714	1,455	1,375	1,423	1,487	
1,365	1,681	1,568	1,166	446	229	
52	14	-	-	-	-	
279	2,613	930	333	601	941	
-	-	-	-	-	-	
103	1,885	109	196	100	124	
1,958	4,881	15,228	1,722	740	1,516	
3,472	3,506	2,792	2,293	2,061	2,668	
2,396	-	-	-	465	-	
619	-	-	-	-	500	
2,323	32	-	-	-	-	
36	-	400	380	115	-	
23,824	21,705	10,942	25,979	32,828	11,505	
5,424	3,897	3,600	1,217	71	127	
<u>47,943</u>	<u>46,073</u>	<u>41,641</u>	<u>38,192</u>	<u>42,598</u>	<u>22,995</u>	
21,506	26,796	37,201	38,279	36,999	38,168	
2,277	2,464	5,494	6,288	6,216	6,338	
11,540	14,524	2,853	2,825	2,789	2,865	
1,594	1,151	935	957	1,056	1,118	
69	43	251	322	50	50	
-	-	2,808	63	25	-	
46	-	-	-	-	-	
896	1,972	501	499	3,702	606	
<u>37,928</u>	<u>46,950</u>	<u>50,043</u>	<u>49,233</u>	<u>50,837</u>	<u>49,145</u>	
<u>85,871</u>	<u>93,023</u>	<u>91,684</u>	<u>87,425</u>	<u>93,435</u>	<u>72,140</u>	
(31,110)	(33,853)	(51,011)	(65,297)	(49,414)	(65,527)	
(1,256)	7,075	7,165	2,499	3,887	(1,079)	
<u>\$ (32,366)</u>	<u>\$ (26,778)</u>	<u>\$ (43,846)</u>	<u>\$ (62,798)</u>	<u>\$ (45,527)</u>	<u>\$ (66,606)</u>	

CHANGES IN NET POSITION

Last Ten Fiscal Years
Amounts in (000's)
(Accrual Basis of Accounting)
(Unaudited)

	Fiscal Year			
	2011	2012	2013	2014
General Revenues and Other Changes in Net Position				
Governmental Activities:				
Taxes:				
Property taxes	\$ 20,087	\$ 21,489	\$ 21,988	\$ 22,920
Sales and use taxes	16,589	17,712	18,638	19,978
Hotel occupancy taxes	4,722	5,507	5,500	6,092
Franchise taxes	5,009	5,073	5,043	5,267
Payments in lieu of taxes	120	119	125	165
Unrestricted investment earnings	89	122	179	120
Miscellaneous	1,113	3,418	2,535	927
Insurance proceeds	-	-	-	-
Transfers	(18,863)	(18,830)	(23,124)	(23,601)
Total governmental activities general revenues and other changes in net position	<u>28,866</u>	<u>34,610</u>	<u>30,884</u>	<u>31,868</u>
Business-Type Activities:				
Net gain on sale of asset	-	-	-	-
Unrestricted investment earnings	155	132	153	54
Miscellaneous	158	228	4,075	165
Impairment of capital assets due to Hurricane Ike	-	-	-	-
Insurance proceeds	-	-	-	-
Transfers	18,863	18,830	23,124	23,601
Total business-type activities general revenues and other changes in net position	<u>19,176</u>	<u>19,190</u>	<u>27,352</u>	<u>23,820</u>
Total primary government general revenues and other changes in net position	<u>48,042</u>	<u>53,800</u>	<u>58,236</u>	<u>55,688</u>
Changes in Net Position:				
Governmental activities	(15,211)	13,565	10,972	8,270
Business-type activities	23,743	28,523	33,303	29,153
Total primary government changes in net position	<u>\$ 8,532</u>	<u>\$ 42,088</u>	<u>\$ 44,275</u>	<u>\$ 37,423</u>

Fiscal Year						
2015	2016	2017	2018	2019	2020	
\$ 23,272	\$ 25,963	\$ 28,509	\$ 31,846	\$ 32,692	\$ 35,474	
20,588	20,956	21,143	21,425	22,633	21,808	
7,068	11,782	11,731	13,279	12,824	10,602	
5,245	5,386	5,563	6,605	6,420	5,874	
207	268	289	167	248	315	
299	492	444	1,462	1,714	1,050	
523	3,038	1,699	1,971	705	791	
7,111	-	-	-	-	-	
(18,951)	(29,007)	(9,260)	(9,368)	(13,099)	(2,478)	
<u>45,362</u>	<u>38,878</u>	<u>60,118</u>	<u>67,387</u>	<u>64,137</u>	<u>73,436</u>	
-	-	273	-	108	33	
179	154	281	998	1,743	788	
30	1	189	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
<u>18,951</u>	<u>29,007</u>	<u>9,260</u>	<u>9,368</u>	<u>13,099</u>	<u>2,478</u>	
<u>19,160</u>	<u>29,162</u>	<u>10,003</u>	<u>10,366</u>	<u>14,950</u>	<u>3,299</u>	
<u>64,522</u>	<u>68,040</u>	<u>70,121</u>	<u>77,753</u>	<u>79,087</u>	<u>76,735</u>	
14,252	5,025	9,107	2,091	14,723	7,909	
17,904	36,237	17,168	12,758	18,837	2,220	
<u>\$ 32,156</u>	<u>\$ 41,262</u>	<u>\$ 26,275</u>	<u>\$ 14,849</u>	<u>\$ 33,560</u>	<u>\$ 10,129</u>	

FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)
 (Unaudited)

	Fiscal Year			
	2011	2012	2013	2014
General fund				
Nonspendable:				
Prepaid items	\$ 88,521	\$ 49,626	\$ 47,206	\$ 85,379
Restricted:				
Debt service	-	363,296	363,296	2,519,528
Committed:				
Other	363,296	-	-	-
Assigned:				
Emergency reserves	3,402,225	3,425,226	3,575,226	3,575,226
Unassigned	6,588,090	12,939,901	14,751,167	13,706,159
Total General fund	<u>\$ 10,442,132</u>	<u>\$ 16,778,049</u>	<u>\$ 18,736,895</u>	<u>\$ 19,886,292</u>
All other governmental funds				
Nonspendable:				
Inventories	\$ 151,858	\$ 148,976	\$ 162,672	\$ 259,579
Prepaid items	-	-	-	-
Restricted:				
Debt service	8,447,339	12,515,705	12,749,073	6,634,959
Beach preservation	-	4,921,580	968,854	3,228,192
Infrastructure and debt service	-	-	-	-
Capital projects	29,207,678	15,276,707	21,195,867	20,634,660
Grants	-	8,782,571	8,775,316	10,143,558
Other	-	-	-	-
Convention Center Operator	-	-	-	3,821,514
City of Galveston	-	-	-	2,815,873
Committed:				
Governmental projects	2,145,641	1,834,852	1,353,703	1,633,932
Assigned:				
Other	-	-	-	-
Unassigned	(147,964)	(188,367)	(138,902)	(109,360)
Total all other governmental funds	<u>\$ 39,804,552</u>	<u>\$ 43,292,024</u>	<u>\$ 45,066,583</u>	<u>\$ 49,062,907</u>

Note: In conforming to provisions of GASB Statement No. 54, fund balances of prior periods were restated to the new fund balance classifications.

Fiscal Year						
2015	2016	2017	2018	2019	2020	
\$ 92,764	\$ 88,427	\$ 79,354	\$ 91,435	\$ 68,961	\$ 51,356	
-	-	-	-	-	-	
-	-	-	-	-	-	
3,575,226	3,575,226	11,968,618	13,550,627	13,384,909	13,891,624	
14,989,479	16,995,557	5,738,923	6,179,328	3,055,805	2,809,581	
<u>\$ 18,657,469</u>	<u>\$ 20,659,210</u>	<u>\$ 17,786,895</u>	<u>\$ 19,821,390</u>	<u>\$ 16,509,675</u>	<u>\$ 16,752,561</u>	
\$ 264,300	\$ 294,596	\$ 129,879	\$ 310,764	\$ 331,719	\$ 309,440	
249,875	-	-	23,122	10,045	6,345	
-	-	-	-	-	-	
5,139,884	4,254,333	4,408,675	4,367,984	4,465,821	4,484,665	
864,030	1,056,745	1,212,904	1,358,515	1,516,878	1,573,309	
-	-	4,393,781	3,504,762	4,168,643	3,576,889	
26,858,694	21,549,478	46,396,468	41,924,866	35,359,833	63,782,473	
10,128,787	1,833,048	951,233	411,349	540,074	935,961	
-	-	-	-	-	-	
4,066,682	520,419	1,837,916	3,130,596	3,179,700	3,400,736	
3,375,562	4,154,602	1,055,608	1,473,585	1,626,422	1,799,287	
7,517,189	12,933,623	5,404,901	4,160,382	1,551,041	1,723,887	
-	-	6,346,778	5,350,132	5,362,283	6,089,666	
(241,400)	(430,719)	(14,770)	(16,706)	-	(1,682)	
<u>\$ 58,223,603</u>	<u>\$ 46,166,125</u>	<u>\$ 72,123,373</u>	<u>\$ 65,999,351</u>	<u>\$ 58,112,459</u>	<u>\$ 87,680,976</u>	

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

*Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(Unaudited)*

	Fiscal Year			
	2011	2012	2013	2014
Revenues				
Taxes:				
Property taxes	\$ 20,133,281	\$ 21,581,964	\$ 22,134,235	\$ 23,063,200
Sales and use taxes	21,310,423	23,218,434	24,137,885	26,477,757
Franchise taxes	5,009,456	5,073,022	5,042,575	5,267,085
Licenses and permits	1,143,096	1,260,920	1,157,610	1,226,220
Fines and forfeitures	2,833,357	2,466,092	2,243,919	1,991,045
Charges for services	2,647,526	2,703,729	3,290,246	3,818,853
Investment earnings	77,639	103,988	149,833	101,853
Intergovernmental	54,464,276	62,395,037	47,740,626	40,750,422
Other	2,235,767	2,633,854	974,471	1,163,677
Payments in lieu of taxes	-	-	-	-
Total Revenues	<u>109,854,821</u>	<u>121,437,040</u>	<u>106,871,400</u>	<u>103,860,112</u>
Expenditures				
General government	6,565,344	5,862,705	6,478,540	6,881,718
Public safety	27,751,162	26,312,416	26,953,671	27,522,088
Highways and roads	20,947,719	4,376,642	4,171,875	3,707,638
Culture and recreation	7,933,345	7,902,712	6,964,476	9,101,210
Planning and community development	30,051,147	33,911,247	11,784,903	5,086,927
Transportation	5,115,134	5,057,683	5,291,857	5,562,920
Capital outlay	26,735,581	28,211,925	33,036,633	34,977,699
Debt Service:				
Principal	2,474,843	3,460,785	7,420,397	6,030,509
Interest and other charges	3,657,873	3,385,968	3,311,138	2,561,735
Total Expenditures	<u>131,232,148</u>	<u>118,482,083</u>	<u>105,413,490</u>	<u>101,432,444</u>
Excess of revenues over (under) expenditures	(21,377,327)	2,954,957	1,457,910	2,427,668
Other Financing Sources (Uses)				
Premiums on bonds	-	2,632,838	1,700,560	-
Proceeds from bond sales	8,029,904	-	-	-
Payments to refunding bond escrow agent	(7,810,944)	-	(42,296,436)	-
Issuance of debt	150,000	1,564,791	41,165,000	1,071,675
Sale of capital assets	150,489	1,990,040	467,254	49,650
Transfers in	4,281,316	2,816,126	13,261,479	9,599,009
Transfers (out)	(3,378,451)	(2,135,363)	(12,022,362)	(8,002,281)
Total Other Financing Sources (Uses)	<u>1,422,314</u>	<u>6,868,432</u>	<u>2,275,495</u>	<u>2,718,053</u>
Extraordinary item - insurance proceeds from Hurricane Ike	-	-	-	-
Net change in fund balances	<u>\$ (19,955,013)</u>	<u>\$ 9,823,389</u>	<u>\$ 3,733,405</u>	<u>\$ 5,145,721</u>
Debt service as a percentage of noncapital expenditures	5.9%	7.6%	14.8%	12.9%

Fiscal Year						
2015	2016	2017	2018	2019	2020	
\$ 23,215,372	\$ 26,076,657	\$ 28,357,560	\$ 31,856,689	\$ 32,409,278	\$ 35,353,309	
27,656,239	31,899,257	31,994,292	34,704,102	35,456,386	32,409,660	
5,244,681	6,224,831	6,542,201	6,604,636	6,420,262	5,873,889	
1,437,379	1,330,049	1,142,579	1,196,241	1,264,319	1,320,998	
1,775,217	1,877,085	1,667,151	1,620,853	1,771,369	1,463,600	
4,211,953	4,040,969	4,112,023	2,831,731	2,252,123	1,822,642	
257,725	426,697	397,473	1,311,524	1,607,645	1,017,674	
42,403,382	37,174,025	37,662,122	34,950,034	39,882,936	19,864,892	
8,390,920	7,927,895	2,287,674	2,464,658	1,146,282	2,086,373	
-	-	188,561	166,921	248,545	315,490	
<u>114,592,868</u>	<u>116,977,465</u>	<u>114,351,636</u>	<u>117,707,389</u>	<u>122,459,145</u>	<u>101,528,527</u>	
8,030,642	7,870,018	9,383,448	8,979,498	8,394,061	8,995,897	
26,895,220	28,662,210	30,744,605	31,746,253	33,077,768	35,989,943	
3,559,100	3,623,002	3,933,319	4,959,120	8,794,060	6,788,555	
10,002,638	16,080,344	15,326,905	17,080,557	17,047,521	15,536,705	
4,367,107	4,026,954	8,838,704	6,027,028	8,677,373	1,748,399	
5,656,739	5,853,333	5,543,757	4,453,424	3,923,930	3,471,524	
21,545,616	41,872,758	38,569,718	41,922,932	48,132,202	27,585,279	
4,681,927	6,520,000	5,126,769	6,578,170	4,819,042	5,549,306	
2,500,163	3,893,170	1,911,402	2,153,652	3,838,683	4,906,116	
<u>87,239,152</u>	<u>118,401,789</u>	<u>119,378,627</u>	<u>123,900,634</u>	<u>136,704,640</u>	<u>110,571,724</u>	
27,353,716	(1,424,324)	(5,026,991)	(6,193,245)	(14,245,495)	(9,043,197)	
832,890	2,455,092	2,708,151	-	-	6,194,024	
5,900,000	17,365,000	22,600,000	-	-	31,205,000	
(6,583,192)	(19,522,803)	-	-	-	-	
-	-	-	-	-	-	
99,109	29,260	87,474	195,262	229,303	315,298	
6,666,229	5,654,928	37,901,933	8,917,866	16,785,746	48,183,989	
(26,336,878)	(5,034,951)	(36,849,302)	(7,009,410)	(13,968,161)	(45,386,913)	
<u>(19,421,842)</u>	<u>946,526</u>	<u>26,448,256</u>	<u>2,103,718</u>	<u>3,046,888</u>	<u>40,511,398</u>	
-	-	-	-	-	-	
<u>\$ 7,931,874</u>	<u>\$ (477,798)</u>	<u>\$ 21,421,265</u>	<u>\$ (4,089,527)</u>	<u>\$ (11,198,607)</u>	<u>\$ 31,468,201</u>	
10.2%	11.2%	8.0%	10.7%	8.1%	11.8%	

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

*Last Ten Fiscal Years
(Unaudited)*

Fiscal Year	Tax Year	Real Property			Less Tax Exempt Real Property
		Residential Property	Commercial Property	Personal Property	
2011	2010	\$ 3,608,440,796	\$ 2,247,235,921	\$ 394,971,941	2,201,984,567
2012	2011	3,657,579,440	2,276,704,639	439,643,914	2,179,641,187
2013	2012	3,786,151,318	2,283,664,701	395,564,155	2,142,532,519
2014	2013	3,896,885,655	2,318,866,523	457,168,489	2,137,855,522
2015	2014	4,124,343,068	2,345,587,752	466,504,332	2,180,798,250
2016	2015	4,709,378,375	2,419,995,951	490,328,554	2,329,056,020
2017	2016	5,078,286,527	2,948,065,401	475,924,292	2,656,735,937
2018	2017	5,731,588,183	2,767,945,856	440,556,376	2,767,008,032
2019	2018	5,783,141,090	2,785,915,714	466,581,283	2,704,709,306
2020	2019	6,170,091,943	2,821,267,727	481,536,694	2,795,241,612

Source: Galveston Central Appraisal District

Note: All properties are assessed at 100% of actual taxable value. The difference between market value and taxable value is the value of exemptions given for statutory purposes.

Residential property includes both single-family and multi-family properties.

*Unadjusted for over 65 and disabled property tax freeze

Total Taxable Assessed Value*	Total Direct Tax Rate	Estimated Actual Value	Assessed Value as a Percentage of Estimated Actual Value	Effective Tax Levy for Fiscal Year
4,048,664,091	\$ 0.55400	\$ 6,250,648,658	64.77%	\$ 22,384,352
4,194,286,806	0.55400	6,373,927,993	65.80%	23,030,149
4,322,847,655	0.55400	6,465,380,174	66.86%	23,714,788
4,535,065,145	0.55400	6,672,920,667	67.96%	24,913,658
4,755,636,902	0.53389	6,936,435,152	68.56%	25,105,697
5,290,646,860	0.52900	7,619,702,880	69.43%	27,559,694
5,845,540,283	0.52600	8,502,276,220	68.75%	30,107,754
6,173,082,383	0.56100	8,940,090,415	69.05%	33,579,559
6,330,928,781	0.56100	9,035,638,087	70.07%	34,349,034
6,677,654,752	0.57989	9,472,896,364	70.49%	37,274,510

**PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS**

*Last Ten Fiscal Years
(Unaudited)*

Fiscal Year	City Direct Rates				Overlapping Rates				
	General	Library	Debt Service	Total Direct	Galveston Independent School District	Galveston College	Navigation District 1	Galveston County	Total Millage
2011	\$ 0.44640	\$ 0.05000	\$ 0.05760	\$ 0.55400	\$ 1.16500	\$ 0.18950	\$ 0.04880	\$ 0.61980	\$ 2.57710
2012	0.45120	0.05000	0.05280	0.55400	1.16500	0.18950	0.04660	0.61290	2.56800
2013	0.45320	0.05000	0.04887	0.55207	1.16500	0.18940	0.04660	0.59990	2.55297
2014	0.45513	0.05000	0.05080	0.55593	1.16500	0.18700	0.04662	0.58370	2.53825
2015	0.43658	0.05000	0.04731	0.53389	1.15500	0.18700	0.04662	0.57884	2.50135
2016	0.43396	0.05000	0.04505	0.52900	1.15500	0.17875	0.04529	0.56125	2.46929
2017	0.44103	0.05000	0.03498	0.52600	1.15500	0.17025	0.04167	0.54625	2.43917
2018	0.44100	0.05000	0.07000	0.56100	1.15500	0.16619	0.04047	0.54615	2.46881
2019	0.45850	0.05000	0.05250	0.56100	1.15500	0.17519	0.04292	0.52983	2.46394
2020	0.47739	0.05000	0.05250	0.57989	1.08500	0.17118	0.04439	0.50440	2.38486

Source: Galveston Central Appraisal District, 2019 Taxing Entities and Tax Rates

PRINCIPAL PROPERTY TAXPAYERS

*Current Year and Nine Years Ago
(Unaudited)*

Taxpayer	Fiscal Year 2020			Fiscal Year 2011		
	Tax Year 2019		% of Total Assessed Valuation	Tax Year 2010		% of Total Assessed Valuation
	Taxable Assessed Value	Rank		Taxable Assessed Value	Rank	
Texas International Terminals	\$ 56,534,570	1	0.85%			
CenterPoint Energy Inc	\$ 51,694,910	2	0.77%	\$ 40,361,290	1	0.94%
Fertitta Hospitality Inc	\$ 50,827,090	3	0.76%	27,474,890	2	0.64%
TFT Galveston Portfolio Ltd.	\$ 27,083,000	4	0.41%			
Eighteen Seventy Strand Corp	\$ 25,000,000	5	0.37%			
2014 Galveston Jones Drive LLC	\$ 21,984,000	6				
Beatty Street Properties	\$ 18,977,120	7	0.28%			
Silverleaf Resorts Inc	\$ 18,202,790	8	0.27%	15,112,230	6	0.35%
Galveston Island Water Park LP	\$ 17,808,810	9	0.27%	16,430,160	4	0.38%
G&H Towing	\$ 16,635,550	10				
Island Hospitality Inc.	-		0.00%	12,277,360	10	0.29%
Halliburton Energy Services	-			17,971,659	3	0.42%
East Beach Project Phase 1 Ltd	-			15,761,100	5	0.37%
Walmart Realty	-			13,015,320	7	0.30%
MP Island	-			13,014,941	8	0.30%
M-I LLC	-			12,451,370	9	0.29%
	304,747,840		3.98%	158,404,009		4.28%
Other taxpayers	6,372,906,912		96.02%	4,143,850,653		95.72%
Total Assessed Valuation	<u>\$ 6,677,654,752</u>		<u>100.00%</u>	<u>\$ 4,302,254,662</u>		<u>100.00%</u>

Source - Galveston County Appraisal District

PROPERTY TAX LEVIES AND COLLECTIONS

*Last Ten Fiscal Years
(Unaudited)*

Fiscal Year	Tax Year	Tax Rate	Effective Tax Levy for Fiscal Year ⁽¹⁾	Collections of the Current Year Effective Levy Within the Fiscal Year of the Levy		Collections of Prior Year Levies Collected in the Fiscal Year	Total Collections by Fiscal Year	
				Amount	Percent of Levy	Amount ⁽²⁾	Amount	Percent of Levy
2011	2010	\$ 0.55400	\$ 22,384,352	\$ 21,634,612	96.7%	\$ 975,821	\$ 22,610,433	101.0%
2012	2011	0.55400	23,030,149	22,448,732	97.5%	917,415	23,366,147	101.5%
2013	2012	0.55400	23,714,788	23,155,399	97.6%	838,593	23,993,992	101.2%
2014	2013	0.55400	24,913,658	24,346,107	97.7%	743,149	25,089,256	100.7%
2015	2014	0.53389	25,105,697	24,593,586	98.0%	753,857	25,347,443	101.0%
2016	2015	0.52900	27,559,694	27,069,019	98.2%	749,472	27,818,491	100.9%
2017	2016	0.52600	30,107,754	29,484,505	97.9%	657,324	30,141,829	100.1%
2018	2017	0.56100	33,579,559	33,017,376	98.3%	865,913	33,883,289	100.9%
2019	2018	0.56100	34,349,034	33,644,354	97.9%	832,044	34,476,398	100.4%
2020	2019	0.57989	37,274,510	36,532,560	98.0%	973,945	37,506,505	100.6%

(1) Tax department records of the City's Effective Tax levy based on the GCAD appraisal roll adjusted for the over 65/disabled tax freeze.

(2) Includes delinquent taxes and penalties and interest.

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RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

*Amounts in (000's) except per capita amounts
(Unaudited)*

Fiscal Year	Governmental Activities				
	General Obligation Bonds	Special Obligation Bonds	Capital Leases	Certificates of Obligation	Other**
2011	\$ 17,143	\$ 31,595	\$ 212	\$ 22,605	\$ 2,516
2012	19,032	30,290	1,654	22,516	2,854
2013	18,569	26,690	1,291	18,758	3,029
2014	16,472	25,960	882	16,900	5,192
2015	14,620	25,200	-	14,153	5,332
2016	12,565	24,390	-	9,789	7,571
2017	33,835	23,525	-	5,829	7,938
2018	31,131	22,605	-	2,874	7,612
2019	28,775	24,553	-	1,391	5,758
2020	56,867	20,580	-	-	9,770

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

*See the Schedule of Demographic and Economic Statistics for personal income and population data.

** Other debt consists of contracts and notes payable, bond issuance discount/premiums and accretion on capital appreciation bonds.

Business-Type Activities									
Revenue Bonds	General Obligation Bonds	Capital Leases	Certificates of Obligation	Other**	Total Primary Government	Percentage of Personal Income*	Percentage of Total Taxable Value of Property	Per Capita*	
\$ 39,800	\$ -	\$ 397	\$ 15,174	\$ 43,593	\$ 173,035	15.4%	4.3%	\$ 3,624	
37,955	-	135	14,658	40,651	169,745	14.9%	4.0%	3,504	
35,755	-	-	14,116	30,767	148,975	12.6%	3.4%	3,119	
33,525	-	-	13,674	26,820	139,425	10.8%	3.1%	2,861	
28,810	-	-	13,210	25,675	127,000	9.8%	2.7%	2,560	
23,515	15,440	-	-	21,576	114,846	8.6%	2.2%	2,289	
21,910	14,466	-	33,355	21,602	162,460	11.7%	2.8%	3,214	
20,255	13,499	-	32,330	18,512	148,818	10.4%	2.4%	2,947	
18,540	11,970	-	64,580	17,323	169,962	11.3%	2.7%	3,368	
16,760	10,483	-	63,825	13,711	191,996	12.2%	2.9%	3,798	

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Fiscal Years

*Amounts in (000's) except per capita amounts
(Unaudited)*

Fiscal Year	Tax Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Net General Obligation Bonds	Percentage of Estimated Actual Taxable Value* of Property	Per Capita**
2011	2010	\$ 17,143	\$ 4,611	\$ 12,532	0.20%	\$ 262
2012	2011	19,032	3,766	15,266	0.24%	315
2013	2012	18,569	5,164	13,405	0.21%	281
2014	2013	16,472	5,543	10,929	0.16%	224
2015	2014	14,620	4,270	10,350	0.15%	209
2016	2015	12,565	3,433	9,132	0.12%	182
2017	2016	33,835	3,579	30,256	0.36%	599
2018	2017	31,131	3,724	27,407	0.31%	543
2019	2018	28,775	3,811	24,964	0.28%	495
2020	2019	56,867	1,717	55,150	0.58%	1,091

Note: The General Obligation Bonds amounts above represent only the tax supported General Obligation Debt. The General Obligation Bonds of the business-type activities are excluded as these are revenue supported debt and would artificially inflate the per capita amounts if included. Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property for property value data.

** Population data can be found in the Schedule of Demographic and Economic Statistics.

**DIRECT AND ESTIMATED OVERLAPPING
GOVERNMENTAL ACTIVITIES DEBT**

September 30, 2020
(Unaudited)

Taxing Jurisdiction	Gross Debt	Overlapping	
		Estimated Percentage *	Amount
Galveston County	\$ 229,269,447	21.91%	\$ 50,232,936
Galveston Independent School District	65,334,998	86.32%	56,397,170
Galveston County Municipal Utility District #30	4,365,000	100.00%	4,365,000
Total Overlapping Debt			<u>110,995,106</u>
City Direct Debt			<u>131,175,000</u>
Total Direct and Overlapping Debt			<u>\$ 242,170,106</u>
Ratio of Direct and Overlapping Funded Debt to 2020 Taxable Assessed Valuation			<u>3.63%</u>
Per Capita Debt - Direct and Overlapping			<u>\$ 4,791</u>

Sources: Texas Municipal Advisory Council of Texas and City Finance Department

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Galveston. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for paying the debt of each overlapping government.

*Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

DEMOGRAPHIC AND ECONOMIC STATISTICS

*Last Ten Fiscal Years
(Unaudited)*

Fiscal Year	Estimated Population ¹	Personal Income (\$ thousands)	Per Capita Personal Income ¹	Median Age ¹	Educational Level in Years of Formal Schooling ¹	School Enrollment ²	Unemployment Rate ³	Value of Building Permits (\$ thousands) ⁴
2011	47,743	\$ 1,125,828	\$ 23,581	38.8	12.0	6,400	8.7%	\$ 108,628
2012	48,444	1,142,358	23,581	38.8	12.0	6,450	7.3%	108,578
2013	47,762	1,185,548	24,822	38.8	12.0	6,450	6.9%	227,128
2014	48,733	1,287,039	26,410	38.8	12.0	6,800	6.0%	173,339
2015	49,608	1,297,944	26,164	37.3	12.0	6,813	5.0%	184,223
2016	50,180	1,338,050	26,665	36.3	12.0	6,976	5.6%	131,081
2017	50,550	1,383,351	27,366	37.0	12.0	6,884	5.2%	224,606
2018	50,497	1,425,379	28,227	36.6	12.0	7,017	4.6%	123,707
2019	50,457	1,500,238	29,733	39.4	12.0	7,015	3.8%	157,480
2020	50,546	1,571,717	30,406	37.8	12.0	7,041	10.1%	131,373

Data Sources:

1 - United States Census Bureau and City-Data.com

2 - Galveston Independent School District

3 - United States Census Bureau and Texas Workforce Commission (<https://texaslmi.com/LMIbyCategory/LAUS>)

4 - City of Galveston

Note: Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average.

PRINCIPAL EMPLOYERS

*Current Year and Nine Years Ago
(Unaudited)*

Employer	2020			2011		
	Employees	Rank	Percentage of Total City Employment (A)	Employees	Rank	Percentage of Total City Employment (A)
University of Texas Medical Branch	8,948	1	41.77%	11,568	1	48.38%
Landry's Restaurants	1,930	2	9.01%	1,045	2	4.37%
Galveston Independent School District	1,251	3	5.84%	1,012	3	4.23%
Texas A&M University at Galveston	1,247	4	5.82%	400	9	1.67%
Moody Gardens ¹	1,000	5	4.67%	655	7	2.74%
American National Insurance Company	900	6	4.20%	800	5	3.35%
Galveston County (on Island only)	888	7	4.15%	969	4	4.05%
City of Galveston	803	8	3.75%	728	6	3.04%
Schlitterbahn ²	700	9	3.27%			0.00%
ILA (Local 20, 1665, 15048, 1443) ³	465	10	2.17%			0.00%
Fertitta Hospitality	-		0.00%	582	8	2.43%
Walmart			0.00%	350	10	1.46%
Mitchell Historic Properties			0.00%			0.00%
	18,132		84.65%	18,109		75.72%

Source: GEDP, VisionGalveston, City of Galveston research efforts

1 This includes peak employment totals. Year round employment is 449.

2 This includes peak employment totals. Year round employment is 35.

3 Numbers listed are from 2017.

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years
(Unaudited)

Function	Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
General government:										
City Secretary	3	3	3	3	3	4	4	4	4	4
Municipal Court	10	10	10	9	9	9	8	8	8	8
City Manager	5	5	4	4	4	6	6	5	3	4
City Auditor	1	1	2	2	2	2	2	2	2	2
Finance	13	13	14	15	16	19	19	18	17	13
Legal	5	5	6	6	6	6	7	7	7	5
Human Resources	4	3	3	3	3	4	5	5	5	5
Public Safety:										
Police	131	177	177	188	185	185	190	203	209	200
Fire	115	115	115	115	115	118	120	119	119	118
Emergency Management	1	1	2	2	2	2	2	2	1	1
City Marshal	-	-	-	-	-	1	1	1	1	17
Public Works:										
Streets and Traffic	31	31	36	42	42	46	43	58	61	49
Parks	34	34	33	34	34	36	39	40	42	38
Planning and Community Development	23	24	24	23	23	25	25	24	25	42
Waterworks	32	32	35	37	41	40	45	43	44	39
Sewer System	69	69	80	81	84	87	90	87	88	54
Drainage Utility	23	23	26	35	35	34	33	37	36	28
Municipal Golf Course	-	-	-	-	-	-	-	-	-	-
Sanitation	45	45	45	48	48	58	59	59	59	56
Municipal Airport	8	8	8	8	8	8	8	8	8	7
Central Service	12	12	13	14	15	16	18	24	25	34
Central Garage	22	22	22	22	22	24	22	22	22	21
Municipal Insurance	2	2	2	2	2	2	2	2	2	2
Construction Management	5	5	5	5	5	6	13	17	17	17
Island Transit	52	52	52	52	52	58	58	58	53	38
Total	<u>646</u>	<u>692</u>	<u>717</u>	<u>750</u>	<u>756</u>	<u>796</u>	<u>819</u>	<u>853</u>	<u>858</u>	<u>802</u>

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OPERATING INDICATORS BY FUNCTION

*Last Ten Fiscal Years
(Unaudited)*

Function	Fiscal Year			
	2011	2012	2013	2014
Police:				
Physical arrests	6,593	7,065	7,597	6,039
Parking violations	11,951	27,680	9,267	25,556
Traffic violations	40,676	15,328	28,765	22,148
Fire:				
Calls	8,645	6,681	6,311	7,020
Inspections	735	1,324	407	1,678
Water:				
Service connections	23,966	21,323	20,595	23,294
Average daily consumption (gallons)	16,143,437	14,480,142	14,570,688	14,557,447
Sewer:				
Average daily flow (gallons)	6,694,692	7,108,791	7,854,000	7,136,000
Maximum daily capacity of plants (gallons)	14,580,000	14,580,000	14,500,000	17,713,000

Source: Various City Departments.

Fiscal Year					
2015	2016	2017	2018	2019	2020
6,356	6,178	5,176	4,794	4,450	4,100
12,320	15,406	18,834	19,546	22,947	1,119
20,243	20,915	16,054	16,369	18,059	6,892
7,172	7,700	7,360	7,031	6,843	6,891
1,693	2,750	1,964	1,765	1,450	1,926
19,938	21,623	21,945	22,338	22,794	26,811
14,509,978	14,170,071	14,092,921	11,904,677	10,616,792	10,892,000
8,826,700	9,302,558	7,420,000	7,640,699	7,792,000	7,792,000
14,550,000	14,550,000	14,874,000	14,874,000	14,874,000	14,874,000

CAPITAL ASSETS STATISTICS BY FUNCTION

*Last Ten Fiscal Years
(Unaudited)*

Function	Fiscal Year			
	2011	2012	2013	2014
Police:				
Stations	4	1	2	1
Patrol Units	67	55	60	74
Police officers	131	139	143	143
Fire:				
Stations	6	6	6	6
Fire fighters	115	108	115	109
Highways and streets:				
Streets (miles)	321	321	321	321
Street lights	4,444	4,365	4,377	4,411
Culture and recreation:				
Parks acreage	50	50	168	168
Parks	14	14	14	14
Tennis courts	16	16	16	16
Community centers	2	2	2	2
Cemeteries	2	2	7	7
Athletic fields	11	11	12	12
Swimming pools	-	-	-	-
Water:				
Water mains (miles)	388	389	389	389
Fire hydrants	2,422	2,422	2,422	2,552
Maximum daily capacity (thousands of gallons)	33,000,000	37,150,000	39,700,000	39,700,000
Sewer:				
Treatment plants	4	4	4	4
Sanitary sewers (miles)	243	243	243	243
Storm sewers (miles)	75	75	75	75
Maximum daily treatment capacity (thousands of gallons)	14,580,000	14,580,000	14,250,000	14,250,000

Source: Various City Departments.

Note: No capital asset indicators are available for the general government function.

Fiscal Year					
2015	2016	2017	2018	2019	2020
1	1	1	1	1	1
78	65	68	62	52	109
140	136	132	148	146	151
6	6	6	6	6	6
109	112	112	112	115	111
321	324	324	324	324	378
4,417	4,405	4,405	4,541	4,583	4,583
168	168	168	751	751	751
14	13	13	17	17	17
16	16	16	16	16	16
2	2	2	2	2	2
7	6	6	6	6	6
12	11	11	24	24	24
-	-	1	1	1	1
389	391	391	395	400	491
2,555	2,555	2,555	2,585	2,696	2,600
36,500,000	21,500,000	21,500,000	21,500,000	37,100,000	37,100,000
4	4	4	4	4	4
243	244	244	246	246	268
75	75	75	57	62	63
14,750,000	14,874,000	14,874,000	14,874,000	14,874,000	14,874,000

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APPENDIX C

FORM OF BOND COUNSEL OPINION

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BRACEWELL

[CLOSING DATE]

\$13,545,000
CITY OF GALVESTON, TEXAS
GENERAL OBLIGATION REFUNDING BONDS,
TAXABLE SERIES 2021

We have acted as bond counsel for the City of Galveston, Texas (the "City") in connection with the bonds described as follows:

CITY OF GALVESTON, TEXAS GENERAL OBLIGATION REFUNDING BONDS, TAXABLE SERIES 2021, dated May 1, 2021, in the principal amount of \$13,545,000 (the "Bonds").

The Bonds mature, bear interest, and may be transferred and exchanged as set out in the Bonds, the ordinance adopted by the City Council of the City (the "Bond Ordinance") and in the pricing certificate executed pursuant thereto (the "Pricing Certificate," and together with the Bond Ordinance, the "Ordinance").

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

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds and the refunding and defeasance of the Refunded Obligations by the proceeds of the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the City; an Escrow Agreement between the City and The Bank of New York Mellon Trust Company, N.A., as Escrow Agent; a report (the "Report") of The Arbitrage Group, Inc., verifying the sufficiency of the deposits made with the Escrow Agent for the Refunded Obligations; customary certificates of officers, agents and representatives of the City, and other public officials; and other certified showings relating to the authorization and issuance of the Bonds and the refunding of the Refunded Obligations. We have also analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Bond No. I-1.

In providing the opinions set forth herein, we have relied on representations and certifications of the City and other parties involved with issuance of the Bonds with respect to matters solely within the knowledge

of the City and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance.

Based on such examination, it is our opinion that:

1. The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and therefore the Bonds constitute valid and legally binding obligations of the City.
2. Taxable property within the City is subject to a continuing levy of ad valorem tax, within the limits prescribed by law, to pay the Bonds and the interest thereon.
3. Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Obligations pursuant to the Ordinance, the Escrow Agreement and the Report, and therefore the Refunding Obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor under the Escrow Agreement.

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

Except as stated above, we express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of the Bonds.

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

