

**OFFICIAL STATEMENT DATED APRIL 12, 2022**



**NEW ISSUE**  
**BOOK-ENTRY-ONLY**

**RATING:** Standard & Poor's "AA/Stable"  
(see "OTHER INFORMATION – Municipal Rating" herein)

*IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE NOTES IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES, UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE ALTERNATIVE MINIMUM TAX. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.*

*THE NOTES HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.*

**\$1,630,000**  
**CITY OF MONTGOMERY, TEXAS**  
**TAX NOTES, SERIES 2022**  
**(Montgomery County, Texas)**

**Dated Date:** May 1, 2022  
(Interest accrues from the date of delivery)

**Due:** March 1 — See page ii

The City of Montgomery, Texas (the "City") is issuing its Tax Notes, Series 2022 (the "Notes") pursuant to the applicable provisions of the Texas Constitution, the general laws of the State of Texas (the "State"), including particularly Chapter 1431, Texas Government Code and an ordinance to be adopted by the City Council of the City (the "City Council") authorizing the issuance of the Notes (the "Ordinance").

Interest on the Notes will accrue from the Date of Delivery (defined below) of the Notes to the Initial Purchaser and is payable commencing on September 1, 2022, and on each March 1 and September 1 thereafter until maturity or prior redemption. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. The Notes are direct obligations of the City and are payable from and secured by a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City. See "THE NOTES – Sources of Payment" herein.

The Notes will be issued in fully-registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and the nominee for The Depository Trust Company, New York, New York ("DTC") which will act as securities depository for the Notes. Individual purchases of the Notes will initially be made pursuant to the book-entry-only system described herein. Beneficial ownership of the Notes may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Notes will be made to the beneficial owners thereof. For as long as Cede & Co. is the sole registered owner of the Notes, the principal of and interest on the Notes will be payable by BOKF, NA, 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 Notes. See "THE NOTES – Book-Entry-Only System" herein.

Proceeds from the sale of the Notes will be used to pay for (i) the purchase of real property and construction and improvements to City buildings, and (ii) the costs of issuing the Notes. See "PURPOSE AND PLAN OF FINANCE – The Notes" herein.

**SEE PAGE ii FOR MATURITY SCHEDULE**

The Notes are not subject to optional redemption prior to their scheduled maturities. See "THE NOTES – Optional Redemption" herein.

The Notes are offered for delivery, when, as and if issued by the City, and received by the initial purchaser (the "Initial Purchaser"), subject to the approving opinions of the Attorney General of the State of Texas and Johnson Petrov LLP, Houston, Texas, Bond Counsel for the City. See "LEGAL MATTERS" herein and "Form of Opinion of Bond Counsel" attached hereto as Appendix D. It is expected that the Notes will be available for delivery through the facilities of DTC on or about May 12, 2022 (the "Date of Delivery").

**SAMCO Capital**

## MATURITY SCHEDULE

**\$1,630,000**  
**CITY OF MONTGOMERY, TEXAS**  
**TAX NOTES, SERIES 2022**  
**CUSIP Prefix <sup>(c)</sup>: 614118**

<b>Date</b>	<b>Principal</b>	<b>Interest</b>	<b>CUSIP</b>	
<b>March 1</b>	<b>Amount</b>	<b>Rate</b>	<b>Yield <sup>(b)</sup></b>	<b>Suffix</b>
2023	\$ 250,000	5.00%	1.90%	HQ3
2024	200,000	5.00%	2.13%	HR1
2025	215,000	5.00%	2.25%	HS9
2026	225,000	5.00%	2.30%	HT7
2027	235,000	5.00%	2.35%	HU4
2028	245,000	5.00%	2.40%	HV2
2029	260,000	5.00%	2.45%	HW0

(Interest accrues from the Date of Delivery)

- (a) The Notes are not subject to optional redemption prior to their scheduled maturities.
- (b) The initial reoffering prices or yields of the Notes are furnished by the Initial Purchaser (as defined herein) and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser at any time.
- (c) CUSIP numbers are included solely for the convenience of the owners of the Notes. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. None of the Initial Purchaser, the City, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**City Officials**

The City of Montgomery, Texas was incorporated under the laws of the State of Texas in 1935 and operates as a “General Law” city. The City operates under the Mayor/Council form of government, with a Mayor and five council members elected for staggered two-year terms. In addition, the City employs a City Administrator. The Administrator manages the day to day activities of the City. The City Council formulates the operating policy for the City and the City Administrator is the chief administrative officer.

**Elected Officials**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Sara Countryman	Mayor	5/1/2022	IT Sales
T.J. Wilkerson	Mayor Pro-Tem	5/1/2023	Senior Plant Operator
Carol Langley	Councilmember	5/1/2023	Office Clerk
Kevin Lacy	Councilmember	5/1/2022	Corporate Trainer
Julie Davis	Councilmember	5/1/2022	Executive Director – Nonprofit
Byron Sanford	Councilmember	5/1/2023	Pastor

**Appointed Position**

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Richard Tramm	City Administrator	3 Years
Anthony Lasky	Senior Account Clerk	2 Years
Nicola Browe	City Secretary/Director of Administration Services	2 Months

**Consultants**

Bond Counsel ..... Johnson Petrov LLP  
Houston, Texas

Certified Public Accountants .....Belt Harris Pechacek, LLLP  
Houston, Texas

Financial Advisor.....USCA Municipal Advisors, LLC  
Houston, Texas

**For Additional Information Contact:**

Mr. Richard Tramm  
City Administrator  
City of Montgomery  
101 Old Plantersville Rd.  
Montgomery, Texas 77316  
Telephone: (936) 597-6434  
Facsimile: (936) 597-6437  
[rtramm@ci.montgomery.tx.us](mailto:rtramm@ci.montgomery.tx.us)

Mr. James Gilley, Jr.  
USCA Municipal Advisors, LLC  
300 W. 6<sup>th</sup> Street, Suite 1900  
Austin, Texas 778701  
Telephone: (512) 813-1110  
[jfgilley@uscalle.com](mailto:jfgilley@uscalle.com)

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or any other person. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof.

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

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

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

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

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

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## OFFICIAL STATEMENT SUMMARY

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

<b>The Issuer</b>	City of Montgomery, Texas (the “City”).
<b>The Notes</b>	\$1,630,000 City of Montgomery, Texas Tax Notes, Series 2022 (the “Notes”). The Notes are being issued in the principal amounts, maturities, and at the rates per annum, set forth on the page ii hereto.
<b>Interest</b>	The Notes are dated May 1, 2022. Interest will accrue from the initial date of delivery of the Notes to the Initial Purchaser at the rates indicated on page ii hereof, with interest payable on September 1, 2022, and on each March 1 and September 1 thereafter until maturity or earlier redemption. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Notes will be issued only in fully-registered form in integral multiples of \$5,000 of principal amount. See “THE NOTES – Description” herein.
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar for the Notes is BOKF, NA, Dallas, Texas.
<b>Authority for Issuance</b>	The Notes are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Chapter 1431 of the Texas Government Code, and an ordinance to be adopted by the City Council of the City (the “City Council”) authorizing the issuance of the Notes (the “Ordinance”).
<b>Optional Redemption</b>	The Notes are not subject to optional redemption prior to their scheduled maturity. See “THE NOTES – Optional Redemption.”
<b>Sources of Payment</b>	Principal of and interest on the Notes are payable from the receipts of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City. The Notes are direct obligations of the City and not obligations of the State, Montgomery County or any other political subdivision. See “The NOTES – Sources of Payment” herein.
<b>Use of Proceeds</b>	Proceeds from the sale of the Notes will be used for (i) the purchase of real property and the construction and improvement of City buildings, and (ii) paying the costs of issuing the Notes. See “PURPOSE AND PLAN OF FINANCE – Sources and Uses” herein.
<b>Book-Entry-Only System</b>	The Notes are initially issuable only to Cede & Co., the nominee of DTC pursuant to a book-entry-only system. No physical delivery of the Notes will be made to the beneficial owners of the Notes. Principal of and interest on the Notes will be paid to Cede & Co., which will distribute such payment to the participating members of DTC for remittance to the beneficial owners of the Notes. See “THE NOTES – Book-Entry-Only System” herein.
<b>Municipal Rating</b>	S&P Rating Services, a division of S&P Global (“S&P”) has assigned its underlying municipal bond rating of “AA/Stable” to the Notes. See “OTHER INFORMATION – Municipal Rating” herein.
<b>Tax Exemption</b>	In the opinion of Bond Counsel, under existing law, interest on the Notes is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.

**Qualified  
Tax-Exempt Obligations**

The City has designated the Notes as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Purchase of Tax-Exempt Obligations by Financial Institutions” herein.

**Delivery**

It is expected that the Notes will be available for delivery through the facilities of DTC on or about May 12, 2022 (the “Date of Delivery”).

**Legality**

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

**SELECTED FINANCIAL INFORMATION**

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2021 Taxable Assessed Valuation <sup>(a)</sup>	\$ 371,671,215
2022 Estimated Population <sup>(b)</sup>	2,353

**Direct Ad Valorem Tax Debt as of May 1, 2022**

Outstanding Tax Debt	\$ 6,725,000
The Notes	<u>1,630,000</u>
Total	\$ 8,355,000
Less: Self-Supporting Debt <sup>(c)</sup>	<u>\$ 5,208,800</u>
Total Net Debt	\$ 3,146,200

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

Total Average Annual Debt Service	\$ 618,699
Total Maximum Annual Debt Service	\$ 954,739
Net Average Annual Debt Service	\$ 232,469
Net Maximum Annual Debt Service	\$ 530,199

	<b>Draft</b>
<b><u>Fund Balances</u></b>	<b><u>9/30/2021</u></b>
General Fund	\$ 1,578,788
Debt Service Fund	\$ 195,630
Enterprise Fund - Net Position	\$ 12,282,553

	<b>2021</b>
<b><u>Tax Rate</u></b>	
General Fund	\$ 0.2588
Debt Service Fund	<u>0.1412</u>
Total	\$ 0.4000

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(a) Source: Montgomery Central Appraisal District.

(b) Source: World Population Review.

(c) The current practice of the City is to pay a portion of its outstanding debt service secured by ad valorem taxes from the net revenues of other City sources including the water and sewer system. There is no assurance that the City will continue such practice in the future. If the City were to change such practice, then the City would be required to levy an ad valorem tax for payment of such debt. See Appendix A - Financial Information and Debt Information - Schedule 2 - Self-Supporting Debt.

(d) Includes the Notes.



**\$1,630,000**  
**CITY OF MONTGOMERY, TEXAS**  
**TAX NOTES, SERIES 2022**  
(Montgomery County, Texas)

**INTRODUCTION**

This Official Statement is provided to furnish information in connection with the offering by the City of Montgomery, Texas (the “City”) of its Tax Notes, Series 2022 in the aggregate principal amount of \$1,630,000 (the “Notes”).

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

The Notes are being issued by the City pursuant to the applicable provisions of the Texas Constitution, the general laws of the State of Texas (the “State”), including particularly Chapter 1431, Texas Government Code, as amended and the Ordinance.

The Notes are issued for the purposes described below and are payable from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City. See “THE NOTES – Sources of Payment” herein.

The City’s audited general purpose financial statements for the fiscal year ended September 30, 2021, which are attached hereto as Appendix C, present information on the general financial condition of the City at the dates and for the periods described therein.

**THE NOTES**

**The Notes**

Proceeds from the sale of the Notes will be used for (i) the purchase of real property and the construction and improvements of City buildings, and (ii) paying the costs of issuing the Notes.

**Sources and Uses**

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

Sources of Funds:	
Par Amount	\$1,630,000.00
Premium	157,908.40
Total	<u>\$1,787,908.40</u>
Uses of Funds:	
Deposit to the Project Fund	\$1,700,000.00
Underwriter’s Discount	11,545.43
Issuance Costs <sup>(a)</sup>	76,362.97
Total	<u>\$1,787,908.40</u>

(a) Includes professional costs, rating agency fee, fees of the Paying Agent/Registrar, rounding amount and other costs of issuance.

**General**

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

## **Description**

The Notes will bear interest at the rates and will mature on the dates and in the amounts as set forth on page ii hereof. The Notes will be dated May 1, 2022. Interest will accrue from the initial date of delivery of the Notes to the Initial Purchaser (“Date of Delivery”) and will be payable on September 1, 2022, and on each March 1 and September 1 thereafter, until maturity.

The Notes will be issued only in fully-registered form, in integral multiples of \$5,000 of principal amount, for any one maturity, and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein. **No physical delivery of the Notes will be made to the beneficial owners thereof.** Principal of and interest on the Notes will be payable by BOKF, NA, 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 Notes. See “THE NOTES – Book-Entry-Only System” herein.

## **Authority for Issuance**

The Notes are being issued pursuant to the applicable provisions of the Texas Constitution and of the laws of the State, including, particularly, Chapter 1431, Texas Government Code and the Ordinance.

## **Sources of Payment**

The Notes are payable as to principal and interest from the proceeds of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See “TAX INFORMATION – Debt Tax Rate Limitations” herein. Pursuant to the provisions of the Ordinance, the City Council, as the governing body of the City, has levied and agreed to assess and collect an annual ad valorem tax sufficient together with other funds available for such purpose to pay principal and interest on the Notes when due. Each year the City Council will make a determination of the taxes necessary to be collected to pay interest as it accrues and principal as it matures on the Notes, and will formally assess and collect such tax for that year. The receipts from such tax levy are to be credited to a separate fund to be used solely for the payment of the principal of and interest on the Notes.

## **Optional Redemption**

The Notes are not subject to optional redemption prior to their scheduled maturities.

## **Book-Entry-Only System**

*This section describes how ownership of the Notes is to be transferred and how the principal of, premium, if any, and interest on the Notes are to be paid to and credited by The Depository Trust Company, New York, New York (“DTC”), while the Notes are registered in its nominee name. The information in this section concerning DTC and the book-entry-only system has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor and the Initial Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*The City cannot and does not give any assurance that (1) DTC will distribute payment of debt service on the Notes, or redemption or other notices to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Notes), or redemption or other notices, to the beneficial owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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 Notes. The Notes will be issued as fully-registered securities in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note will be issued for each maturity of the Notes, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date

in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and reimbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

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

#### *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 Notes will be issued to the holders and the Notes will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE NOTES – Transfers and Exchanges" below.

#### **Ownership**

The City, the Paying Agent/Registrar and any agent of either may treat the person in whose name any Note is registered as the owner of such Note for the purposes of receiving payment of the principal thereof and the interest on the Note and for all other purposes whatsoever, whether or not such Note is due or overdue. Neither the City, the Paying Agent/Registrar, or any agent of either will be affected by any notice to the contrary.

#### **Transfers and Exchanges**

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

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

### **Replacement Notes**

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

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

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

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

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

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or

governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to restrict the waiver of immunity when a city performs a proprietary function. The Court remanded the case so that the appellate court could rule on whether the contract at issue was proprietary or governmental. *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2021). On remand, the appellate court found for the City of Jacksonville by holding the contract claim arose from the City's performance of a governmental function, and thus the claim was barred by immunity. After granting Wasson's petition for review of the appellate decision, the Court held that to determine if the City was engaged in a proprietary or governmental function, the focus of the inquiry is on the nature of the contract at the time of execution, not the nature of the breach at the time of the breach.

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

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City agrees in the Ordinance to maintain and provide a Paying Agent/Registrar at all times, and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State, or any other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Notes. Upon any change in the Paying Agent/Registrar for the Notes, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Notes which notice will also give the address of the new Paying Agent/Registrar.

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

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

### **Defeasance**

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

## **AD VALOREM PROPERTY TAXATION**

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

*the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

### **Valuation of Taxable Property**

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

State law requires the appraised value of an owner’s principal residence (“homestead” or “homesteads”) to be based solely on the property’s value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the “10% Homestead Cap”). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board, whose members are appointed by the Board of Directors of the Appraisal District. Such 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.

### **Issuer and Taxpayer Remedies**

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

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

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases. 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 for Veterans**

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families.

### **Local Option Homestead Exemptions**

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption

of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the exemption and at what percentage.

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

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

### **Personal Property**

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

### **Freeport Exemptions**

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

### **Other Exempt Property**

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

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

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2021 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2021,



concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

### **Tax Increment Financing Zones**

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

### **Tax Abatement Agreements**

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

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

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

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

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

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

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

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

“unused increment rate” means the 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 2022 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 September 1 or as soon as practicable thereafter.

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

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase. For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

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

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

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

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

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

### **Debt Tax Rate Limitations**

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

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

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

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

The City grants a 20% local option exemption of the market value of all residence homesteads.

The City grants a \$50,000 local option exemption of the market value of the residence homestead of persons 65 years of age or older and a \$70,000 disability exemption.

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

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

The City does tax Freeport Property.

The City has not taken action to tax Goods-in-Transit.

The City does not participate in a TIRZ.

## **Municipal Sales Tax Collections**

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Notes. Voters within the City approved an additional sales and use tax of ½ of 1% for property tax reduction, effective October of 1995. Additionally, the City's voters approved a sales and use tax of ½ of 1% for the benefit of the Montgomery Development Corporation (Type B)(the "Corporation"). See "ISSUER INFORMATION – Montgomery Community Development Corporation" herein.

## **ISSUER INFORMATION**

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

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

## **Anticipated Issuance of Debt**

The City does not anticipate the issuance of additional debt in the next twelve months.

## **Montgomery Economic Development Corporation**

The City incorporated the Montgomery Industrial Development Corporation in December 1995. In July of 2013 the name was changed to Montgomery Economic Development Corporation (MEDC). The purpose of the Corporation is to promote economic development within the City. A one-half of one percent of the City sales tax is designated for this purpose. See “Note I – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES – A. Discretely Presented Component Unit - Montgomery Economic Development Corporation” – Selected Data from the Annual Financial Report, City of Montgomery Fiscal Year Ended September 30, 2021” attached hereto as Appendix C.

## **Public Improvement District No. 1**

In September 2014, the City Council created the City of Montgomery Public Improvement District No. I (PID) in accordance with Chapter 372 of the Local Government Code. The PID was to provide a method of financing for certain public improvements for the benefit of the property within the PID, the costs of which would be paid by owners of real property located within the PID. See “Note I – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES – A. Blended Component Unit – Public Improvement District (PID) No. 1” – Selected Data from the Annual Financial Report, City of Montgomery Fiscal Year Ended September 30, 2021” attached hereto as Appendix C.

## **Chapter 380 Economic Development Agreement**

The City has entered into a sales tax abatement agreements (the “Agreements”) with several developers as authorized under Chapter 380 of the Local Government Code. Under each Agreement, the developers must meet certain commercial/retail development and/or employment requirements to have a portion of their sales taxes abated. See - “Note E Chapter 380 Development Agreements – Sales Taxes” - Selected Data from the Annual Financial Report, City of Montgomery Fiscal Year Ended September 30, 2021” attached hereto as Appendix C.

The City has also entered into property tax abatement agreements (the “Agreements”) with several developers as authorized by Chapter 380 of the Texas Local Government Code. Under the agreements, developers much meet certain commercial/retail and/or employment requirements to have a portion of their taxes abated. The minimum limitation value varies by each agreement. See - “Note E Chapter 380 Development Agreements – Property Taxes” - Selected Data from the Annual Financial Report, City of Montgomery Fiscal Year Ended September 30, 2021” attached hereto as Appendix C.

## **Other Obligations**

Other than those outstanding obligations listed, the City does not currently have other obligations outstanding at this time.

## **Employee Retirement Plan and OPEB Liability**

*Employee Retirement System.* The City participates in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS provides retirement, disability, and death benefits and all eligible employees are required to participate. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. All eligible employees are required to participate in the TMRS. See “IV OTHER INFORMATION - C Pension Plan – Texas Municipal Retirement System” Selected Data from Annual Financial Report, City of Montgomery, Texas Fiscal Year Ended September 30, 2021” attached hereto as Appendix C.

## **Financial Policies**

*Basis of Accounting.* The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Governmental resources are allocated and accounted for in the individual funds based upon the purposes for which they are utilized and the means by which spending activities are controlled. All

proprietary funds are accounted for using the accrual basis of accounting. See “Selected Data from Annual Financial Report, City of Montgomery, Texas Fiscal Year Ended September 30, 2021” attached hereto as Appendix C.

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

*Debt Service Fund.* The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on all long-term debt of the City.

*Capital Projects Fund.* The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition of capital facilities and other capital assets.

*Enterprise Fund.* The Enterprise Fund is used to account for the operations that provide water, sewer and sanitation services. The services are financed and operated in a manner similar to private business enterprises where the intent of the government that costs of providing goods or services will be financed through user charges.

*Fund Balance Policy.* The City strives to maintain an unassigned fund balance of not less than 25% of the budgeted operations expenditures in all City funds.

## **Deposits and Investments**

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

**Authorized Investments . . .** Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) Notes issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the governing body or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City’s account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City’s custodian of the banking deposits issued for the City’s account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the “Public Funds Investment Act”), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit

of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, Note proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of Note proceeds invested under such contract.

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service if the governing body of the City authorizes such investment in the particular pool by order, ordinance or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

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

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

*Investment Policies.* Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

*Additional Provisions.* Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer (if not the Treasurer) and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in no-load mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding Note proceeds and reserves and other funds held for debt service, and to invest no portion of Note proceeds, reserves and funds held for debt service, in mutual funds; (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (9) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investments transactions with the City.

*Current Investments.* As of January 31, 2022, the City had \$2,194,278.71 of investments in various government pools and securities and money market investments.

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

## LEGAL MATTERS

### Legal Opinions

The Notes are offered when, as and if issued, subject to the approval by the Attorney General of the State and the rendering of an opinion as to legality by Johnson Petrov LLP, Houston, Texas, Bond Counsel for the City.

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

In its capacity as Bond Counsel, Johnson Petrov LLP, Houston, Texas, has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. Bond Counsel's role in connection with the Official Statement was limited to reviewing the information describing the Notes in the Official Statement to verify that such descriptions conform to the provisions of the Ordinance. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

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

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

### **Litigation**

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

## **TAX MATTERS**

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

### **Tax Exemption**

In the opinion of Johnson Petrov LLP, Bond Counsel, under existing law interest on the Notes is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and, is not a specific preference item for purposes of the alternative minimum tax.

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

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Notes from gross income for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Initial Purchaser with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if



the foregoing representations are determined to be inaccurate or incomplete, interest on the Notes could become includable in gross income from the date of delivery of the Notes, regardless of the date on which the event causing such inclusion occurs.

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

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

#### **Purchase of Tax-Exempt Obligations by Financial Institutions**

Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution's investment in tax-exempt obligations acquired after September 7, 1986. Section 265(b) also provides an exception for financial institutions for tax-exempt obligations that are properly designated or deemed designated by an issuer as "qualified tax-exempt obligations."

The Notes have been designated as "qualified tax-exempt obligations" based, in part, on the City's representation that the amount of the Notes, when added to the amount of all other tax-exempt obligations (not including private activity Notes other than "qualified 501(c)(3) Notes" or any obligations, including a portion of the Notes, issued to currently refund any obligation to the extent the amount of the refunding obligation did not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the City during 2022, is not expected to exceed \$10,000,000. Further, the City and entities aggregated with the City under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Notes) during 2022.

Notwithstanding the designation or deemed designation of the Notes as "qualified tax-exempt obligations" under this exception, financial institutions acquiring the Notes will be subject to a 20% disallowance of allocable interest expense.

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

**Collateral Tax Consequences...** Prospective purchasers of the Notes should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Notes. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of

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

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

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

### **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 Notes from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Notes. Prospective purchasers of the Notes should consult with their own tax advisors with respect to any proposed, pending or future legislation.

## **CONTINUING DISCLOSURE OF INFORMATION**

The City is exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the “Rule”) pursuant to the exemption under subsection (d)(2), which applies to certain small issuers such as the Issuer who are not an “obligated person” (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Notes) in an aggregate principal amount exceeding \$10,000,000.

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

### **Annual Reports**

The City will file certain updated financial information and operating data customarily prepared by the City and is publicly available to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Issuer of the general type included in Appendix C of this Official Statement. The City will update and provide this information during the period which they must be provided after the end of each fiscal year ending in and after 2022.

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

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

### **Event Notices**

The City will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The City will provide notice of any of the following events with respect to the Notes: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes; (7) modifications to rights of holders of the Notes, if material; (8) Note calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Notes, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of the trustee, if material, (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. Neither the Notes nor the continuing disclosure agreement make any provision for liquidity enhancement, the funding of debt service reserves or the appointment of a trustee. In addition, the City will provide timely notice of any failure by the City to provide annual financial information, data or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to the MSRB in an electronic format, as prescribed by the MSRB.

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

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

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

### **Limitations and Amendments**

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The

City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Notes at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Notes may seek a writ of mandamus to compel the City to comply with its agreement.

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

#### **Compliance with Prior Undertakings**

In connection with prior transactions, the City has entered into undertakings pursuant to which it agreed to provide certain continuing disclosure information and notices of material events. The City did not file separate notice of rating upgrade from S&P Global Ratings on the City's general obligation debt from "A" to "AA" on December 10, 2013. The City filed the rating change and a failure to timely file the rating change on April 19, 2017.

The City is considering establishing written continuing disclosure procedures to help ensure timely compliance with its annual disclosure obligations in the future. Other than the above, for the past five years, the City has complied in all material respects with all continuing disclosure agreements made in accordance with respect to the City's obligations subject to the Rule.

#### **WEATHER EVENTS**

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

#### **INFECTIOUS DISEASE OUTBREAK – COVID-19**

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, 2021, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2021, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

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. These negative impacts may reduce or negatively affect property values and/or the collection of sales tax revenues within the City. See “APPENDIX A – FINANCIAL INFORMATION AND DEBT INFORMATION – Schedule 6 – Historical Analysis of Ad Valorem Taxation” and “— Schedule 11 – Municipal Sales Tax History.” The Notes are secured by an ad valorem tax (within the limits prescribed by law), and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Notes as well as the City’s operations and maintenance expenses. See “AD VALOREM PROPERTY TAXATION – Public Hearing and Maintenance and Operations Tax Rate Limitations.” Additionally, the City collects a sales and use tax on all taxable transactions within the City’s boundaries. A reduction in the collection of sales tax revenues may negatively impact the City’s operating budget and overall financial condition. See “APPENDIX A – FINANCIAL INFORMATION AND DEBT INFORMATION – Schedule 11 – Municipal Sales Tax History.” The impact on the City’s sales tax receipts will depend, in part, on the length of time that the City and local businesses are affected by the Pandemic and related mitigation efforts. The City cannot quantify the impact on sales tax collections at this time. 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.

## **OTHER INFORMATION**

### **Municipal Rating**

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

### **Financial Advisor**

USCA Municipal Advisors, LLC (“USCA”), a subsidiary of U.S. Capital Advisors, LLC, is employed as Financial Advisor to the City in connection with the issuance of the Notes. The Financial Advisor’s fee for services rendered with respect to the sale of the Notes is contingent upon the issuance and delivery of the Notes. USCA, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Notes, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

### **Initial Purchaser**

After requesting competitive bids for the Notes, the City has accepted a bid tendered by SAMCO Capital Markets, Inc. (the “Initial Purchaser”) to purchase the Notes at the rates shown on page ii of this Official Statement at a price of par plus a cash Premium of \$146,362.97. No assurance can be given that any trading market will be developed for the Notes after their initial sale by the City. The City has no control over the prices at which the Notes will initially be re-offered to the public.

The Initial Purchaser has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities law, but the Initial Purchaser does not guarantee the accuracy or completeness of such information.

## **GENERAL CONSIDERATIONS**

### **Prices and Marketability**

The delivery of the Notes is conditioned upon the receipt by the City of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Notes, stating the prices at which a substantial amount of the Notes of

each maturity have been sold to the public. For this purpose, the term “public” shall not include any person who is a bondhouse, broker, dealer, or similar person acting in the capacity of Initial Purchaser or wholesaler. The City has no control over trading of the Notes after a bona fide offering of the Notes is made by the Initial Purchaser at the yields specified on page ii of this Official Statement. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

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

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

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

**The City makes no representation that the Notes will be acceptable to public entities to secure their deposits, or acceptable to any such entities or institutions for investment purposes. No review by the City has been made of the laws in other states to determine whether the Notes are legal investments for various institutions in those states.**

### **Securities Laws**

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

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

The information contained in this Official Statement has been obtained primarily from the City and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the City. This is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the statutes, the Ordinance and other related documents are included herein subject to all the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

### **Forward-Looking Statements**

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

The City’s actual results could differ materially from those in such forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and

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

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

This Official Statement has been “deemed final” by an authorized representative of the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12. In the Ordinance, the City Council (i) authorized the City Administrator to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and (ii) authorized use of the Official Statement in the re-offering of the Notes by the Initial Purchaser.

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

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

### **No-Litigation Certificate**

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

### **Audited Financial Statements**

Belt Harris Pechacek, LLLP, the City’s independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Belt Harris Pechacek, LLLP relating to the City’s financial statements for the fiscal year ended September 30, 2021 is included in this Official Statement in APPENDIX C; however, Belt Harris Pechacek, LLLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

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**APPENDIX A**

**FINANCIAL INFORMATION AND DEBT INFORMATION**

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

**Schedule 1 - Outstanding Obligations**

	<b>Par Amount Outstanding</b>
<b><u>Total Outstanding Debt as of May 1, 2022</u></b>	
General Obligation Refunding Bonds, Series 2015	\$ 275,000
Tax and Surplus Revenue Certificates of Obligation, Series 2017A	840,000
Tax and Surplus Revenue Certificates of Obligation, Series 2017B	1,330,000
General Obligation Refunding Bonds, Series 2021	<u>4,280,000</u>
Total	\$ 6,725,000
The Notes	<u>\$ 1,630,000</u>
Total	\$ 8,355,000

**Schedule 2 - Self-Supporting Debt**

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

	<b>Par Amount Outstanding</b>
<b><u>Outstanding Self-Supporting Debt as of May 1, 2022</u></b>	
Tax and Surplus Revenue Certificates of Obligation, Series 2017A	\$ 840,000
Tax and Surplus Revenue Certificates of Obligation, Series 2017B	1,330,000
General Obligation Refunding Bonds, Series 2021	<u>3,038,800</u>
Total	\$ 5,208,800

### Schedule 3 – Debt Service Requirements

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

FYE 9/30	Outstanding Debt Service	The Notes			Total Debt Service	Less:	
		Principal	Interest	Total		Self-Supporting Debt Service <sup>(a)</sup>	Net Debt Service
2022	\$ 623,231	\$ -	\$ 24,676	\$ 24,676	\$ 647,907	\$ 422,282	\$ 225,625
2023	629,489	250,000	75,250	325,250	954,739	424,540	530,199
2024	629,556	200,000	64,000	264,000	893,556	426,018	467,538
2025	633,651	215,000	53,625	268,625	902,276	429,774	472,502
2026	533,322	225,000	42,625	267,625	800,947	426,573	374,374
2027	533,530	235,000	31,125	266,125	799,655	426,309	373,345
2028	532,841	245,000	19,125	264,125	796,966	425,367	371,599
2029	531,255	260,000	6,500	266,500	797,755	423,744	374,010
2030	533,741	-	-	-	533,741	426,412	107,329
2031	480,881	-	-	-	480,881	388,284	92,597
2032	478,047	-	-	-	478,047	385,638	92,409
2033	489,868	-	-	-	489,868	394,806	95,062
2034	481,413	-	-	-	481,413	389,527	91,887
2035	477,830	-	-	-	477,830	386,219	91,611
2036	474,077	-	-	-	474,077	382,771	91,307
2037	336,530	-	-	-	336,530	285,751	50,779
2038	171,700	-	-	-	171,700	121,907	49,793
<b>Total</b>	<b>\$ 8,570,958</b>	<b>\$ 1,630,000</b>	<b>\$ 316,926</b>	<b>\$ 1,946,926</b>	<b>\$ 10,517,884</b>	<b>\$ 6,565,920</b>	<b>\$ 3,951,965</b>

(a) The current practice of the City is to pay certain portions of the City's outstanding debt service from the net revenues of the City's water and sewer system and other sources: There is no assurance that the City will continue such practice in the future. If the City were to discontinue its practice of treating the debt as self-supporting it would be payable from ad-valorem taxes. See "Self-Supporting Debt."

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

The calculations shown below assume, solely for the purpose of illustration, no change in assessed valuation over the 2021 Taxable Assessed Valuation provided by the Appraisal District and use a tax rate adequate to the service of the City’s total debt service requirements following issuance of the Notes.

#### Total Debt Service<sup>(a)</sup>

Average annual debt service requirements on the City's total outstanding indebtedness.	\$ 618,699
\$0.1699 Tax rate on the 2021 taxable assessed valuation at 98% collection produces	\$ 618,840
Maximum annual debt service requirements on the City's total outstanding indebtedness.	\$ 954,739
\$0.2622 Tax rate on the 2020 taxable assessed valuation at 98% collection produces	\$ 955,031

(a) Includes the Notes.

## Net Debt Service <sup>(a)</sup>

Average annual debt service requirements on the City's net outstanding indebtedness.	\$ 232,469
\$0.0639 Tax rate on the 2021 taxable assessed valuation at 98% collection produces	\$ 232,748
Maximum annual debt service requirements on the City's net outstanding indebtedness.	\$ 530,199
\$0.1447 Tax rate on the 2021 taxable assessed valuation at 98% collection produces	\$ 530,330

(a) Includes the Notes.

## **Schedule 5 – Estimated Overlapping Debt**

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

### **Estimated Overlapping Debt**

The table below sets forth the estimated overlapping debt and the City's debt including the Notes.

<u>Jurisdiction</u>	<u>Amount</u>	<u>As of</u>	<u>Percentage Overlapping</u>	<u>Amount of Overlapping Debt</u>
Montgomery County	\$ 464,200,000	3/31/2022	0.44%	\$ 2,042,480
Montgomery Independent School District	310,045,000	3/31/2022	4.24%	13,145,908
	<u>\$ 774,245,000</u>			<u>\$ 15,188,388</u>
City of Montgomery <sup>(a)</sup>	\$ 8,355,000	5/1/2022	100.00%	\$ 8,355,000
	<u>\$ 782,600,000</u>			<u>\$ 23,543,388</u>

(a) Includes the Notes.

Source: Municipal Advisory Council of Texas. (Gross Debt).

**Schedule 6 – Historical Analysis of Ad Valorem Taxation**

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

<b>Tax Year</b>	<b>FYE 9/30</b>	<b>Taxable Assessed Valuation</b>	<b>Tax Rate</b>	<b>Tax Levy</b>	<b>% Total Collection</b>
2017	2018	\$ 198,959,465	\$ 0.4155	\$ 826,677	99.18%
2018	2019	255,132,229	0.4000	1,020,529	99.30%
2019	2020	274,601,279	0.4000	1,098,405	96.69%
2020	2021	307,467,021	0.4000	1,229,868	99.34%
2021	2022	371,671,215	0.4000	1,505,640	82.78%

Source: Municipal Advisory Council of Texas and Montgomery Central Appraisal District and the City of Montgomery.

**Schedule 7 - Largest Assessed Valuations**

The table below reflects the City top ten taxpayers for the tax year 2021.

<b>Ten Largest Taxpayers <sup>(a)</sup></b>	<b>Type of Property <sup>(a)</sup></b>	<b>2021 Assessed Valuation <sup>(a)</sup></b>	<b>Percentage of Total Taxable Assessed Valuation</b>
Kroger Texas LP	Grocery Store	\$ 16,146,917	4.34%
NH Heritage LP	Commercial	11,682,680	3.14%
105 Town Creek Village I, LTD	Apartments	11,472,940	3.09%
PD Montgomery Trace LP	Grocery Store	10,728,550	2.89%
Ogorchock LLC	Office Buildings	8,659,750	2.33%
Milestone 105 Investments LTD	Strip Mall/Plaza	8,419,780	2.27%
NH H3 LP	Nursing Homes	6,226,560	1.68%
Montgomery SH 105 Associates LLC	Commercial	5,903,150	1.59%
McCoy Corporation	Commercial Land	5,850,036	1.57%
Milestone Buffalo Springs SC LTD	Strip Mall/Plaza	5,440,580	1.46%
		<b>\$ 90,530,943</b>	<b>24.36%</b>
2021 Taxable Assessed Valuation <sup>(b)</sup>		\$ 371,671,215	

(a) Source: Montgomery County Central Appraisal District.

(b) Taxable Assessed Value provided by the Municipal Advisory Council of Texas.

**Schedule 9 – Tax Rate Distribution**

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

<u>Tax Year</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
General Fund	\$ 0.2588	\$ 0.2805	\$ 0.2112	\$ 0.2058	\$ 0.2043
Debt Service Fund	0.1412	0.1195	0.1888	0.1942	0.2112
Total	\$ 0.4000	\$ 0.4000	0.4000	\$ 0.4000	\$ 0.4155

**Schedule 10 - Estimated Overlapping Taxes**

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

<u>Jurisdictions</u>	<u>2021 Rate</u>
Montgomery County	\$ 0.4083
Montgomery Independent School District	1.1872
City of Montgomery	0.4000

**Schedule 11 - Municipal Sales Tax History**

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City. The proceeds are credited to the General Fund and are not pledged to the payment of the Notes. Voters within the City approved an additional sales and use tax of ½ of 1% for property tax reduction, effective October 1995. While not reflected in the schedule below, the City’s voters approved an additional ½ of 1% for the Montgomery Economic Development Corporation effective October of 1995.

<u>FYE</u>	<u>City Sales Tax Revenues <sup>(a)</sup></u>
2018	\$ 1,773,516
2019	2,071,895
2020	2,360,712
2021	3,008,931
2022 <sup>(b)</sup>	1,736,529

Source: City of Montgomery, Texas.

(a) Includes only the City's General Fund sales tax revenues collected.

Does not include sales tax revenues collected for the MEDC.

(b) Revenues collected as of March 2022.

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

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

<b>Revenues</b>	<b>Fiscal Year End September 30,</b>				
	<b>Draft 2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Property taxes	\$ 385,756	\$ 514,346	\$ 499,071	420,258	356,222
Intergovernmental	-	160,150	160,000	160,000	130,500
Interest	179	2,449	2,451	455	207
<b>Total Revenues</b>	<b>385,935</b>	<b>676,945</b>	<b>661,522</b>	<b>580,713</b>	<b>486,929</b>
<b>Expenditures</b>					
Debt Service:					
Principal	455,000	455,000	445,000	435,000	305,000
Interest and fiscal charges	369,109	218,056	226,100	233,075	219,102
Bond issuance costs	-	-	-	-	-
<b>Total Expenditures</b>	<b>824,109</b>	<b>673,056</b>	<b>671,100</b>	<b>668,075</b>	<b>524,102</b>
Revenues Over (Under) Expenditures	(438,174)	3,889	(9,578)	(87,362)	(37,173)
<b>Other Financing Sources (Uses)</b>					
Transfers in (out)	-	-	153,040	153,040	125,600
Refunding bonds issues	4,495,000	-	-	-	-
Premium on refunding bonds	605,566	-	-	-	-
Payment to bond agent	(4,890,557)	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>210,009</b>	<b>-</b>	<b>153,040</b>	<b>153,040</b>	<b>125,600</b>
Net Change in Fund Balances	(228,165)	3,889	143,462	65,678	88,427
Fund Balance - Beginning	423,795	419,906	276,444	210,766	122,339
<b>Fund Balance - Ending</b>	<b>\$ 195,630</b>	<b>\$ 423,795</b>	<b>\$ 419,906</b>	<b>\$ 276,444</b>	<b>\$ 210,766</b>

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

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

<u>Revenues</u>	<u>Fiscal Year Ending September 30,</u>				
	<u>Draft 2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Property taxes	\$ 876,606	\$ 559,205	\$ 527,050	\$ 406,680	\$ 340,809
Sales taxes	3,008,921	2,360,712	2,071,895	1,773,516	1,501,672
Franchise and local taxes	91,147	94,497	92,228	87,390	80,891
Other taxes	65,104	54,981	60,776	47,379	10,016
License and permits	211,192	241,515	319,447	244,253	197,630
Intergovernmental	505,196	369,696	3,768	68,611	301,568
Fines and forfeitures	400,949	273,031	410,884	514,540	351,217
Interest	1,810	10,222	16,748	6,656	2,987
Contributions and donations	-	-	-	-	-
Other	107,213	145,703	175,786	-	63,687
Total Revenues	5,268,138	4,109,562	3,678,582	3,149,025	2,850,477
 <u>Expenditures</u>					
Current:					
General government	1,617,410	1,023,570	1,019,753	609,204	400,082
Public safety	1,608,457	1,259,595	1,065,938	987,790	870,981
Municipal court	425,891	331,987	359,416	429,310	310,127
Public works	724,152	750,269	965,533	907,962	814,820
Capital outlay	805,706	214,976	281,637	166,113	386,764
Debt Service:	-	-	-	-	-
Principal	-	-	-	-	27,551
Due to state	-	-	-	-	-
Total Expenditures	5,181,616	3,580,397	3,692,277	3,100,379	2,810,325
Revenues Over (Under) Expenditures	86,522	529,165	(13,695)	48,646	40,152
 <u>Other Financing Sources (Uses)</u>					
Transfers in	8,298	2,160	2,880	3,400	3,400
Transfers out	(240,194)	(58,000)	(15,000)	(41,405)	-
Total Other Financing Sources (Uses)	(231,896)	(55,840)	(12,120)	(38,005)	3,400
Net Change in Fund Balance	(145,374)	473,325	(25,815)	10,641	43,552
Fund Balance - Beginning	1,724,162	1,250,837	1,276,652	1,266,011	1,212,911
Fund Balance - Ending	\$ 1,578,788	\$ 1,724,162	\$ 1,250,837	\$ 1,276,652	\$ 1,256,463

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

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

<u>Operating Revenues</u>	Fiscal Year Ending September 30,				
	Draft 2021	2020	2019	2018	2017
Water sales	\$ 795,495	\$ 710,132	\$ 660,268	\$ 584,599	\$ 555,476
Sewer revenue	734,723	666,050	591,563	498,944	417,914
Sanitation service	193,738	163,817	150,191	121,598	107,313
Meter installations	352,839	279,371	428,283	392,642	284,294
Late charges	-	-	-	-	-
Other	274,888	233,792	267,164	302,530	188,614
Total Operating Revenues	2,351,683	2,053,162	2,097,469	1,900,313	1,553,611
<u>Operating Expenses</u>					
Water, sewer and sanitation	1,064,061	1,108,244	1,032,873	869,487	947,431
Cost of water	-	-	-	-	-
Cost of sewer	-	-	-	-	-
Cost of garbage	-	-	-	-	-
Salary and wages	390,188	358,256	151,075	176,962	128,202
Depreciation	428,694	361,712	366,279	360,424	345,190
Total Operating Expenses	1,882,943	1,828,212	1,550,227	1,406,873	1,420,823
Operating (Loss)	468,740	224,950	547,242	493,440	132,788
<u>Nonoperating Revenues (Expenses)</u>					
Investment income	970	7,525	11,607	403	239
Contributed capital	-	-	-	115,753	-
Intergovernmental revenue	-	-	-	-	-
Total	970	7,525	11,607	116,156	239
(Loss) Before Transfers	469,710	232,475	558,849	609,596	133,027
Contributed capital					
Transfers out		(337,600)	874,805	(310,426)	(157,689)
Transfers in	627,281	1,949,708	(307,840)	106,205	-
Change in Net Position	1,096,991	1,844,583	1,125,814	405,375	(24,662)
Beginning net position	11,185,562	9,340,979	8,215,165	7,809,790	7,834,452
Ending Net Position	\$ 12,282,553	\$ 11,185,562	\$ 9,340,979	\$ 8,215,165	\$ 7,809,790



## **APPENDIX B**

### **ECONOMIC AND DEMOGRAPHIC INFORMATION**

#### **Location**

The City of Montgomery is a small residential community in Montgomery County located in 15 miles west of Lake Conroe and approximately 40 miles north of Houston.

#### **Economy**

The City is a residential community north of Houston that also includes substantial agricultural land. The local economy is limited to mainly residential and small retailers. It is assumed that the expansion of the Houston area will reach into the City area over the next ten years. The 2022 estimated population for the City is 2,353.

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**APPENDIX C**

**SELECTED DATA FROM  
ANNUAL FINANCIAL REPORT  
CITY OF MONTGOMERY, TEXAS  
FISCAL YEAR ENDED SEPTEMBER 30, 2021**

The information contained in this Appendix consists of excerpts from the City's Annual Financial Report for the Year Ended September 30, 2021, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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*ANNUAL FINANCIAL REPORT*

of the

**CITY OF MONTGOMERY, TEXAS**

**For the Year Ended  
September 30, 2021**

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**CITY OF MONTGOMERY, TEXAS**  
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September 30, 2021

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***FINANCIAL SECTION***

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## ***INDEPENDENT AUDITORS' REPORT***

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montgomery, Texas (the "City") as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2021, 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, budgetary comparison information, schedule of changes in net pension liability and total other postemployment benefits and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combined statements and schedules listed as supplementary information on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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BELMONT, HARRIS, & PECTACEK, LLLP

*Certified Public Accountants*  
Houston, Texas  
March 18, 2022

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

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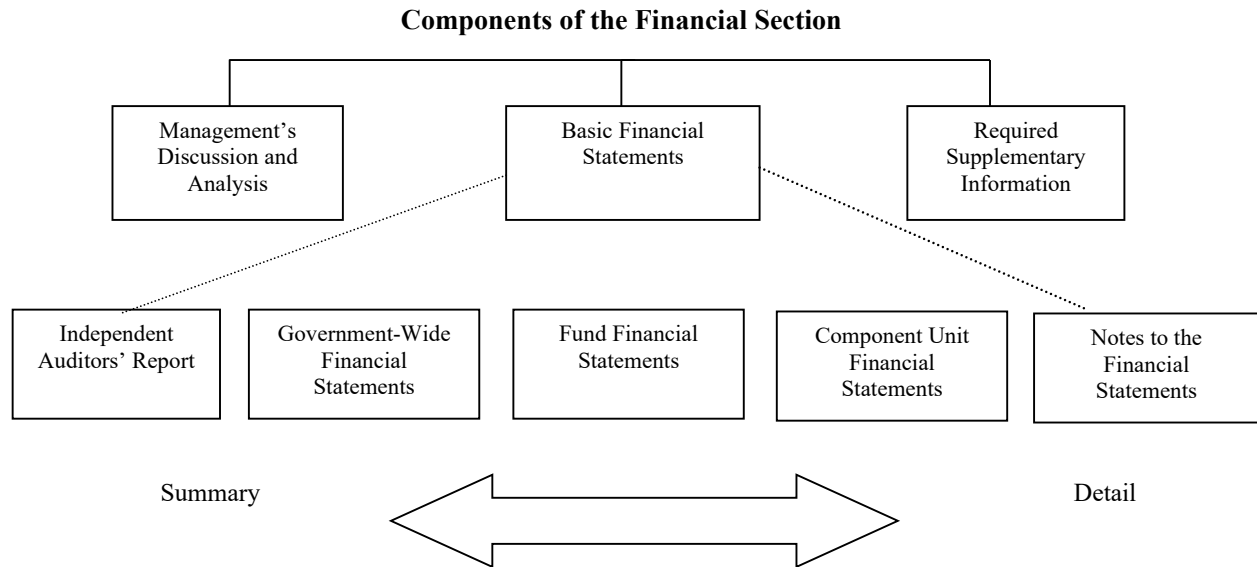
# CITY OF MONTGOMERY, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### For the Year Ended September 30, 2021

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Montgomery, Texas (the "City") for the year ending September 30, 2021. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

#### THE STRUCTURE OF OUR ANNUAL REPORT



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

#### Government-Wide Statements

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

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

**CITY OF MONTGOMERY, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended September 30, 2021

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including general government, municipal court, public safety, and public works. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, sewer, and sanitation services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation, the Montgomery Economic Development Corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The Public Improvement District No. 1, although also legally separate, functions for all practical purposes as a department of the City and, therefore, has been included as an integral part of the primary government.

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

## **FUND FINANCIAL STATEMENTS**

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

### **Governmental Funds**

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City'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 eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund, which are considered to be major funds for reporting purposes.



**CITY OF MONTGOMERY, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended September 30, 2021

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

**Proprietary Funds**

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water, sewer, and sanitation services. The proprietary fund financial statements provide information for the water, sewer, and sanitation fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

**Notes to Financial Statements**

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

**Other Information**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$12,848,049 as of September 30, 2021. A portion of the City's net position, 71%, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net position, \$281,782 or 2%, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$3,411,557 or 27%, may be used to meet the City's ongoing obligation to citizens and creditors.

**CITY OF MONTGOMERY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2021**

**Statement of Net Position**

The following table reflects the condensed Statement of Net Position:

	September 30, 2021			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 4,531,840	\$ 2,327,685	\$ -	\$ 6,859,525
Capital assets, net	5,404,053	10,235,277	-	15,639,330
<b>Total Assets</b>	<b>9,935,893</b>	<b>12,562,962</b>	<b>-</b>	<b>22,498,855</b>
Deferred outflows - pensions	128,836	11,011	-	139,847
Deferred outflows - OPEB	11,154	953	-	12,107
Deferred charge on refunding	44,874	-	-	44,874
<b>Total Deferred Outflows of Resources</b>	<b>184,864</b>	<b>11,964</b>	<b>-</b>	<b>196,828</b>
Long-term liabilities	8,060,687	23,307	-	8,083,994
Other liabilities	1,377,725	259,375	-	1,637,100
<b>Total Liabilities</b>	<b>9,438,412</b>	<b>282,682</b>	<b>-</b>	<b>9,721,094</b>
Deferred inflows - pensions	116,849	9,691	-	126,540
<b>Total Deferred Inflows of Resources</b>	<b>116,849</b>	<b>9,691</b>	<b>-</b>	<b>126,540</b>
<b>Net Position:</b>				
Net investment in capital assets	6,743,155	10,235,277	(7,823,722)	9,154,710
Restricted	281,782	-	-	281,782
Unrestricted	(6,459,441)	2,047,276	7,823,722	3,411,557
<b>Total Net Position</b>	<b>\$ 565,496</b>	<b>\$ 12,282,553</b>	<b>\$ -</b>	<b>\$ 12,848,049</b>
	September 30, 2020			
	Governmental Activities	Business-Type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 4,900,271	\$ 1,893,584	\$ -	\$ 6,793,855
Capital assets, net	4,779,295	9,581,966	-	14,361,261
<b>Total Assets</b>	<b>9,679,566</b>	<b>11,475,550</b>	<b>-</b>	<b>21,155,116</b>
Deferred outflows - pensions	72,524	6,412	-	78,936
Deferred charge on refunding	2,466	-	-	2,466
<b>Total Deferred Outflows of Resources</b>	<b>74,990</b>	<b>6,412</b>	<b>-</b>	<b>81,402</b>
Long-term liabilities	8,151,506	9,005	-	8,160,511
Other liabilities	880,165	278,207	-	1,158,372
<b>Total Liabilities</b>	<b>9,031,671</b>	<b>287,212</b>	<b>-</b>	<b>9,318,883</b>
Deferred inflows - pensions	110,959	9,188	-	120,147
<b>Total Deferred Inflows of Resources</b>	<b>110,959</b>	<b>9,188</b>	<b>-</b>	<b>120,147</b>
<b>Net Position:</b>				
Net investment in capital assets	6,321,923	9,581,966	(8,062,626)	7,841,263
Restricted	510,952	-	-	510,952
Unrestricted	(6,220,949)	1,603,596	8,062,626	3,445,273
<b>Total Net Position</b>	<b>\$ 611,926</b>	<b>\$ 11,185,562</b>	<b>\$ -</b>	<b>\$ 11,797,488</b>

The City has issued and repaid debt in its governmental activities for which the proceeds were used to construct capital assets for the governmental and business-type activities. With one activity carrying the carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Debt associated with governmental activities, in the amount of \$7,823,722, is being used to finance capital assets reported. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

**CITY OF MONTGOMERY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2021**

The City's total net position increased by \$1,050,561 as compared to the prior year. Both the deferred outflows and deferred inflows of resources related to the City's pension and other postemployment benefits plans increased during the fiscal year when compared to the prior year. This is primarily due to the City's adoption of supplemental death benefits for active employees and retirees in the current year. Long-term liabilities experienced a slight decrease during the year due to the refunding of series 2012 debt from a debt refund issuance and scheduled debt principal payments. Other liabilities experienced an increase due to an increase in unearned revenue from grant awards and tax rebates payable. Total assets experienced an increase primarily due to capital additions net of depreciation.

**Statement of Activities**

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 617,070	\$ 520,720	\$ 2,076,795	\$ 1,819,370	\$ 2,693,865	\$ 2,340,090
Operating grants and contributions	537,404	773,673	-	-	537,404	773,673
General revenues:						
Property taxes	1,232,084	1,104,722	-	-	1,232,084	1,104,722
Sales taxes	3,008,921	2,360,712	-	-	3,008,921	2,360,712
Other fees and taxes	158,600	151,396	-	-	158,600	151,396
Other revenues	269,315	175,650	275,858	241,317	545,173	416,967
<b>Total Revenues</b>	<b>5,823,394</b>	<b>5,086,873</b>	<b>2,352,653</b>	<b>2,060,687</b>	<b>8,176,047</b>	<b>7,147,560</b>
<b>Expenses</b>						
General government	1,716,093	1,303,043	-	-	1,716,093	1,303,043
Municipal court	444,184	329,869	-	-	444,184	329,869
Public safety	1,839,730	1,315,651	-	-	1,839,730	1,315,651
Public works	910,768	890,712	-	-	910,768	890,712
Interest and fiscal agent fees	331,768	211,976	-	-	331,768	211,976
Water, sewer, and sanitation	-	-	1,882,943	1,828,212	1,882,943	1,828,212
<b>Total Expenses</b>	<b>5,242,543</b>	<b>4,051,251</b>	<b>1,882,943</b>	<b>1,828,212</b>	<b>7,125,486</b>	<b>5,879,463</b>
<b>Increase in Net Position Before Transfers</b>	<b>580,851</b>	<b>1,035,622</b>	<b>469,710</b>	<b>232,475</b>	<b>1,050,561</b>	<b>1,268,097</b>
Transfers in (out)	(627,281)	(1,612,108)	627,281	1,612,108	-	-
<b>Change in Net Position</b>	<b>(46,430)</b>	<b>(576,486)</b>	<b>1,096,991</b>	<b>1,844,583</b>	<b>1,050,561</b>	<b>1,268,097</b>
Beginning net position	611,926	1,188,412	11,185,562	9,340,979	11,797,488	10,529,391
<b>Ending Net Position</b>	<b>\$ 565,496</b>	<b>\$ 611,926</b>	<b>\$ 12,282,553</b>	<b>\$ 11,185,562</b>	<b>\$ 12,848,049</b>	<b>\$ 11,797,488</b>

For the year ended September 30, 2021, revenues from governmental activities totaled \$5,823,394, which is a net increase of \$736,521 from the prior year. Significant increases were reported in sales and property taxes due to an increase in economic activity and increases in property tax collections related to increases in property valuations within the City. These increases were offset by a decrease in operating grants and contributions, which were attributed to Federal Emergency Management Agency revenues received in the prior year for disaster-related expenses.

**CITY OF MONTGOMERY, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended September 30, 2021

For the year ended September 30, 2021, expenses for governmental activities totaled \$5,242,543, which was an overall increase of \$1,191,292 from the prior year. The largest increases were in the general government due to HOME Investment Partnerships Program (HOME) grant expenses and increased 380 agreement reimbursements, and in the public safety related to payroll expenses.

Net position before transfers for business-type activities increased \$237,235 compared to the prior year. Revenues experience an increased by \$291,966 compared to the prior year due to an increase in charges for services and other revenues. Expenses increased \$54,731 compared to the prior year due to an increase in operating expenses for the City during the year to support water, sewer, and sanitation operations.

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

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

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

The City's governmental funds reflect a combined fund balance of \$3,144,122. Of this, \$1,576,010 is restricted or committed for various purposes. The remaining balance of \$1,568,112 is unassigned in the general fund.

There was a net decrease in the combined fund balance of \$620,478 compared to the prior year. This net reduction is largely seen in the capital projects fund, which had an overall decrease in fund balance of \$245,934 due primarily to transfers to the water, sewer, and sanitation fund for capital purposes. The debt service fund also had a large decrease in fund balance of \$228,165, which can be contributed to scheduled debt service payments.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$1,568,112. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. Both unassigned and total fund balance represents 30 percent of total general fund expenditures. Revenue increased over the prior year primarily due to increases in sales and property tax revenues, which can be attributed to an increase in residents shopping locally during COVID-19 and an increase in property tax valuations. Expenditures also experienced an increase compared to the prior year totaling \$1,616,219 with the largest increases seen in general government and capital outlay. The general government increase of \$593,840 can be attributed to construction cost for the HOME grant and increases in Chapter 380 agreement reimbursements. Increase in capital outlay expenditures of \$590,730 is largely due to purchase of land in the current year. The net increase of revenue and expenditures demonstrated an overall decrease of \$145,374 in the general fund when compared to the prior year.

The debt service fund has a total fund balance of \$195,630, all of which is restricted for the payment of debt service. The net decrease in fund balance during the year was \$228,165. This decrease can be attributed to scheduled debt service payments net of property tax revenues and other sources and uses from issuance of refunding debt.

The capital projects fund reported a decrease of \$245,934 in fund balance. This is primarily the result of transfers to the water, sewer, and sanitation fund for capital purposes.

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

**CITY OF MONTGOMERY, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended September 30, 2021

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There had been a planned use of fund balance in the amount of \$750,512 in the general fund. However, the net change in fund balance was a decrease of \$145,374, resulting in a net positive variance of \$605,138 from budget over actual. Actual general fund revenues were more than final budgeted revenues by \$915,903 during 2021. The majority of this increase is due from HOME grant revenue received to reimburse the City for reconstruction costs of resident homes that was not anticipated for in the budget.

There was a negative budget variance for expenditures of \$316,563. The majority of the negative budget variance was due to public safety for \$284,524 due to overtime salaries and the remaining difference is related to overages in municipal court overage of \$28,906 due to state portion to payout fines, and general government overage due to previous years true-up reimbursement expenses related to Chapter 380 agreements.

**CAPITAL ASSETS**

At the end of the current fiscal year, the City's governmental and business-type activities had invested \$15,639,330 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$1,278,069.

Major capital asset events during the current year include the following:

- Infrastructure improvements
- Construction in progress

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

**LONG-TERM DEBT**

At the end of the current fiscal year, the City had total bonds and certificates of obligation outstanding of \$7,155,000. Of this amount, \$4,855,000 was general obligation debt and tax and revenue certificates of obligation accounted for \$2,300,000.

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City adopted a fiscal year 2021-2022 expenditure budget of \$5,247,715 which is an increase of \$1,345,980 from the prior year budget. The City budgeted for fiscal year 2021-2022 revenues of \$5,190,215 which is an increase of \$1,338,480 from the prior year budget. The tax rate for 2021-2022 fiscal year will be \$0.4000 per \$100 of taxable property value. All of these factors were considered in preparing the City's budget for the 2021-2022 fiscal year.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Richard Tramm, City Administrator, 101 Old Plantersville Rd., Montgomery, Texas 77316; 936-597-6434.

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## ***BASIC FINANCIAL STATEMENTS***

**CITY OF MONTGOMERY, TEXAS**  
**STATEMENT OF NET POSITION**  
September 30, 2021

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 2,458,624	\$ 1,809,525	\$ -	\$ 4,268,149
Cash with fiscal agent	988,256	-	-	988,256
Investments	353,000	100,000	-	453,000
Receivables, net of allowances	725,321	299,779	-	1,025,100
Internal balances	5,498	(5,498)	-	-
Due from component unit	1,141	119	-	1,260
Restricted assets:				
Cash and cash equivalents	-	123,760	-	123,760
	<u>4,531,840</u>	<u>2,327,685</u>	<u>-</u>	<u>6,859,525</u>
Capital assets:				
Nondepreciable capital assets	1,743,730	1,253,131	-	2,996,861
Depreciable capital assets, net	3,660,323	8,982,146	-	12,642,469
	<u>5,404,053</u>	<u>10,235,277</u>	<u>-</u>	<u>15,639,330</u>
<b>Total Assets</b>	<u>9,935,893</u>	<u>12,562,962</u>	<u>-</u>	<u>22,498,855</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows - pensions	128,836	11,011	-	139,847
Deferred outflows - OPEB	11,154	953	-	12,107
Deferred charge on refunding	44,874	-	-	44,874
	<u>184,864</u>	<u>11,964</u>	<u>-</u>	<u>196,828</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	1,191,128	135,615	-	1,326,743
Unearned revenue	170,592	-	-	170,592
Accrued interest payable	16,005	-	-	16,005
Due to primary government	-	-	-	-
Customer deposits	-	123,760	-	123,760
Noncurrent liabilities:				
Long-term liabilities due within one year	530,796	6,255	-	537,051
Long-term liabilities due in more than one year	7,529,891	17,052	-	7,546,943
	<u>9,438,412</u>	<u>282,682</u>	<u>-</u>	<u>9,721,094</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows - pensions	116,849	9,691	-	126,540
	<u>116,849</u>	<u>9,691</u>	<u>-</u>	<u>126,540</u>
<b>Net Position</b>				
Net investment in capital assets	6,743,155	10,235,277	(7,823,722)	9,154,710
Restricted for:				
Economic development	-	-	-	-
Debt service	195,630	-	-	195,630
Tourism	17,392	-	-	17,392
Public safety	68,740	-	-	68,740
Grants	20	-	-	20
Unrestricted	(6,459,441)	2,047,276	7,823,722	3,411,557
<b>Total Net Position</b>	<u>\$ 565,496</u>	<u>\$ 12,282,553</u>	<u>\$ -</u>	<u>\$ 12,848,049</u>

See Notes to Financial Statements.



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<b>Component Unit</b>
<b>MEDC</b>
\$ 2,103,230
-
-
203,931
-
-
-
<u>2,307,161</u>
-
-
-
<u>2,307,161</u>
-
-
-
-
-
346,717
-
-
1,260
-
-
-
<u>347,977</u>
-
-
-
1,959,184
-
-
-
-
-
<u>\$ 1,959,184</u>

**CITY OF MONTGOMERY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General government	\$ 1,716,093	\$ 211,192	\$ 537,404
Municipal court	444,184	405,878	-
Public safety	1,839,730	-	-
Public works	910,768	-	-
Interest and fiscal agent fees	331,768	-	-
<b>Total Governmental Activities</b>	<u>5,242,543</u>	<u>617,070</u>	<u>537,404</u>
<b>Business-Type Activities</b>			
Water, sewer, and sanitation services	1,882,943	2,076,795	-
<b>Total Business-Type Activities</b>	<u>1,882,943</u>	<u>2,076,795</u>	<u>-</u>
<b>Total Primary Government</b>	<u>\$ 7,125,486</u>	<u>\$ 2,693,865</u>	<u>\$ 537,404</u>
<b>Component Unit</b>			
Montgomery Economic Development Corporation	\$ 671,946	\$ -	\$ -
<b>Total Component Unit</b>	<u>\$ 671,946</u>	<u>\$ -</u>	<u>\$ -</u>

**General Revenues:**

Property taxes  
Sales taxes  
Franchise fees and other taxes  
Other taxes  
Investment revenue  
Other revenues  
Transfers

**Total General Revenues and Transfers**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

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

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	MEDC
\$ (967,497)	\$ -	\$ (967,497)	\$ -
(38,306)	-	(38,306)	-
(1,839,730)	-	(1,839,730)	-
(910,768)	-	(910,768)	-
(331,768)	-	(331,768)	-
<u>(4,088,069)</u>	<u>-</u>	<u>(4,088,069)</u>	<u>-</u>
-	193,852	193,852	-
-	193,852	193,852	-
<u>(4,088,069)</u>	<u>193,852</u>	<u>(3,894,217)</u>	<u>-</u>
-	-	-	(671,946)
-	-	-	(671,946)
1,232,084	-	1,232,084	-
3,008,921	-	3,008,921	1,002,974
91,147	-	91,147	-
67,453	-	67,453	-
2,102	970	3,072	6,398
267,213	274,888	542,101	1,320
(627,281)	627,281	-	-
<u>4,041,639</u>	<u>903,139</u>	<u>4,944,778</u>	<u>1,010,692</u>
(46,430)	1,096,991	1,050,561	338,746
<u>611,926</u>	<u>11,185,562</u>	<u>11,797,488</u>	<u>1,620,438</u>
<u>\$ 565,496</u>	<u>\$ 12,282,553</u>	<u>\$ 12,848,049</u>	<u>\$ 1,959,184</u>

**CITY OF MONTGOMERY, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 1,590,994	\$ 195,630	\$ 596,629	\$ 75,371
Cash with fiscal agent	-	-	988,256	-
Investments	353,000	-	-	-
Receivables, net	675,401	12,121	37,799	-
Due from component unit	1,141	-	-	-
Due from other funds	5,498	-	-	105
<b>Total Assets</b>	<b>\$ 2,626,034</b>	<b>\$ 207,751</b>	<b>\$ 1,622,684</b>	<b>\$ 75,476</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 532,516	\$ -	\$ 328,456	\$ -
Due to other funds	105	-	-	-
Due to others	330,156	-	-	-
Unearned revenue	170,592	-	-	-
<b>Total Liabilities</b>	<b>1,033,369</b>	<b>-</b>	<b>328,456</b>	<b>-</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	13,877	12,121	-	-
<b><u>Fund Balances</u></b>				
Restricted for:				
Debt service	-	195,630	-	-
Tourism	-	-	-	17,392
Capital projects	-	-	1,294,228	-
Grants	-	-	-	20
Committed for:				
Public safety	10,676	-	-	58,064
Unassigned	1,568,112	-	-	-
<b>Total Fund Balances</b>	<b>1,578,788</b>	<b>195,630</b>	<b>1,294,228</b>	<b>75,476</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 2,626,034</b>	<b>\$ 207,751</b>	<b>\$ 1,622,684</b>	<b>\$ 75,476</b>

See Notes to Financial Statements.

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**Total**

\$	2,458,624
	988,256
	353,000
	725,321
	1,141
	5,603
\$	<u>4,531,945</u>
\$	860,972
	105
	330,156
	170,592
	<u>1,361,825</u>
	<u>25,998</u>
	195,630
	17,392
	1,294,228
	20
	68,740
	<u>1,568,112</u>
	<u>3,144,122</u>
\$	<u><u>4,531,945</u></u>

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**CITY OF MONTGOMERY, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL**  
**FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET POSITION**

September 30, 2021

Total fund balances - total governmental funds	\$	3,144,122
--	----	-----------

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

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

Capital assets, nondepreciable		1,743,730
Capital assets, net depreciable		3,660,323

Long-term liabilities and deferred outflows and deferred inflows related to pensions and other postemployment benefits (OPEB) are deferred in the governmental funds.

Net pension liability		(48,604)
Deferred outflows - pensions		128,836
Deferred inflows - pensions		(116,849)
Total OPEB liability		(76,366)
Deferred outflows - OPEB		11,154

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

25,998

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Accrued interest payable		(16,005)
Noncurrent liabilities due in one year		(530,796)
Noncurrent liabilities due in more than one year		(7,404,921)
Deferred charge on refunding		44,874

		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black;"><b>Net Position of Governmental Activities</b></td> <td style="border-top: 1px solid black; border-bottom: 3px double black;">\$</td> <td style="border-top: 1px solid black; border-bottom: 3px double black;">565,496</td> </tr> </table>	<b>Net Position of Governmental Activities</b>	\$	565,496
<b>Net Position of Governmental Activities</b>	\$	565,496			

See Notes to Financial Statements.

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**CITY OF MONTGOMERY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2021

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>
<b>Revenues</b>				
Property taxes	\$ 876,606	\$ 385,756	\$ -	\$ -
Sales taxes	3,008,921	-	-	-
Franchise fees	91,147	-	-	-
Other taxes	65,104	-	-	2,349
Licenses and permits	211,192	-	-	-
Fines and forfeitures	400,949	-	-	4,929
Other revenue	107,213	-	160,000	-
Intergovernmental	505,196	-	32,208	-
Investment revenue	1,810	179	98	15
<b>Total Revenues</b>	<u>5,268,138</u>	<u>385,935</u>	<u>192,306</u>	<u>7,293</u>
<b>Expenditures</b>				
<b>Current:</b>				
General government	1,617,410	-	-	-
Municipal court	425,891	-	-	-
Public safety	1,608,457	-	-	-
Public works	724,152	-	-	-
<b>Capital outlay</b>	805,706	-	51,153	-
<b>Debt service:</b>				
Principal	-	455,000	-	-
Interest and fiscal agent fees	-	369,109	-	-
<b>Total Expenditures</b>	<u>5,181,616</u>	<u>824,109</u>	<u>51,153</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>86,522</u>	<u>(438,174)</u>	<u>141,153</u>	<u>7,293</u>
<b>Other Financing Sources (Uses)</b>				
Refunding bonds issued	-	4,495,000	-	-
Premium on refunding bonds	-	605,566	-	-
Payment to refunded bond escrow agent	-	(4,890,557)	-	-
Transfers in	8,298	-	642,480	-
Transfers (out)	(240,194)	-	(1,029,567)	(8,298)
<b>Total Other Financing Sources (Uses)</b>	<u>(231,896)</u>	<u>210,009</u>	<u>(387,087)</u>	<u>(8,298)</u>
<b>Net Change in Fund Balances</b>	(145,374)	(228,165)	(245,934)	(1,005)
Beginning fund balances	1,724,162	423,795	1,540,162	76,481
<b>Ending Fund Balances</b>	<u>\$ 1,578,788</u>	<u>\$ 195,630</u>	<u>\$ 1,294,228</u>	<u>\$ 75,476</u>

See Notes to Financial Statements.



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<b>Total</b>	
\$	1,262,362
	3,008,921
	91,147
	67,453
	211,192
	405,878
	267,213
	537,404
	2,102
	<hr/>
	5,853,672
	<hr/>
	1,617,410
	425,891
	1,608,457
	724,152
	856,859
	455,000
	369,109
	<hr/>
	6,056,878
	<hr/>
	(203,206)
	<hr/>
	4,495,000
	605,566
	(4,890,557)
	650,778
	(1,278,059)
	<hr/>
	(417,272)
	<hr/>
	(620,478)
	3,764,600
	<hr/>
\$	3,144,122
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**CITY OF MONTGOMERY, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2021**

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

Net changes in fund balances - total governmental funds \$ (620,478)

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

Capital additions	909,347
Depreciation expense	(284,589)

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

Principal payments	455,000
Debt issued	(4,495,000)
Payment to escrow agent	4,890,557
Net change in deferred charges on refunding	(3,149)
Accrued interest	1,020
Premium on refunding	(605,566)
Premium amortization	39,470

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(23,115)
Net pension liability	(264,859)
Deferred outflows - pensions	104,539
Deferred inflows - pensions	(54,117)
Total OPEB liability	(76,366)
Deferred outflows - OPEB	11,154

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.	(30,278)
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<b>Change in Net Position of Governmental Activities</b>	<b>\$ (46,430)</b>
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See Notes to Financial Statements.

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**CITY OF MONTGOMERY, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
September 30, 2021

		<u>Business-Type Activities</u> <u>Water, Sewer, and Sanitation</u>
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and equity in cash and investments	\$	1,809,525
Investments		100,000
Accounts receivable (net of allowance for uncollectibles)		299,779
Due from component unit		119
Restricted cash and cash equivalents		
Customer deposits		123,760
<b>Total Current Assets</b>		<u>2,333,183</u>
<b>Noncurrent assets</b>		
Capital assets:		
Nondepreciable		1,253,131
Depreciable (net of depreciation)		8,982,146
<b>Total Capital Assets (Net)</b>		<u>10,235,277</u>
<b>Total Noncurrent Assets</b>		<u>10,235,277</u>
<b>Total Assets</b>		<u>12,568,460</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows - pensions		11,011
Deferred outflows - OPEB		953
<b>Total Deferred Outflows of Resources</b>		<u>11,964</u>
<b><u>Liabilities and Net Position</u></b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities		135,615
Due to other funds		5,498
Compensated absences		6,255
Payable from restricted assets		
Customer deposits		123,760
<b>Total Current Liabilities</b>		<u>271,128</u>
<b>Noncurrent liabilities</b>		
Net pension liability		1,225
Total OPEB liability		6,523
Compensated absences		9,304
<b>Total Noncurrent Liabilities</b>		<u>17,052</u>
<b>Total Liabilities</b>		<u>288,180</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows - pensions		9,691
<b>Total Deferred Inflows of Resources</b>		<u>9,691</u>
<b>Net Position</b>		
Net investment in capital assets		10,235,277
Unrestricted net position		2,047,276
<b>Total Net Position</b>	\$	<u>12,282,553</u>

See Notes to Financial Statements.

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**CITY OF MONTGOMERY, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
For the Year Ended September 30, 2021

	<b>Business-Type Activities Water, Sewer, and Sanitation</b>
<b><u>Operating Revenues</u></b>	
Water service	\$ 795,495
Sewer service	734,723
Sanitation service	193,738
Meter installations	352,839
Other revenue	274,888
<b>Total Operating Revenues</b>	<b>2,351,683</b>
 <b><u>Operating Expenses</u></b>	
Water, sewer, and sanitation	1,064,061
Salaries and wages	390,188
Depreciation	428,694
<b>Total Operating Expenses</b>	<b>1,882,943</b>
<b>Operating Income</b>	<b>468,740</b>
 <b><u>Nonoperating Revenues (Expenses)</u></b>	
Investment revenue	970
<b>Total Nonoperating Revenues</b>	<b>970</b>
<b>Income Before Transfers</b>	<b>469,710</b>
 <b><u>Transfers</u></b>	
Transfers in	627,281
<b>Total Transfers</b>	<b>627,281</b>
<b>Change in Net Position</b>	<b>1,096,991</b>
Beginning net position	11,185,562
<b>Ending Net Position</b>	<b>\$ 12,282,553</b>

See Notes to Financial Statements.

**CITY OF MONTGOMERY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND (Page 1 of 2)**  
**For the Year Ended September 30, 2021**

	<b>Business-Type Activities Water, Sewer, and Sanitation</b>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers and users	\$ 2,327,176
Payments to suppliers	(1,154,453)
Payments to employees	(359,539)
<b>Net Cash Provided by Operating Activities</b>	<b>813,184</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Transfers from other funds	627,281
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>627,281</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Acquisition and construction of capital assets	(1,082,005)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>(1,082,005)</b>
<b><u>Cash Flows from Investing Activities</u></b>	
Purchase of investments	(100,000)
Interest on investments	970
<b>Net Cash(Used) by Investing Activities</b>	<b>(99,030)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>259,430</b>
Beginning cash and cash equivalents	1,673,855
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 1,933,285</b>
<b>Ending Cash and Cash Equivalents:</b>	
Unrestricted cash and cash equivalents	\$ 1,809,525
Restricted cash and cash equivalents	123,760
	<b>\$ 1,933,285</b>

See Notes to Financial Statements.



**CITY OF MONTGOMERY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND (Page 2 of 2)**  
**For the Year Ended September 30, 2021**

	<b>Business-Type Activities</b>
	<b>Water, Sewer, and Sanitation</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating income	\$ 468,740
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>	
Depreciation	428,694
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in Current Assets:</b>	
Accounts receivable	(32,757)
Deferred outflows - pensions	(4,599)
Deferred outflows - OPEB	(953)
Due from other funds	3,462
Net pension liability	22,621
Total OPEB liability	6,523
<b>Increase (Decrease) in Current Liabilities:</b>	
Accounts payable	(27,082)
Due to other funds	(66,772)
Compensated absences	6,554
Customer deposits	8,250
Deferred inflows - pensions	503
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 813,184</b>

See Notes to Financial Statements.

# DRAFT

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**CITY OF MONTGOMERY, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS*  
For the Year Ended September 30, 2021

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Montgomery, Texas (the “City”) was incorporated under the laws of the State of Texas, (the “State”) in 1935.

The City operates under a “General Law” City, which provides for a “Mayor-Council” form of government. The City Council is the principal legislative body of the City. The City Administrator is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all affairs of the City. The City Administrator is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The City provides the following services: general administration; municipal court; public safety; public works; and water, sewer, and sanitation services.

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

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

**Discretely Presented Component Unit**

**Montgomery Economic Development Corporation**

On December 14, 1995, the City incorporated the Montgomery Industrial Development Corporation. In July 2013, the name was changed to Montgomery Economic Development Corporation (MEDC). The purpose of this nonprofit corporation is to promote economic development within the City and the State in order to eliminate unemployment and underemployment; to promote and encourage employment and the public welfare of, for, and on behalf of the City; and for improving the assessed valuations through the promotion of (a) existing business enterprise expansion and retention and (b) new business enterprise development and attraction by developing, implementing, providing, and financing projects. A one-half of one percent City sales tax is designated for this purpose. Separate

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

financial statements of the MEDC are not prepared. The MEDC is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. The City appoints a majority of this MEDC's board members and is either able to impose its will on it or a financial benefit/burden exists.

**Blended Component Unit**

**Public Improvement District (PID) No. 1**

Following a public hearing on September 30, 2014, the City Council created the City of Montgomery Public Improvement District (PID) No. 1 in accordance with Chapter 372 of the Local Government Code. The PID was created to provide a method of financing certain public improvements for the benefit of property in the PID, the costs of which would be paid by owners of real property located in the PID, subject to limitations contained in the service and assessment plan. Public improvements included creation costs of the PID, as well as roadway, water distribution system, storm sewer collection system, and wastewater collection system improvements. These public improvements were funded from developer revenues before construction began. The developer will be repaid in annual installments over a fifteen-year period through assessments to the property owners in the PID, the timing of which begins after the City has issued a certificate of occupancy for completed permanent structures; however, such date shall not occur before the trigger date of September 1, 2017. The City retains the right to create a board to manage the PID, but currently retains all management capacity at year end.

**B. Government-Wide Financial Statements**

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

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental and proprietary funds.

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

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the City’s funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is the City’s primary operating fund. It is used to account for and report all financial resources not accounted for and reported in other funds. The principal sources of revenues include local property taxes, sales taxes, franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, municipal court, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

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

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition of capital facilities and other capital assets. The capital projects fund is considered major for reporting purposes.

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The special revenue funds include the grants fund, the hotel occupancy fund, the court security fund, the court technology fund, and the police asset forfeiture fund. The special revenue funds are considered nonmajor funds for reporting purposes.

The City reports the following enterprise fund:

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

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

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

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

**E. Measurement Focus and Basis of Accounting**

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

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

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

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

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

**1. Cash and Cash Equivalents**

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

**2. Investments**

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

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

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

**3. Restricted Assets**

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

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 are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 years
Furniture and equipment	5 to 20 years
Vehicles	5 years
Infrastructure	20 to 40 years

**5. Deferred Outflows/Inflows of Resources**

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

Deferred outflows/inflows of resources are amortized as follows:

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

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

**6. Compensated Employee Absences**

The City maintains formal programs for vacation and sick leave. The City's full-time, permanent employees are granted vacation pay benefits in varying amounts to specified maximums depending on tenure with the City. The City's personnel policy permits its full-time, permanent employees to accumulate earned but unused vacation pay benefits. Upon separation with the City, employees will be paid for their accrued and unused vacation pay benefits.



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**CITY OF MONTGOMERY, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended September 30, 2021

Sick leave accrues to full-time, permanent employees to specified maximums but, upon separation with the City, employees will not be paid for accumulated sick leave.

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when they are paid.

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

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

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

## **8. Net Position Flow Assumption**

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

**9. Fund Balance Flow Assumptions**

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

**10. Fund Balance Policies**

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

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

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

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

By resolution, the City Council has also authorized the City Administrator as the official authorized to assign fund balance to a specific purpose as approved by the City's fund balance policy. Assignments of fund balance by the City Administrator do not require formal action by the City Council.

The City strives to maintain an unassigned fund balance of not less than 25 percent of the budgeted operational expenditures in all City funds. The purpose of the unassigned balance is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services to citizens. Should unassigned fund balance fall below the goal or have a deficiency, the City will seek to reduce expenditures prior to increasing revenues to replenish fund balance within a reasonable timeframe.

**11. Estimates**

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

**12. Pensions**

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

**13. Other Postemployment Benefits**

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Property Taxes**

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

**3. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general, debt service, and certain special revenue funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the function level. No funds can be transferred or added to a budgeted item without City Council approval. Appropriations lapse at the end of the year.

For the year ended September 30, 2021, expenditures exceed appropriations at the legal level of control in the following expenditures of the general fund:

Departments	Variance
General fund	
General government	\$ 12,708
Municipal court	28,906
Public safety	269,524

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2021, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 453,000	0.41
TexPool	1,684,362	0.06
<b>Total</b>	<b>\$ 2,137,362</b>	
Portfolio weighted average maturity		0.13

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

*Credit risk.* The City’s investment policy limits investments in public fund investment pools rated as to investment quality not less than “AAA” or “AAA-m”, or at an equivalent rating by at least one nationally recognized rating service. Investments in U.S. Securities Exchange Commission registered and regulated money market mutual funds must have an investment quality not less than

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

“AAA-”, or at an equivalent rating by at least one nationally recognized rating service. As of September 30, 2021, the City’s investments in TexPool were rated “AAAm” by Standard & Poor’s.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2021, fair market values of pledged securities and FDIC coverage exceeded bank balances.

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

**TexPool**

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

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

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

**B. Receivables**

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Water, Sewer, and Sanitation</u>	<u>Total</u>
Property taxes	\$ 13,877	\$ 12,121	\$ -	\$ -	\$ 25,998
Sales taxes	611,792	-	-	-	611,792
Mixed beverage taxes	2,274	-	-	-	2,274
Accounts receivable	47,458	-	37,799	300,347	385,604
Less allowance	-	-	-	(568)	(568)
	<u>\$ 675,401</u>	<u>\$ 12,121</u>	<u>\$ 37,799</u>	<u>\$ 299,779</u>	<u>\$ 1,025,100</u>
	<u>MEDC</u>				
Sales taxes	<u>\$ 203,931</u>				
	<u>\$ 203,931</u>				

**C. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)/ Reclassifications</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 864,009	\$ 755,513	\$ -	\$ 1,619,522
Construction in progress	20,567	103,641	-	124,208
Total capital assets not being depreciated	<u>884,576</u>	<u>859,154</u>	<u>-</u>	<u>1,743,730</u>
Other capital assets:				
Buildings and improvements	1,022,614	5,275	-	1,027,889
Infrastructure	3,869,242	9,425	-	3,878,667
Vehicles	1,034,488	-	-	1,034,488
Furniture and fixtures	447,150	35,493	-	482,643
Total other capital assets	<u>6,373,494</u>	<u>50,193</u>	<u>-</u>	<u>6,423,687</u>
Less accumulated depreciation for:				
Buildings and improvements	(601,678)	(51,271)	-	(652,949)
Infrastructure	(727,267)	(131,208)	-	(858,475)
Vehicles	(806,478)	(89,302)	-	(895,780)
Furniture and fixtures	(343,352)	(12,808)	-	(356,160)
Total accumulated depreciation	<u>(2,478,775)</u>	<u>(284,589)</u>	<u>-</u>	<u>(2,763,364)</u>
Other capital assets, net	<u>3,894,719</u>	<u>(234,396)</u>	<u>-</u>	<u>3,660,323</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 4,779,295</u>	<u>\$ 624,758</u>	<u>\$ -</u>	<u>5,404,053</u>
			Plus unspent bond proceeds	1,294,228
			Plus deferred charge on refunding	44,874
			<b>Net Investment in Capital Assets</b>	<u>\$ 6,743,155</u>

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

Depreciation was charged to governmental functions as follows:

General government	\$	57,531
Public safety		81,760
Public works		145,298
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$</b>	<b><u>284,589</u></b>

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

	<b>Beginning Balance</b>	<b>Increases</b>	<b>(Decreases)/ Reclassifications</b>	<b>Ending Balance</b>
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 66,581	\$ -	\$ -	\$ 66,581
Construction in progress	1,589,956	1,029,567	(1,432,973)	1,186,550
Total capital assets not being depreciated	1,656,537	1,029,567	(1,432,973)	1,253,131
Other capital assets:				
Infrastructure	12,802,663	1,485,411	-	14,288,074
Furniture and equipment	179,037	-	-	179,037
Vehicles	181,554	-	-	181,554
Total other capital assets	13,163,254	1,485,411	-	14,648,665
Less accumulated depreciation for:				
Infrastructure	(4,951,948)	(410,545)	-	(5,362,493)
Furniture and equipment	(153,765)	(2,319)	-	(156,084)
Vehicles	(132,112)	(15,830)	-	(147,942)
Total accumulated depreciation	(5,237,825)	(428,694)	-	(5,666,519)
Other capital assets, net	7,925,429	1,056,717	-	8,982,146
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 9,581,966</b>	<b>\$ 2,086,284</b>	<b>\$ (1,432,973)</b>	<b>\$ 10,235,277</b>

Depreciation was charged to business-type functions as follows:

Water, sewer, and sanitation	\$	428,694
<b>Total Business-Type Activities Depreciation Expense</b>	<b>\$</b>	<b><u>428,694</u></b>

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2021

**D. Long-Term Debt**

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

The long-term liabilities for the governmental activities at year end are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
General obligation refunding bonds	\$ 2,050,000	\$ 4,495,000	\$ (2,050,000)	\$ 4,495,000	\$ 215,000
Certificates of obligation	3,040,000	-	(3,040,000)	-	-
Direct borrowings/placements:					
General obligation refunding bonds	440,000	-	(80,000)	360,000	85,000
Certificates of obligation	2,430,000	-	(130,000)	2,300,000	130,000
Deferred amounts:					
For issuance discounts/premiums	102,626	605,566	(39,470)	668,722	-
	<u>8,062,626</u>	<u>5,100,566</u>	<u>(5,339,470)</u>	<u>7,823,722</u> *	<u>430,000</u>
Other liabilities:					
Net pension liability/(asset)	(216,255)	264,859	-	48,604	-
Total OPEB liability	-	76,366	-	76,366	-
Compensated absences	88,880	96,509	(73,394)	111,995	100,796
<b>Total Governmental Activities</b>	<u>\$ 7,935,251</u>	<u>\$ 5,538,300</u>	<u>\$ (5,412,864)</u>	<u>\$ 8,060,687</u>	<u>\$ 530,796</u>
				<u>\$ 7,529,891</u>	
				<u>\$ 7,823,722</u>	
					<b>Amounts Due Within One Year</b>
<b>Business-Type Activities:</b>					
Other liabilities:					
Net pension liability/(asset)	\$ (21,396)	\$ 22,621	\$ -	\$ 1,225	\$ -
Total OPEB liability	-	6,523	-	6,523	-
Compensated absences	9,005	14,416	(7,862)	15,559	14,003
<b>Total Business-Type Activities</b>	<u>\$ (12,391)</u>	<u>\$ 43,560</u>	<u>\$ (7,862)</u>	<u>\$ 23,307</u>	<u>\$ 14,003</u>
				<u>\$ 9,304</u>	

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



**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

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

Description	Interest Rates	Original Balance	Current Balance
<b>Governmental Activities</b>			
<b>General Obligation Bonds</b>			
General obligation refunding bonds, series 2021	2.00-5.00%	\$ 4,495,000	\$ 4,495,000
From direct borrowings/placements:			
General obligation refunding bonds, series 2015	0.85-2.80%	845,000	360,000
<b>Total General Obligation Bonds</b>		<u>5,340,000</u>	<u>4,855,000</u>
<b>Certificates of Obligation</b>			
From direct borrowings/placements:			
Tax and revenue certificates of obligation, series 2017A	0.10 - 1.60%	1,090,000	890,000
Tax and revenue certificates of obligation, series 2017B	0.01 - 1.90%	1,730,000	1,410,000
<b>Total Certificates of Obligation</b>		<u>2,820,000</u>	<u>2,300,000</u>
<b>Total Governmental Activities Long-Term Debt</b>		<u>\$ 8,160,000</u>	<u>\$ 7,155,000</u>

The annual requirements to amortize bond and certificate debt issues outstanding at year end were as follows:

Fiscal Year	General Obligation	
	Ending	Principal
2022	\$ 215,000	\$ 156,225
2023	230,000	145,100
2024	245,000	133,225
2025	250,000	120,850
2026	260,000	108,100
2027-2031	1,470,000	330,450
2032-2036	1,485,000	109,050
2037-2038	340,000	6,800
<b>Total</b>	<u>\$ 4,495,000</u>	<u>\$ 1,109,800</u>

The annual requirements to amortize debt issues outstanding for the direct borrowings/placements at year end are as follows:

Fiscal Year	General Obligation		Certificates of Obligation		Total	
	Ending	Principal	Interest	Principal	Interest	Principal
2022	\$ 85,000	8,293	\$ 130,000	\$ 28,712	\$ 215,000	\$ 37,005
2023	90,000	6,170	130,000	28,219	220,000	34,389
2024	90,000	3,852	130,000	27,478	220,000	31,330
2025	95,000	1,330	140,000	26,471	235,000	27,801
2026	-	-	140,000	25,222	140,000	25,222
2027-2031	-	-	710,000	101,796	710,000	101,796
2032-2036	-	-	760,000	47,185	760,000	47,185
2037-2039	-	-	160,000	1,430	160,000	1,430
<b>Total</b>	<u>\$ 360,000</u>	<u>\$ 19,645</u>	<u>\$ 2,300,000</u>	<u>\$ 286,512</u>	<u>\$ 2,660,000</u>	<u>\$ 306,157</u>

The City's long-term debt includes all outstanding bonded debt secured by the full faith and credit of the City. The bonds are certificates of obligation, general obligation, and contractual obligation bonds that are secured by the full faith and credit of the City and are paid through the debt service fund from tax revenues.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

Advanced Refunding of Debt

In the current fiscal year, the City issued \$4,495,000 of General Obligation Refunding Bonds, Series 2021 with interest rates ranging from 2.00% to 5.00%. The proceeds were used to advance refund \$1,935,000 of the General Obligation Refunding Bonds, Series 2012, which had interest rates ranging from 2.00% to 4.00%, and \$2,910,000 of the Tax and Revenue Certificates of Obligation, Series 2012 (the “Refunded Bonds”), which had interest rates ranging of 3.00 to 3.35%. The net proceeds of \$4,890,557 (including a \$605,565 premium and after payment of \$206,158 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the Refunded Bonds. As a result, the Refunded Bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by \$45,557. This amount is being amortized over the remaining life of the refunded debt, which is the same life as the new debt issued. The refunding was undertaken to reduce debt service payments over the next 17 years by \$757,953 and resulted in an economic gain of \$691,745.

Federal Arbitrage

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

**E. Interfund Transactions**

The composition of due to/from balances as of year end was as follows:

Due To	Due From	Amounts
General	Utility	\$ 5,498
Nonmajor governmental	General	105
		\$ 5,603

Amounts recorded as due to/from are considered to be temporary loans and will generally be repaid in more than one year.

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

Transfer In	Transfer Out	Amounts
General	Nonmajor governmental	\$ 8,298
General	Capital projects	240,194
Utility	Capital projects	627,281
		\$ 875,773

Amounts transferred between funds related to amounts collected by the general; capital projects; water, sewer, and sanitation; and other nonmajor governmental funds for various governmental and business-type expenditures.

**IV. OTHER INFORMATION**

**A. Risk Management**

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

**B. Contingent Liabilities**

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

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

The continued spread of COVID-19 pandemic has given a rise in uncertainties that may have a significant negative impact on the operating activities and result of the City. The occurrence and extent of such impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are unknown at this time.

**C. Pension Plan**

**Texas Municipal Retirement System**

**Plan Description**

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

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

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

Benefits Provided

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

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

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

	2021	2020
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to, but not yet, receiving benefits	24
Active employees	28
<b>Total</b>	<b>63</b>

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each entity is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The City’s contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 6.05 percent and 9.72 percent in calendar years 2020 and 2021, respectively. The City’s contributions to TMRS for the fiscal year ended September 30, 2021 were \$168,402 and were equal to the required contributions.

**CITY OF MONTGOMERY, TEXAS**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Year Ended September 30, 2021

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2020 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-Distinct 2019 Municipal Retirees of Texas mortality tables. The rates for active members, healthy retirees, and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5 percent and 3.0 percent minimum mortality rate is applied for males and females, respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

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

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**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
<b>Total</b>	<u>100.00%</u>	

Discount Rate

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

Changes in the NPL

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (A)</u>	<u>Plan Fiduciary Net Position (B)</u>	<u>Net Pension Liability / (Asset) (A) - (B)</u>
Changes for the year:			
Service cost	\$ 283,792	\$ -	\$ 283,792
Interest	129,656	-	129,656
Changes in current period benefits	289,106	-	289,106
Difference between expected and actual experience	(51,273)	-	(51,273)
Changes in assumptions	-	-	-
Contributions - employer	-	107,207	(107,207)
Contributions - employee	-	124,081	(124,081)
Net investment income	-	133,417	(133,417)
Benefit payments, including refunds of employee contributions	(94,655)	(94,655)	-
Administrative expense	-	(872)	872
Other changes	-	(32)	32
<b>Net Changes</b>	<u>556,626</u>	<u>269,146</u>	<u>287,479</u>
Balance at December 31, 2019	1,537,152	1,774,802	(237,650)
<b>Balance at December 31, 2020</b>	<u>\$ 2,093,778</u>	<u>\$ 2,043,948</u>	<u>\$ 49,829</u>

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

Sensitivity of the NPL to Changes in the Discount Rate

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

	<b>1% Decrease in Discount Rate (5.75%)</b>	<b>Discount Rate (6.75%)</b>	<b>1% Increase in Discount Rate (7.75%)</b>
City's Net Pension Liability	\$ 445,554	\$ 49,829	\$ 260,103

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2021, the City recognized net pension expense of \$402,004.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ -	\$ 79,810
Changes in actuarial assumptions	1,750	-
Net difference between projected and actual investment earnings	-	46,730
Contributions subsequent to the measurement date	138,097	-
<b>Total</b>	<b>\$ 139,847</b>	<b>\$ 126,540</b>

\$138.097 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase of the NPL for the fiscal year ending September 30, 2022.

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

<b>Fiscal Year Ended September 30</b>	<b>Pension Expense</b>
2022	\$ (54,149)
2023	(24,669)
2024	(39,450)
2025	(6,522)
<b>Total</b>	<b>\$ (124,790)</b>

**D. Other Postemployment Benefits**

**TMRS Supplemental Death Benefits**

Plan Description

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

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

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

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2020 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	8
Active employees	28
<b>Total</b>	<b>45</b>

Total OPEB Liability

The City’s total OPEB liability of \$82,890 was measured as of December 31, 2020 and was determined by an actuarial valuation as of that date.



**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Discount rate	2.00%*
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements of GASB 68.
Mortality rates - service retirees	2019 Municipal retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject on the floor.

\* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Change in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Changes for the year:	
Service cost	\$ 4,786
Interest	1,831
Changes in benefit terms including TMRS plan participation	64,174
Differences between expected and actual experience	-
Changes of assumptions	12,099
Benefit payments	-
	<u>Net Changes</u> 82,890
Beginning balance	-
	<u>Ending Balance</u> \$ 82,890

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

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

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

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

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

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

	<b>1% Decrease in Discount Rate (1.00%)</b>	<b>Discount Rate (2.00%)</b>	<b>1% Increase in Discount Rate (3.00%)</b>
City's Total OPEB Liability	\$ 104,168	\$ 82,890	\$ 67,305

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$70,783. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in actuarial assumptions	\$ 9,976	\$ -
Contributions subsequent to the measurement date	2,131	-
<b>Total</b>	<b>\$ 12,107</b>	<b>\$ -</b>

\$2,131 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2022.

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

<b>Fiscal Year Ended September 30</b>	<b>OPEB Expense</b>
2022	\$ 2,123
2023	2,123
2024	2,123
2025	2,123
2026	1,484
<b>Total</b>	<b>\$ 9,976</b>

**E. Chapter 380 Economic Development Agreements**

Chapter 380 of the Texas Local Government Code, *Miscellaneous Provisions Relating to Municipal Planning and Development*, provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs to promote state or local economic development and to stimulate business and commercial activity in the municipality.

During the 2021 fiscal year, the City has accrued \$206,925 in sales tax rebates and an additional \$113,763 in ad valorem tax rebates. These amounts are being held in a liability account until disbursement.

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

Sales Taxes

The City has entered into sales tax abatement agreements (the “Agreements”) with several developers as authorized by Chapter 380 of the Texas Local Government Code. Under each Agreement, the developers must meet certain commercial/retail development and/or employment requirements in order to have a portion of their sales taxes abated. The minimum limitation value varies by Agreement. Each Agreement provides for recapture in the event of material breach. The following summarizes the current Agreements:

- The developer for “Milestone” will construct a new grocery retail store with approximately 124,000 square feet (the “Development”) for the purpose of creating and/or retaining at least 144 full-time equivalent employees. The City has granted the developer a tax limitation of about \$5.6 million for a period of 15 years. In order to be eligible to receive the limitation, the developer must create 52 permanent new jobs and have invested at least \$7.5 million during the construction of the Development. The City will make annual payments to the developer from sales tax revenues at an amount equal to 55 percent of annual sales tax collected at the Development paid by the City, and the MEDC will make annual payments at an amount equal to 100 percent of annual sales tax collected at the Development. Annual installments will begin the first anniversary after the grocery store opens to the public. An assignment of economic development was entered into with Kroger Texas L.P (the “Company”). on December 11, 2018. On February 14, 2019, the Company was reimbursed sales tax for the 2018 year in the amount of \$104,218 by the City and \$50,917 by MEDC. On December 19, 2019, the Company was reimbursed sales tax for the 2019 in the amount of \$36,071 by the City and \$77,405 by MEDC. For the fiscal year 2021, the City and MEDC trued up the 2018 and 2019 sales tax reimbursements and reimbursed the 2020 sales taxes in the amounts of \$189,613 and \$132,391, respectively, to the Company.

Property Taxes

The City has entered into property tax abatement agreements (the “Agreements”) with several developers as authorized by Chapter 380 of the Texas Local Government Code. Under each Agreement, the developers must meet certain commercial/retail development and/or employment requirements in order to have a portion of their property taxes abated. The minimum limitation value varies by Agreement. Each Agreement provides for recapture in the event of material breach. The following summarizes the current Agreements:

- The City has entered into a ten-year term Agreement with a developer for “The Estates of Mia Lago, Section 1”, who intends and proposed to develop property in the City for residential, commercial, and retail use (the “Project”). As part of the Agreement, the developer has agreed to accelerate construction of the Project and convey it to the City. Subject to annexation of the property and upon final completion of the Project, the City has agreed to provide a grant for reimbursement of the design and construction of public infrastructure to the developer in the sum of \$148,803 paid from ad valorem taxes generated from the property annexed and collected by the City above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2011).
- The City entered into an Agreement with a developer for the “Hills of Town Creek, Section 1” and a school district (the “District”). The developer intends and proposed to develop property that was recently annexed into the City for primarily high-density, multi-family

**CITY OF MONTGOMERY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2021**

residential use, with a limited amount of commercial and retail uses (the “Project”). As part of the Agreement, the developer has agreed to accelerate the construction of the Project and to convey it to the City and petition the City to annex 13.773 acres of land currently located in the extraterritorial jurisdiction (ETJ) of the City. Other considerations include transfers of property and facilities from the District and the developer to the City and transfer of property from the developer to the District. Subject to the final completion of the Project, dedication of the facilities and easements to the City, other considerations, and annexation of the ETJ, the City has agreed to provide a grant for reimbursement of the design and construction of public infrastructure to the developer limited to 100 percent of the cost to oversize utility lines and 70 percent of the remaining construction costs incurred, as well as up to \$16,000 for escrowed funds for the City’s engineering expenses. The amount of reimbursement to the developer is limited to \$400,000 and will be paid from ad valorem taxes generated from the property annexed and collected by the City above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2012). For the fiscal years 2019, 2020, and 2021, the City abated property taxes totaling \$9,901, \$23,368, and \$36,892, respectively, under this Agreement.

- A developer for “Milestone” will construct a new retail grocery store with approximately 124,000 square feet (the “Development”) for the purpose of creating and/or retaining at least 144 full-time equivalent employees. The City has granted the developer a tax limitation of about \$5.6 million for a period of 15 years. In order to be eligible to receive the limitation, the developer must create 52 permanent new jobs and have invested at least \$7.5 million during the construction of the Development. The City will make annual payments to the developer from property tax collected by March 1 of each year that the property tax rebate is in effect. Annual installments will begin the first tax year after the grocery store opens to the public. An assignment of economic development was entered into with Kroger Texas L.P. on December 11, 2018. For the fiscal years 2019, 2020, and 2021, the City abated property taxes totaling \$78,789, \$78,207, and \$77,565, respectively, under this Agreement.
- The City has entered into a twelve-year term Agreement with a developer for “The Estates of Mia Lago, Section 2”, who intends and proposed to develop property in the City for residential use (the “Project”). As part of the Agreement, the developer has agreed to accelerate construction of the Project and convey it to the City. Subject to annexation of the property and upon final completion of the Project, the City has agreed to provide a grant for reimbursement of the design and construction of public infrastructure to the developer in the sum of not more than \$100,000 paid from ad valorem taxes generated from the property annexed and collected by the City above the base property tax (amount of ad valorem taxes levied and collected based on the total appraised value of the property as of January 1, 2017).

# DRAFT

***REQUIRED SUPPLEMENTARY INFORMATION***

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**DRAFT**  
**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended September 30, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Property taxes	\$ 852,070	\$ 852,070	\$ 876,606	\$ 24,536
Sales taxes	2,250,000	2,250,000	3,008,921	758,921
Franchise fees	94,000	94,000	91,147	(2,853)
Other taxes	69,815	69,815	65,104	(4,711)
Licenses and permits	245,600	245,600	211,192	(34,408)
Fines and forfeitures	292,350	292,350	400,949	108,599
Other revenue	82,700	82,700	107,213	24,513
Intergovernmental	7,200	460,200	505,196	44,996
Investment revenue	5,500	5,500	1,810	(3,690)
<b>Total Revenues</b>	<u>3,899,235</u>	<u>4,352,235</u>	<u>5,268,138</u>	<u>915,903</u>
<b>Expenditures</b>				
<b>Current:</b>				
General government	1,183,756	1,604,702	1,617,410	(12,708) *
Municipal court	396,985	396,985	425,891	(28,906) *
Public safety	1,344,208	1,338,933	1,608,457	(269,524) *
Public works	885,986	733,727	724,152	9,575
<b>Capital outlay</b>	-	805,706	805,706	-
<b>Total Expenditures</b>	<u>3,810,935</u>	<u>4,880,053</u>	<u>5,181,616</u>	<u>(301,563)</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>88,300</u>	<u>(527,818)</u>	<u>86,522</u>	<u>614,340</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	2,500	2,500	8,298	5,798
Transfers (out)	(90,800)	(225,194)	(240,194)	(15,000)
<b>Total Other Financing (Uses)</b>	<u>(88,300)</u>	<u>(222,694)</u>	<u>(231,896)</u>	<u>(9,202)</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ (750,512)</u>	<u>(145,374)</u>	<u>\$ 605,138</u>
Beginning fund balance			<u>1,724,162</u>	
<b>Ending Fund Balance</b>			<u>\$ 1,578,788</u>	

**Notes to Required Supplementary Information:**

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. \*Expenditures exceeded appropriations at the legal level of control.

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**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**For the Year Ended September 30, 2021**

	Measurement Year*			
	2014	2015	2016	2017
<b>Total Pension Liability</b>				
Service cost	\$ 81,979	\$ 110,914	\$ 144,267	\$ 157,252
Interest (on the total pension liability)	55,068	57,948	66,121	77,769
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(54,092)	(12,311)	(1,206)	(14,363)
Changes in assumptions	-	34,004	-	-
Benefit payments, including refunds of employee contributions	(33,403)	(79,160)	(31,829)	(54,384)
<b>Net Change in Total Pension Liability</b>	<u>49,552</u>	<u>111,395</u>	<u>177,353</u>	<u>166,274</u>
Beginning total pension liability	<u>762,399</u>	<u>811,951</u>	<u>923,346</u>	<u>1,100,699</u>
<b>Ending Total Pension Liability</b>	<u>\$ 811,951</u>	<u>\$ 923,346</u>	<u>\$ 1,100,699</u>	<u>\$ 1,266,973</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 26,597	\$ 37,600	\$ 43,778	\$ 68,154
Contributions - employee	61,367	63,744	74,200	80,998
Net investment income	50,475	1,456	68,262	161,340
Benefit payments, including refunds of employee contributions	(33,403)	(79,160)	(31,829)	(54,384)
Administrative expense	(527)	(887)	(770)	(835)
Other	(43)	(44)	(41)	(42)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>104,466</u>	<u>22,709</u>	<u>153,600</u>	<u>255,231</u>
Beginning plan fiduciary net position	<u>881,999</u>	<u>986,465</u>	<u>1,009,174</u>	<u>1,162,774</u>
<b>Ending Plan Fiduciary Net Position</b>	<u>\$ 986,465</u>	<u>\$ 1,009,174</u>	<u>\$ 1,162,774</u>	<u>\$ 1,418,005</u>
<b>Net Pension Liability / (Asset)</b>	<u>\$ (174,514)</u>	<u>\$ (85,828)</u>	<u>\$ (62,075)</u>	<u>\$ (151,032)</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability / (Asset)</b>	121.49%	109.30%	105.64%	111.92%
<b>Covered Payroll</b>	\$ 876,672	\$ 910,624	\$ 1,060,007	\$ 1,157,117
<b>Net Pension Liability / (Asset) as a Percentage of Covered Payroll</b>	-19.91%	-9.43%	-5.86%	-13.05%

\*Only seven years of information is currently available. The City will build this schedule over the next three-year period.



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Measurement Year*		
2018	2019	2020
\$ 176,697	\$ 205,160	\$ 283,792
87,871	94,711	129,656
-	-	289,106
(85,189)	(28,118)	(51,273)
-	3,592	-
(107,065)	(77,480)	(94,655)
72,314	197,865	556,626
1,266,973	1,339,287	1,537,152
<u>\$ 1,339,287</u>	<u>\$ 1,537,152</u>	<u>\$ 2,093,778</u>
\$ 79,080	\$ 91,000	\$ 107,207
90,747	103,916	124,081
(42,554)	221,310	133,417
(107,065)	(77,480)	(94,655)
(821)	(1,255)	(872)
(43)	(38)	(32)
19,345	337,453	269,146
1,418,005	1,437,350	1,774,803
<u>\$ 1,437,350</u>	<u>\$ 1,774,803</u>	<u>\$ 2,043,949</u>
<u>\$ (98,063)</u>	<u>\$ (237,651)</u>	<u>\$ 49,829</u>
107.32%	115.46%	97.62%
\$ 1,296,384	\$ 1,484,512	\$ 1,772,592
-7.56%	-16.01%	2.81%

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**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF CONTRIBUTIONS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**For the Year Ended September 30, 2021**

	Fiscal Year*			
	2015	2016	2017	2018
Actuarially determined contribution	\$ 26,103	\$ 44,811	\$ 61,309	\$ 76,271
Contributions in relation to the actuarially determined contribution	26,103	44,811	61,309	76,271
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 918,710	\$ 1,085,450	\$ 1,116,575	\$ 1,260,456
Contributions as a percentage of covered payroll	2.84%	4.13%	5.49%	6.05%

\*Only seven years of information is currently available. The City will build this schedule over the next three-year period.

**Notes to Required Supplementary Information:**

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	N/A
Asset valuation method	10 year smoothed market; 12% soft corridor
Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period December 31, 2014 - December 31, 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

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<b>Fiscal Year*</b>		
<b>2019</b>	<b>2020</b>	<b>2021</b>
\$ 86,378	\$ 99,240	\$ 168,402
86,378	99,240	168,402
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,439,928	\$ 1,635,373	\$ 1,921,658
6.00%	6.07%	8.76%

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**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**For the Year Ended September 30, 2021**

	<b>Measurement Year* 2020</b>
<b>Total OPEB Liability</b>	
Service cost	\$ 4,786
Interest (on the total OPEB liability)	1,831
Changes in benefit terms including TMRS plan participation	64,174
Differences between expected and actual experience	-
Changes of assumptions	12,099
Benefit payments	-
<b>Net Change in Total OPEB Liability</b>	<b>82,890</b>
Beginning total OPEB liability	-
<b>Ending Total OPEB Liability</b>	<b>\$ 82,890</b>
<b>Covered Payroll</b>	<b>\$ 1,772,592</b>
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	<b>4.68%</b>

\*Only one year of information is currently available. The City will build this schedule over the next nine-year period.

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

**Notes to Required Supplementary Information:**

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Discount rate	2.75%
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68.
Mortality - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who became disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

3. Other Information:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay benefits.

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***COMBINING STATEMENTS  
AND SCHEDULES***

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

For the Year Ended September 30, 2021

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>				
Property taxes	\$ 360,873	\$ 360,873	\$ 385,756	\$ 24,883
Investment revenue	5,000	5,000	179	(4,821)
<b>Total Revenues</b>	365,873	365,873	385,935	20,062
<b><u>Expenditures</u></b>				
<b>Debt service:</b>				
Principal	501,050	501,050	455,000	46,050
Interest and fiscal agent fees	162,950	369,109	369,109	-
<b>Total Expenditures</b>	664,000	870,159	824,109	46,050
<b>(Deficiency) of Revenues (Under) Expenditures</b>	(298,127)	(504,286)	(438,174)	(25,988)
<b><u>Other Financing Sources (Uses)</u></b>				
Refunding bonds issued	-	4,495,000	4,495,000	-
Premium on refunding bond	-	605,566	605,566	-
Payment to refunded bond escrow agent	-	(4,890,557)	(4,890,557)	-
<b>Total Other Financing Sources</b>	-	210,009	210,009	-
<b>Net Change in Fund Balance</b>	\$ (298,127)	\$ (294,277)	(228,165)	\$ 66,112
Beginning fund balance			423,795	
<b>Ending Fund Balance</b>			\$ 195,630	

**Notes to Required Supplementary Information:**

- Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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**CITY OF MONTGOMERY, TEXAS**  
*NONMAJOR GOVERNMENTAL FUNDS*  
SPECIAL REVENUE FUNDS

**Special Revenue Funds** are used to account for specific revenues that are legally restricted, committed, or assigned to expenditures for particular purposes.

**Hotel Occupancy Fund**

This fund is used to account for hotel tax revenue from local hotels.

**Court Security Fund**

This fund is used to account for collection and disbursement of money used for court security.

**Court Technology Fund**

This fund is used to account for municipal court computer technology.

**Police Asset Forfeiture Fund**

This fund is used to account for revenues from seized contraband used for law enforcement purposes.

**Grants Fund**

This fund is used to account for revenues from grants.

**CITY OF MONTGOMERY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
September 30, 2021

Special Revenue Funds				
	Hotel Occupancy	Court Security	Court Technology	Police Asset Forfeiture
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 17,392	\$ 5,279	\$ 40,593	\$ 12,087
Due from other funds	-	45	60	-
<b>Total Assets</b>	<b>\$ 17,392</b>	<b>\$ 5,324</b>	<b>\$ 40,653</b>	<b>\$ 12,087</b>
<b><u>Fund balances</u></b>				
Restricted for:				
Tourism	17,392	-	-	-
Public safety	-	5,324	40,653	12,087
Grants	-	-	-	-
<b>Total Fund Balances</b>	<b>17,392</b>	<b>5,324</b>	<b>40,653</b>	<b>12,087</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 17,392</b>	<b>\$ 5,324</b>	<b>\$ 40,653</b>	<b>\$ 12,087</b>

# DRAFT

<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
<u>Grants</u>		
\$	20	\$ 75,371
	-	105
<u>\$</u>	<u>20</u>	<u>\$ 75,476</u>
	-	17,392
	-	58,064
	20	20
<u></u>	<u>20</u>	<u>75,476</u>
<u>\$</u>	<u>20</u>	<u>\$ 75,476</u>

**DRAFT**

**CITY OF MONTGOMERY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2021**

		<u>Special Revenue Funds</u>			
		<u>Hotel Occupancy</u>	<u>Court Security</u>	<u>Court Technology</u>	<u>Police Asset Forfeiture</u>
<b><u>Revenues</u></b>					
Other taxes		\$ 2,349	\$ -	\$ -	\$ -
Fines and forfeitures		-	606	828	3,495
Investment revenue		4	-	11	-
	<b>Total Revenues</b>	<u>2,353</u>	<u>606</u>	<u>839</u>	<u>3,495</u>
<b><u>Expenditures</u></b>					
	<b>Total Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<b>Excess of Revenues Over Expenditures</b>	<u>2,353</u>	<u>606</u>	<u>839</u>	<u>3,495</u>
<b><u>Other Financing Sources (Uses)</u></b>					
Transfers (out)		-	(2,500)	-	-
	<b>Total Other Financing (Uses)</b>	<u>-</u>	<u>(2,500)</u>	<u>-</u>	<u>-</u>
	<b>Net Change in Fund Balances</b>	2,353	(1,894)	839	3,495
Beginning fund balances		<u>15,039</u>	<u>7,218</u>	<u>39,814</u>	<u>8,592</u>
	<b>Ending Fund Balances</b>	<u>\$ 17,392</u>	<u>\$ 5,324</u>	<u>\$ 40,653</u>	<u>\$ 12,087</u>

# DRAFT

<u>Special Revenue Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Grants</u>	
\$ -	\$ 2,349
-	4,929
-	15
-	<u>7,293</u>
-	-
-	<u>7,293</u>
<u>(5,798)</u>	<u>(8,298)</u>
<u>(5,798)</u>	<u>(8,298)</u>
(5,798)	(1,005)
<u>5,818</u>	<u>76,481</u>
<u>\$ 20</u>	<u>\$ 75,476</u>

**DRAFT**  
**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL**  
**NONMAJOR SPECIAL REVENUE FUNDS**

For the Year Ended September 30, 2021

	<b>Hotel Occupancy</b>			
	<b>Original Budget Amounts</b>	<b>Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Other taxes	\$ 2,000	\$ 2,000	\$ 2,349	\$ 349
Investment revenue	3	3	4	1
<b>Total Revenues</b>	<b>2,003</b>	<b>2,003</b>	<b>2,353</b>	<b>350</b>
<b>Expenditures</b>				
<b>Current:</b>				
General government	1,000	1,000	-	1,000
<b>Total Expenditures</b>	<b>1,000</b>	<b>1,000</b>	<b>-</b>	<b>1,000</b>
<b>Net Change in Fund Balance</b>	<b>\$ 1,003</b>	<b>\$ 1,003</b>	<b>2,353</b>	<b>\$ 1,350</b>
Beginning fund balance			15,039	
<b>Ending Fund Balance</b>			<b>\$ 17,392</b>	

	<b>Court Security</b>			
	<b>Original Budget Amounts</b>	<b>Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Fines and forfeitures	\$ 4,000	\$ 4,000	\$ 606	\$ (3,394)
<b>Total Revenues</b>	<b>4,000</b>	<b>4,000</b>	<b>606</b>	<b>(3,394)</b>
<b>Expenditures</b>				
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess of Revenues Over Expenditures</b>	<b>4,000</b>	<b>4,000</b>	<b>606</b>	<b>(3,394)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers (out)	(2,500)	(2,500)	(2,500)	-
<b>Total Other Financing (Uses)</b>	<b>(2,500)</b>	<b>(2,500)</b>	<b>(2,500)</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>\$ 1,500</b>	<b>\$ 1,500</b>	<b>(1,894)</b>	<b>\$ (3,394)</b>
Beginning fund balance			7,218	
<b>Ending Fund Balance</b>			<b>\$ 5,324</b>	



**DRAFT**

**CITY OF MONTGOMERY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - BUDGET AND ACTUAL (Continued)**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
For the Year Ended September 30, 2021

<b>Court Technology</b>				
	<b>Original Budget Amounts</b>	<b>Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>				
Fines and forfeitures	\$ 3,500	\$ 3,500	\$ 828	\$ (2,672)
Investment revenue	-	-	11	11
<b>Total Revenues</b>	<b>3,500</b>	<b>3,500</b>	<b>839</b>	<b>(2,661)</b>
<b><u>Expenditures</u></b>				
<b>Current:</b>				
Public safety	2,000	2,000	-	2,000
<b>Total Expenditures</b>	<b>2,000</b>	<b>2,000</b>	<b>-</b>	<b>2,000</b>
<b>Net Change in Fund Balance</b>	<b>\$ 1,500</b>	<b>\$ 1,500</b>	<b>839</b>	<b>\$ (661)</b>
Beginning fund balance			39,814	
<b>Ending Fund Balance</b>			<b>\$ 40,653</b>	

<b>Police Asset Forfeiture</b>				
	<b>Original Budget Amounts</b>	<b>Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>				
Fines and forfeitures	\$ -	\$ -	\$ 3,495	\$ 3,495
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>3,495</b>	<b>3,495</b>
<b><u>Expenditures</u></b>				
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>3,495</b>	<b>\$ 3,495</b>
Beginning fund balance			8,592	
<b>Ending Fund Balance</b>			<b>\$ 12,087</b>	

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**APPENDIX D**

**FORM OF OPINION OF BOND COUNSEL**

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## **Proposed Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by Johnson Petrov L.L.P., Bond Counsel, upon delivery of the Notes, assuming no material changes in facts or law*

### **CITY OF MONTGOMERY, TEXAS TAX NOTES, SERIES 2022**

AS BOND COUNSEL FOR THE CITY OF MONTGOMERY, TEXAS (the "Issuer" or the "City"), in connection with the issuance of the Tax Notes described above (the "Notes"), we have examined into the legality and validity of the Notes, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Notes. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Notes (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance and sale of the Notes.

WE ARE OF THE OPINION, based on the foregoing, that the proceedings authorizing the issuance of the Notes show lawful authority for such issuance under the Constitution and laws of the State of Texas.

WE ARE OF THE OPINION that the Notes constitute legal, valid and binding obligations of the City, except to the extent that the enforcement of the rights and remedies of any noteholder may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the City, that the Notes are payable from the levy of a direct annual ad valorem tax, within the limit prescribed by law, as provided in the Ordinance.

IT IS FURTHER OUR OPINION THAT, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Notes (i) is excludable from the gross income of the owners thereof and (ii) the Notes will not be treated as "specified private activity bonds" the interest on which would be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code").

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

WE ASSUME NO DUTY TO update or supplement our opinions to reflect any facts or circumstances that may come to our attention after the issuance of the Notes or to reflect any changes in any law that may become effective after the issuance of the Notes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Notes is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Notes under the Constitution and laws of the State of Texas, and for no other reason or purpose. The opinions expressed herein represent our legal judgment based upon our review of the transcript of proceedings relating to the issuance of the Notes, certain other materials, and existing law that we, in our sole discretion, deemed relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very truly yours



**USCA MUNICIPAL ADVISORS, LLC**

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*Financial Advisor to the City*



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