

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

\$14,100,000*

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

TAX NOTES, SERIES 2024

**Bids due
Tuesday, December 19, 2023
at
11:00 A.M., Central Time**

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

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

OFFICIAL NOTICE OF SALE

\$14,100,000*

CITY OF PORT ARANSAS, TEXAS

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

TAX NOTES, SERIES 2024

NOTES OFFERED FOR SALE AT COMPETITIVE BID: The City Council (the "City Council") of the City of Port Aransas, Texas (the "City" or the "Issuer") is offering for sale at competitive bid its \$14,100,000* Tax Notes, Series 2024 (the "Notes").

BIDS BY INTERNET: Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 11:00 A.M., Central Time, on Tuesday, December 19, 2023. Bidders submitting a bid by internet shall not be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System ("PARITY") and should, as a courtesy, register with PARITY by 9:00 A.M., Central Time, on Tuesday, December 19, 2023 indicating their intent to submit a bid by internet.

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

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

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

OPENING OF BIDS: Bids will be opened and publicly read at 11:00 A.M., Central Time, on Tuesday, December 19, 2023, following which the bids will be evaluated by SAMCO Capital Markets, Inc. (the "Financial Advisor") and the City Council shall provide final approval of the award at a City Council meeting later that evening. The Mayor of the City or their representative shall award the Notes as described in the section entitled "AWARD AND SALE OF THE NOTES" below.

AWARD AND SALE OF THE NOTES: By 12:00 P.M. (noon) Central Time, on the date set for receipt of bids, the Mayor of the City or their representative shall award the Notes to **the low qualified bidder (the "Winning Bidder")**, as described in the section entitled "CONDITIONS OF SALE – Basis of Award" herein subject to final approval of the City Council which will take action to adopt an ordinance (the "Ordinance") authorizing the issuance and awarding sale of the Notes or will reject all bids promptly at a scheduled meeting to commence at 3:00 P.M. Central Time on Tuesday, December 19, 2023. The City reserves the right to reject any or all bids and to waive any irregularities, except time of filing.

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

THE NOTES

DESCRIPTION OF CERTAIN TERMS OF THE NOTES: The Notes will be dated December 1, 2023 (the “Dated Date”) with interest to accrue from the Dated Date and be payable initially on March 1, 2024, and semiannually on each September 1 and March 1 thereafter until stated maturity. The Notes will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Notes will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof within a stated maturity. Purchasers of the Notes (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, the principal of and interest on the Notes will be payable by BOKF, NA, Dallas, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Notes. (See “BOOK-ENTRY-ONLY SYSTEM” in the Preliminary Official Statement.) The Notes will be stated to mature on March 1 in each of the following years in the following amounts:

MATURITY SCHEDULE

(Due March 1)

Stated Maturity	Principal Amount*
2024	\$800,000
2025	1,395,000
2026	1,735,000
2027	2,000,000
2028	2,350,000
2029	2,460,000
2030	3,360,000

ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE NOTES: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Notes, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Notes shall not exceed \$14,100,000*. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

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

SECURITY FOR PAYMENT: The Notes are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Chapter 1431, as amended, Texas Government Code, an ordinance (the “Ordinance”) to be adopted by the City Council on December 19, 2023, and the City’s Home Rule Charter and are payable from an annual ad valorem taxes levied against all taxable property therein, within the limits prescribed by law.

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

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

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

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

CONDITIONS OF SALE

TYPES OF BIDS AND INTEREST RATES: The Notes will be sold in one block on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Notes from the Dated Date of the Notes to the date of Initial Delivery (defined herein) of the Notes. **No bid producing a cash premium on the Notes that results in a dollar price of less than 101% will be considered; provided, however, that any bid is subject to adjustment as described under the caption "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS".** Bidders are invited to name the rate(s) of interest to be borne by the Notes, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest for the Notes (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Notes of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

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

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

ESTABLISHMENT OF ISSUE PRICE:

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

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

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

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

(c) In the event that the competitive sale requirements are not satisfied, the City shall so advise the Winning Bidder. In such event, the City intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Notes as the issue price of that maturity (the “hold-the-offering-price rule”). The City shall promptly advise the Winning Bidder, at or before the time of award of the Notes, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Notes. Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies. In the event that the competitive sale requirements are not satisfied, resulting in the application of the hold-the-price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the City.

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

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

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

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

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

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

- (1) “public” means any person other than an underwriter or a related party,
- (2) “underwriter” means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Notes to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Notes to the public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Notes to the public),

- (3) a purchaser of any of the Notes is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (4) “sale date” means the date that the Notes are awarded by the City to the Winning Bidder.

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

GOOD FAITH DEPOSIT: A bank cashier’s check payable to the order of “City of Port Aransas, Texas” in the amount of \$282,000, which is 2% of the par value of the Notes (the “Good Faith Deposit”), is required. The Good Faith Deposit will be retained uncashed by the City until the Notes are delivered, and at that time it will be returned to the Purchaser uncashed on the date of delivery of the Notes; however, should the Purchaser fail or refuse to take up and pay for the Notes, including without limitation due to the unwillingness or inability of the Purchaser to provide the Standing Letter (as defined herein) or Bringdown Verification (as defined herein) in a form acceptable to the Texas Attorney General for the delivery of their approving opinion at closing, then said Good Faith Deposit is to be cashed by the City and the proceeds accepted as full and complete liquidated damages, subject to “ADDITIONAL CONDITIONS OF AWARD – Statutory Representations and Covenants”. See “ADDITIONAL CONDITIONS OF AWARD - Texas Attorney General Standing Letter”. The above mentioned Good Faith Deposit may accompany the bid, or it may be submitted separately; however, if submitted separately, it shall be made available to the City prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. The checks accompanying all other bids will be returned immediately after the bids are opened and the award of the sale of the Notes has been made.

ADDITIONAL CONDITIONS OF AWARD

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

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (City of Port Aransas, Texas) and (b) item 3 - the identification number assigned to this contract by the City (Port Aransas TN2023 – Bid Form) and description of the goods or services (Purchase of the City of Port Aransas, Texas Tax Notes, Series 2023). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the “Disclosure Rules”) require a non-publicly traded business entity contracting with the City to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC’s “electronic portal” to the City. The executed Disclosure Form must be sent by email to the City’s financial advisor at mmcliney@samcocapital.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Stephanie Leibe, c/o Norton Rose Fulbright US LLP, 98 San Jacinto Blvd, Suite 1100, Austin, Texas 78701, along with a PDF executed version sent to stephanie.leibe@nortonrosefulbright.com.

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder must be declared by an authorized agent of the Privately Held Winning Bidder. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made “under penalty of perjury.” Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Notes until a completed Disclosure Form is received. If applicable, the City reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein. Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder’s obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Notes should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the City that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC’s website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

Statutory Representations and Covenants. By submitting a bid, each bidder makes the following representations and, if its bid is accepted, covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as heretofore amended (the "Government Code"). As used in therein, "affiliate" means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. If a bidder's bid is accepted, then liability for breach of any such representation or covenant during the term of the contract for purchase and sale of the Notes created thereby (the "Purchase Contract") shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of the bid or this Official Notice of Sale, notwithstanding anything herein or therein to the contrary.

Not a Sanctioned Company. Each bidder represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Government Code. The foregoing representation excludes each bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

No Boycott of Israel. Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, if its bid is accepted, will not boycott Israel during the term of the Purchase Contract. As used in the foregoing verification, "boycott Israel" has the meaning provided in Section 2271.001, Government Code.

No Discrimination Against Firearm Entities. Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and, if its bid is accepted, will not discriminate against a firearm entity or firearm trade association during the term of the Purchase Contract. As used in the foregoing verification, "discriminate against a firearm entity or firearm trade association" has the meaning provided in Section 2274.001(3), Government Code.

No Boycott of Energy Companies. Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and, if its bid is accepted, will not boycott energy companies during the term of the Purchase Contract. As used in the foregoing verification, "boycott energy companies" has the meaning provided in Section 2276.001(1), Government Code.

Texas Attorney General Standing Letter. The winning bidder represents that it has, as of the date bids are due on the Notes and as of Closing, on file with the Texas Attorney General a standing letter addressing the representations and verifications hereinbefore described in this Notice of Sale in the form attached as Exhibit B to the Updated Recommendations for Compliance with the Texas BPA Verification and Representation Requirements (December 1, 2023) of the Municipal Advisory Council of Texas or any other form accepted by the Texas Attorney General (a "Standing Letter"). In addition, if the winning bidder or the parent company, a wholly- or majority-owned subsidiary or another affiliate of such winning bidder receives or has received a letter from the Texas Comptroller of Public Accounts or the Texas Attorney General seeking written verification that such bidder is a member of the Net Zero Banking Alliance, Net Zero Insurance Alliance, Net Zero Asset Owner Alliance, or Net Zero Asset Managers or of the representations and certifications contained in the winning bidder's Standing Letter (a "Request Letter"), the winning bidder shall promptly notify the City and Bond Counsel (if it has not already done so) and provide to the City or Bond Counsel, two business days prior to Closing and additionally upon request by the City or Bond Counsel, written verification to the effect that its Standing Letter described in the preceding sentence remains in effect and may be relied upon by the City and the Texas Attorney General (the "Bringdown Verification"). The Bringdown Verification shall also confirm that the winning bidder (or the parent company, a wholly- or majority-owned subsidiary or other affiliate of the winning bidder that received the Request Letter) intends to timely respond or has timely responded to the Request Letter. The Bringdown Verification may be in the form of an e-mail. The City reserves the right, in its sole discretion, to reject any bid from a bidder that does not satisfy the foregoing requirements as of the deadline for bids for the Notes.

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

OFFICIAL STATEMENT

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

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

The City agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may

be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The City consents to the distribution of such documents in a "designated electronic format." Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the applicable MSRB rules.

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

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

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

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

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

COMPLIANCE WITH PRIOR UNDERTAKINGS: During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule.

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL NOTE: The initial delivery of the Notes to the Purchaser on the "Delivery Date", will be accomplished by the issuance of either (i) a single fully registered Note in the total principal amount of \$14,100,000 (preliminary, subject to change) payable in stated installments to the Purchaser and numbered T-1, or (ii) as one (1) fully registered Note for each year of stated maturity in the applicable principal amount and denomination, to be numbered consecutively from R-1 and upward (in either case, the "Initial Note"), signed by manual or facsimile signature of the Mayor and the City Secretary approved by the Attorney General of Texas, and registered and manually signed by an authorized representative of the Comptroller of Public Accounts of the State of Texas. Initial Delivery (defined below) of the Notes will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Note, they shall be immediately canceled and one Note for each stated maturity will be registered in the name of Cede & Co. and deposited with DTC in connection with DTC's Book-Entry-Only System. Payment for the Initial Note must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six (6) business days' notice of the time fixed for delivery of the Notes. It is anticipated that Initial Delivery of the Initial Note can be made on or about January 17, 2024, but if for any reason the City is unable to make delivery by January 17, 2024, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional thirty (30) days its obligation to take up and pay for the Notes. If the Purchaser does not so elect within six (6) business days thereafter, then the Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Notes, provided such failure is due to circumstances beyond the City's reasonable control.

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

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

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

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

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

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

GENERAL CONSIDERATIONS

FUTURE REGISTRATION: The Notes may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Note may be assigned by the execution of an assignment form on the Notes or by other instrument of transfer and assignment

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

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

RATINGS: A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available to the Purchaser as soon as possible. (See "OTHER PERTINENT INFORMATION - Ratings" in the Preliminary Official Statement). An explanation of the significance of such a rating may be obtained from S&P. The rating of the Notes by S&P reflects only the view of S&P at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Notes.

SALE OF ADDITIONAL NOTES: The City currently has no plans to issue additional ad valorem tax supported debt in 2024.

REGISTRATION AND QUALIFICATION OF NOTES FOR SALE: No registration statement relating to the Notes has been filed with the SEC under the Securities Act of 1933, as amended (the "Act"), in reliance upon exemptions provided in such Act. The Notes have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. Any representation to the contrary is a criminal offense. The Notes have not been registered or qualified under the Securities Act of Texas in reliance upon exemptions contained therein, nor have the Notes been registered or qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Notes under the securities laws of any jurisdiction in which the Notes may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Notes shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

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

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

/s/ Wendy Moore

Mayor,
City of Port Aransas

ATTEST:

/s/ Francisca Nixon

City Secretary,
City of Port Aransas

December 14, 2023

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OFFICIAL BID FORM

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

December 19, 2023

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Preliminary Official Statement dated December 12, 2023 which terms are incorporated by reference to this proposal (and which are hereto agreed as evidenced by on submission of this bid), we hereby submit the following bid for \$14,100,000 (preliminary, subject to change) City of Port Aransas, Texas Tax Notes, Series 2024, dated December 1, 2023 (the "Notes").

For said legally issued Notes, we will pay you \$_____ (being a price of no less than 101% of par value) plus accrued interest from their date to the date of delivery to us for Notes maturing March 1 and bearing interest per annum as follows:

Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %
2024	\$800,000	
2025	1,395,000	
2026	1,735,000	
2027	2,000,000	
2028	2,350,000	
2029	2,460,000	
2030	3,360,000	

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

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

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: As a condition to our submittal of this bid for the Notes, we acknowledge the following: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Notes, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Notes shall not exceed \$14,100,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Official Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

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

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

We agree to accept delivery of the Notes utilizing the Book-Entry-Only System through DTC and make payment for the Initial Note in immediately available funds at the Corporate Trust Division, BOKF, NA, Dallas, Texas, not later than 10:00 A.M., Central Time, on Wednesday, January 17, 2024, or thereafter on the date the Notes are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale. It will be the obligation of the Purchaser of the Notes to complete and file the DTC Eligibility Questionnaire. The undersigned agrees to the provisions of the Official Notice of Sale under the heading "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" and, as evidence thereof, agrees to complete, execute, and deliver to the City, by the Delivery Date, a certificate relating to the "issue price" of the Notes in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to Bond Counsel for the City. (See "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" in the Official Notice of Sale.)

Through submittal of this executed Official Bid Form, the undersigned verifies that, except to the extent otherwise required by applicable Texas or Federal law, it (1) does not and will not "boycott Israel", (2) is not a company on the Texas Comptroller's list concerning "foreign terrorist organizations" prepared and maintained thereby under applicable Texas law, (3) does not and will not "discriminate against a firearm entity or firearm trade association", (4) does not and will not "boycott energy companies", and (5) it has, as of the date of this official bid form and as of Closing on file with the Texas Attorney General a standing letter addressing the representations and verifications in (1) through (4), all as more fully provided in the Official Notice of Sale under the heading "ADDITIONAL CONDITIONS OF AWARD".

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

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

Upon acceptance of this bid by the City, the accepted bid and Official Notice of Sale will together comprise a binding contract between the winning bidder and the City in accordance with their terms. The acceptance of the bid creates a binding contract with a term that extends until the Notes are taken up and paid for by the Bidder or any earlier termination of this contract in accordance with the terms of the Official Notice of Sale.

Bidder: _____
 By: _____
 Authorized Representative

 Telephone Number

 E-mail Address

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Port Aransas, Texas, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 19th day of December 2023.

 Mayor,
 City of Port Aransas, Texas

ATTEST:

 City Secretary,
 City of Port Aransas

\$14,100,000*
CITY OF PORT ARANSAS, TEXAS
TAX NOTES, SERIES 2024

ISSUE PRICE CERTIFICATE

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

1. Reasonably Expected Initial Offering Price.

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

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

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

2. Defined Terms.

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

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

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Obligations. The Sale Date of the Obligations is December 19, 2023.

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

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

By: _____
Name: _____
Title: _____

Dated: December 14, 2023

* _____
Preliminary, subject to change.

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SCHEDULE A
EXPECTED OFFERING PRICES

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SCHEDULE B

COPY OF UNDERWRITER'S BID

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

NEW ISSUE BOOK-ENTRY-ONLY

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

PRELIMINARY OFFICIAL STATEMENT
Dated: December 12, 2023

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

\$14,100,000*
CITY OF PORT ARANSAS, TEXAS
(A political subdivision of the State of Texas located in Nueces County, Texas)
TAX NOTES, SERIES 2024

Dated Date: December 1, 2023

Due: March 1, as shown on page 2

The \$14,100,000* City of Port Aransas, Texas Tax Notes, Series 2024 (the "Notes" or "Obligations") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1431, Texas Government Code, as amended, and an ordinance (the "Ordinance") to be adopted by the City Council of the City of Port Aransas, Texas (the "City" or "Issuer") on December 19, 2023. (See "THE NOTES - Authority for Issuance" herein.)

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

Interest on the Notes will accrue from December 1, 2023 (the "Dated Date") as shown above and will be payable on March 1 and September 1 of each year, commencing March 1, 2024, until stated maturity, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Notes will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Notes will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Notes ("Beneficial Owners") will not receive physical delivery of Notes representing their interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, the principal of and interest on the Notes will be payable by BOKF, NA, Dallas, Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Notes. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Notes will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (i) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving City parks and recreational facilities, including a new recreational facility; (ii) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes; and (iii) the payment of professional services therewith including legal, fiscal, engineering and the costs of issuing the Notes. (See "THE NOTES – Use of Note proceeds" herein.)

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

The Notes are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Notes. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" as "APPENDIX C – Form of Legal Opinion of Bond Counsel" herein). It is expected that the Notes will be available for initial delivery through DTC on or about January 17, 2024.

BIDS DUE TUESDAY, DECEMBER 19, 2023 BY 11:00 A.M. CENTRAL TIME

*Preliminary, subject to change.

\$14,100,000*
CITY OF PORT ARANSAS
TAX NOTES, SERIES 2024

STATED MATURITY SCHEDULE*

CUSIP No. Prefix 733454⁽¹⁾

Stated Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix ⁽¹⁾
2024	\$ 800,000			
2025	1,395,000			
2026	1,735,000			
2027	2,000,000			
2028	2,350,000			
2029	2,460,000			
2030	3,360,000			

(Interest to accrue from the Dated Date)

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

* Preliminary, subject to change.

⁽¹⁾ CUSIP numbers are included solely for the convenience of 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 FactSet Research Systems Inc., on behalf of The American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for convenience of the Bondholders. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, or the Purchaser are responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF PORT ARANSAS, TEXAS

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

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)
Wendy Moore Mayor	6	2024
Kelly Owens Mayor Pro-Tem	2	2024
Mark Winton Councilmember, Place #1	7 months	2025
Jo Ellyn Krueger Councilmember, Place #3	3	2025
Tanya Chambers Councilmember, Place #4	2	2024
Charles Crawford, Jr. Councilmember, Place #5	3	2025
Dale Christianson Councilmember, Place #6	2	2024

ADMINISTRATION

Name	Position	Years with The City
David Parsons	City Manager	18
Darla Honea	Director of Finance	15
Francisca Nixon	City Secretary	9

CONSULTANTS AND ADVISORS

Bond Counsel Norton Rose Fulbright US LLP
 Austin, Texas

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

Auditor..... ABIP, P.C.
 San Antonio, Texas

For Additional Information Please Contact:

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 City Manager
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 Director of Finance
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 Port Aransas, Texas 78373
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Mr. Mark McLiney, Senior Managing Director
 Mr. Andrew T. Friedman, Senior Managing Director
 SAMCO Capital Markets, Inc.
 1020 NE Loop 410, Suite 640
 San Antonio, Texas 78209
 Telephone: (210) 832-9760
 afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

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

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

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

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

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The City of Port Aransas, Texas (the "Issuer" or "City"), is located on the northern end of Mustang Island, approximately 30 miles east of the City of Corpus Christi. The City is a popular tourist resort and sports fishing center located on the northern end of Mustang Island. The 2017 estimated population is 3,955. The City owns and operates the Port Aransas Harbor. The City connects to Aransas Pass via a free ferry service, and to the City of Corpus Christi, via a causeway. The City was incorporated as a general law city in November 1955. In August 1978, the City adopted the Mayor-Council-Manager form of government pursuant to the adoption of its Home Rule Charter which was last amended on April 21, 2016. (See "APPENDIX B - General Information Regarding the City of Port Aransas and Nueces County, Texas" herein.)
The Notes	The Notes are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1431, Texas Government Code, as amended, and an ordinance (the "Ordinance") to be adopted on December 19, 2023 by the City Council, and the City's Home Rule Charter. (see "THE NOTES – Authority for Issuance").
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Notes is BOKF, NA, Dallas, Texas.
Security for the Notes	The Notes payable from the levy and collection of a direct and continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Ordinance. (See "THE NOTES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)
No Redemption	The Notes are not subject to redemption prior to stated maturity.
Tax Matters	In the opinion of Bond Counsel, the interest on the Notes will be excludable from gross income for federal tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof. (See "TAX MATTERS" for a discussion of the Opinion of Bond Counsel and "APPENDIX C - FORM OF LEGAL OPINION OF BOND COUNSEL" herein.)
Use of Proceeds of the Notes	Proceeds from the sale of the Notes will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements, to-wit: (i) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving City parks and recreational facilities, including a new recreational facility; (ii) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes; and (iii) the payment of professional services therewith including legal, fiscal, engineering and the costs of issuing the Notes.
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York described herein. No physical delivery of the Notes will be made to the beneficial owners of the Notes. Such Book-Entry-Only System may affect the method and timing of payments on the Notes and the manner the Notes may be transferred. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Ratings	A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available as soon as possible. (See "OTHER PERTINENT INFORMATION - Ratings" herein.)
Other Debt Issues	The City currently has no plans to issue additional ad valorem tax supported debt in 2024.
Payment Record	The City has never defaulted on the payment of its ad valorem tax backed indebtedness.
Delivery	When issued, anticipated on or about January 17, 2024.
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 legality by Norton Rose Fulbright US LLP, Bond Counsel, Austin and San Antonio, Texas.

PRELIMINARY OFFICIAL STATEMENT
Relating to
\$14,100,000*
CITY OF PORT ARANSAS, TEXAS
(A political subdivision of the State of Texas located in Nueces County)
TAX NOTES, SERIES 2024

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Port Aransas, Texas (the "City" or "Issuer") of its \$14,100,000* Tax Notes, Series 2024 (the "Notes" or "Obligations") identified on the cover page hereof.

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

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

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

THE NOTES

General Description of the Notes

The Notes will be dated December 1, 2023 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Notes will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Notes will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on March 1 and September 1 of each year, commencing March 1, 2024, until stated maturity. Principal of and interest on the Notes are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Notes payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by BOKF, NA, Dallas, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Notes will be payable at stated maturity upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Notes is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Authority for Issuance

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

Security for Payment

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

*Preliminary, subject to change.

Use of Note proceeds

Proceeds from the sale of the Notes will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements, to-wit: (i) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving City parks and recreational facilities, including a new recreational facility; (ii) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes; and (iii) the payment of professional services therewith including legal, fiscal, engineering and the costs of issuing the Notes.

No Redemption

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

SOURCES AND USES OF FUNDS

Sources of Funds		
Par Amount		\$ _____
Accrued Interest		_____
[Net] Reoffering Premium		_____
	Total Sources of Funds	\$ _____
Uses of Funds		
Deposit to Project Fund		\$ _____
Costs of Issuance		_____
Purchaser's Discount		_____
Deposit to Note Fund		_____
	Total Uses of Funds	\$ _____

Payment Record

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

Legality

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

Defeasance

The Ordinance provides for the defeasance of the Notes when the payment of the principal of and premium, if any, on the Notes, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with a paying agent (or financial institution permitted by applicable state law), in trust (1) money sufficient to make such payment, (2) Defeasance Securities (defined below) of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Defeasance Securities together so certified sufficient to make such payment. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Notes. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City authorizes the defeasance of the Notes, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that, on the date the City authorizes the defeasance of the Notes, have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any obligations hereafter authorized by law to be eligible to effect the defeasance of the Notes. City officials may restrict the use of such Defeasance Securities as deemed appropriate. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Notes. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

Default and Remedies

If the City defaults in the payment of principal, interest, or redemption price on the Notes when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Notes, if there is no other available remedy at law to compel performance of the Notes or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Notes in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language.

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

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

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

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Notes. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Notes are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

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

Record Date

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

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

Future Registration

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

Limitation on Transfer or Exchange of Notes

The Paying Agent/Registrar shall not be required to transfer or exchange any Notes or any portion thereof during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

Replacement Notes

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

BOOK-ENTRY-ONLY SYSTEM

The following describes how ownership of the Notes is to be transferred and how the principal of, premium, if any, and interest on the Notes are to be paid to and credited by DTC (defined below) 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 Purchaser believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

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

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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 Securities 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 Securities unless authorized by a Direct Participant in accordance with DTC's MMI 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, 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, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to Paying Agent/Registrar, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to Paying Agent/Registrar. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to Paying Agent/Registrar's DTC account.

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

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City and the Purchaser believe to be reliable, but the City and the Purchaser take no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the 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 physical Bond certificates will be issued to the respective holders and the Notes will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

INVESTMENT POLICIES

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

Legal Investment

Under Texas law and subject to certain limitations, the Issuer is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses

(1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an “A” or better rated state or national bank; (10) 270-day or shorter bankers’ acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least “A-1” or “P-1”; (11) commercial paper rated at least “A-1” or “P-1”; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) “AAA” or “AAAm”-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

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

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

Investment Policies

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

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

Current Investments ⁽¹⁾

TABLE 1

As of September 30, 2023 the City held investments as follows:

Cash	\$ 1,157,718	1.70%
TexPool	60,147,335	88.08%
Texas Class	5,678,586	8.32%
Money Market	<u>1,305,762</u>	<u>1.91%</u>
Total	<u>\$68,289,401</u>	<u>100.00%</u>

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

⁽¹⁾ Unaudited.

AD VALOREM PROPERTY TAXATION

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The Nueces County Appraisal District (the "Appraisal District") is primarily responsible for appraising property within the City generally as of January 1 of each year. Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentation of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

Local Option Freeze for the Elderly and Disabled

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem

taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

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

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

Other Exempt Property

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

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 (hereinafter defined) 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. 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. The Texas Legislature amended Section 11.35, Tax Code to clarify that "damage" for purposes of such statute is limited to "physical damage." For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, as amended.

Tax Increment Reinvestment Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "tax increment". During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Tax Abatement Agreements

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

For a discussion of how the various exemptions described above are applied by the City, see "CITY'S APPLICATION OF THE PROPERTY TAX CODE" herein.

City and Taxpayer Remedies

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly

qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$57,216,456 for the 2023 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

Levy and Collection of Taxes

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

City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

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

Public Hearing and Maintenance and Operations Tax Rate Limitations

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

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

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

“foregone revenue amount” means the greater of zero or the amount expressed in dollars calculated according to the following formula: the voter-approval tax rate less the actual tax rate, then multiplied by the taxing unit's current total value in the applicable preceding tax year.

“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).

"preceding total value" means a taxing unit's current total value in the applicable preceding tax year.

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

"unused increment rate" means the greater of (i) zero; or (ii) the sum of the 2020 foregone revenue amount, 2021 foregone revenue amount, and 2022 foregone revenue amount divided by the current total value.

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

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

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

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

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has posted notice prominently on the appraisal district's website (if the appraisal district maintains a website) and the assessor for the city has prominently posted on the city's website notice informing property owner of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase. The appraisal district is also required to post notice in a newspaper of general circulation by August 7 or as soon thereafter as practicable or if there is no newspaper of general circulation, the notice must be posted in the appraisal district's office.

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

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

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

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

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

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

Debt Tax Rate Limitations

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 of taxable assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

2023 Legislative Session

The 88th Texas Legislative Session convened in regular session on January 10, 2023 and concluded on May 29, 2023. The Legislature meets in regular session in odd-numbered years, for 140 days. When the Legislature is not in session, the Governor of Texas (the "Governor") may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda.

The Governor called the first special session which began on May 29, 2023 and concluded on June 27, 2023. The Governor called a second special session which convened on June 27, 2023 and concluded on July 13, 2023. The charge for the second special session included "Legislation to cut property-tax rates solely by reducing the school district maximum compressed tax rate in order to provide lasting property-tax relief for Texas taxpayers" and "Legislation to put Texas on a pathway to eliminate school district maintenance and operations property taxes." During the second special session, the Legislature passed Senate Bill 2 ("SB 2") which includes provisions that, among other things, increase the school district mandatory homestead exemption from \$40,000 to \$100,000 (approved by the voters at the November 7, 2023 election), prohibit cities, school districts and counties that adopted a local option homestead exemption for the 2022 tax year from reducing the amount of or repealing such exemption through December 31, 2027, and place further limitations on increases in appraised values on certain classes of properties. See "City Application of Property Tax Code" above. Certain provisions of SB 2, including those increasing the school district mandatory residential homestead exemption to \$100,000, prohibiting the reduction or repeal of the local option homestead exemption, and placing limitations on increasing the appraised values on certain classes of properties, were submitted to voters of the State on November 7, 2023.

The Governor called a third special session which convened on October 9, 2023 and concluded on November 7, 2023. The charge for the third special session, which was expanded on October 31, 2023, included, among other things, (i) "Legislation providing education savings accounts for all Texas schoolchildren" and "Legislation relating to primary and secondary education, including the . . . public school finance system."

The Governor called a fourth special session which convened on November 7, 2023 and concluded on December 7, 2023. The charge for the fourth special session includes, among other things, (i) "Legislation providing education savings accounts for all Texas schoolchildren" and "Legislation relating to primary and secondary education, including the . . . public school finance system."

During the 88th Texas Legislative Session, the Legislature approved a general appropriations act and legislation affecting ad valorem taxation procedures affecting cities. The City is in the process of evaluating the legislation that passed during the 88th Texas Legislative Session and how it may impact the City and its operations. The City can make no representation or predictions concerning the substance or the effect of any legislation passed in a prior session or that may be considered in a future session of the Legislature.

CITY'S APPLICATION OF THE PROPERTY TAX CODE

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

The City grants a local option exemption to the appraised value of the residence homestead of persons 65 years of age or older of \$20,000.

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

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

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

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

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

The City does not tax Goods-in-Transit.

The City does tax Freeport Property.

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

TAX MATTERS

Tax Exemption

The delivery of the Notes is subject to the opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that interest on the Notes for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is reproduced as APPENDIX C.

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

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

Tax Changes

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

Ancillary Tax Consequences

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

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Notes. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Notes.

Tax Accounting Treatment of Discount Notes

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

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

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

Tax Accounting Treatment of Premium Notes

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the Notes. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Notes. Under these agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal market Access (“EMMA”) system through an internet website accessible at www.emma.msrb.org as described below under “Availability of Information”.

Annual Reports

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

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general obligation type included in Table 1 of the Official Statement and in Tables 1 through 10 of APPENDIX A to this Official Statement, and in APPENDIX D. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2023. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

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

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

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Notes to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes, as the case may be; (7) modifications to rights of holders of the Notes, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Notes, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City, any of which reflect financial difficulties. In the Ordinance, the City will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Notes nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

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

Availability of Information

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

Limitations and Amendments

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

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell Notes in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Notes consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders or beneficial owners of the Notes. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent any Purchasers from lawfully purchasing or selling Notes, respectively, in the primary offering of the Notes.

Compliance with Prior Undertakings

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

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

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

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

Litigation

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

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Notes for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Notes for such purposes. The City has made no review of laws in other states to determine whether the Notes are legal investments for various institutions in those states.

FORWARD LOOKING STATEMENTS

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental

authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

OTHER PERTINENT INFORMATION

Registration and Qualification of Notes for Sale

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

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

Rating

A municipal bond rating application for the Notes has been made to S&P Global Ratings ("S&P"). The outcome of the result will be made available as soon as possible. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Notes by S&P reflects only the view of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Notes.

Authenticity of Financial Information

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

Financial Advisor

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

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

Winning Bidder

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

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APPENDIX A
FINANCIAL INFORMATION
THE CITY OF PORT ARANSAS, TEXAS

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2023 Actual Certified Market Value of Taxable Property (100% of Market Value).....	\$ 6,109,091,688
Less Exemptions:	
Optional Over-65 or Disabled Homestead.....	\$ 10,902,534
Homestead.....	112,712,104
Veterans Exemptions.....	8,609,968
Solar.....	502,991
Productivity Loss Value.....	39,933,083
Loss to 10% HO Cap.....	338,877,538
TOTAL EXEMPTIONS	<u>511,538,218</u>
2023 Certified Assessed Value of Taxable Property.....	\$ <u>5,597,553,470</u>

Source: Nueces County Appraisal District.

GENERAL OBLIGATION BONDED DEBT ⁽¹⁾

(as of December 1, 2023)

General Obligation Debt Principal Outstanding

General Obligation Bonds, Series 2012	2,100,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014	755,000
General Obligation Bonds, Series 2017	2,930,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018	4,980,000
General Obligation Refunding Bonds, Series 2019	425,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021	2,545,000
Tax Notes, Series 2021	1,315,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2022	840,000
Tax Notes, Series 2022	7,645,000
General Obligation Bonds, Series 2023	6,020,000
The Notes	<u>14,100,000</u> *
Total Gross General Obligation Debt	<u>\$ 43,655,000</u>

Less: Self Supporting Debt

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (100% HOT)	<u>\$ 4,980,000</u>
Total Net General Obligation Debt Outstanding	<u>\$ 38,675,000</u> *

2023 Net Assessed Valuation	\$ 5,597,553,470
Ratio of Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	0.78% *
Ratio of Net General Obligation Debt to Certified Net Taxable Assessed Valuation	0.69% *
Population: 2000 -3,370; 2010 - 3,480; est. 2023 - 4,303*	
Per Capita Certified Net Taxable Assessed Valuation - \$1,300,849.05	
Per Capita Gross General Obligation Debt Principal - \$10,145.25	

* Preliminary, subject to change.

⁽¹⁾ Unaudited.

(As of September 30, 2022)

Right to use lease obligations

At September 30, 2023, the City was obligated under the right to use leases for the Jail (\$270,302) and a copier (\$24,730) in the governmental activities and Roberts's Point Park (\$248,135) and a collection station sublease (\$4,239) in the business-type activities. The Jail was leased for a term of 3 years at a fixed interest rate of 3.28% with a monthly payment of \$7,343. The copier was leased for a term of 2 years at a fixed interest rate of 2.48% with a monthly payment of \$1,033. Robert's Point Park was leased for a term of 26.5 years at a fixed interest rate of 1.851% with an annual payment of \$12,000. The collection substation was leased for a term of 4 years at a fixed interest rate of 4.31% with an annual payment of \$1,067.

Fiscal Year 9/30	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 100,025	\$ 485	\$ 100,510	\$ 8,640	\$ 4,427	\$ 13,067
2024	87,936	180	88,116	8,785	4,282	13,067
2025	7,341	2	7,343	8,933	4,135	13,068
2026	-	-	-	8,016	3,984	12,000
2027	-	-	-	8,164	3,836	12,000
2028-2032	-	-	-	43,144	16,856	60,000
2033-2037	-	-	-	47,288	12,712	60,000
2038-2042	-	-	-	51,829	8,171	60,000
2043-2047	-	-	-	56,807	3,193	60,000
	<u>\$ 195,302</u>	<u>\$ 667</u>	<u>\$ 195,969</u>	<u>\$ 241,606</u>	<u>\$ 61,596</u>	<u>\$ 303,202</u>

Source: The City's Annual Financial Report for Fiscal Year Ended September 30, 2022.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending (9/30)	Current Total Outstanding Debt	The Notes*			Total Combined Debt Service*	Less: Self Supporting Debt Service	Total Net Debt Service *
		Principal	Interest	Total			
2024	\$ 4,391,764	\$ 800,000	\$ 568,913	\$ 1,368,913	\$ 5,760,677	\$ 577,875	\$ 5,182,802
2025	4,173,353	1,395,000	567,113	1,962,113	6,135,466	574,675	5,560,791
2026	4,181,245	1,735,000	496,688	2,231,688	6,412,932	576,100	5,836,832
2027	4,191,797	2,000,000	412,650	2,412,650	6,604,447	577,075	6,027,372
2028	3,632,338	2,350,000	314,775	2,664,775	6,297,113	577,600	5,719,513
2029	3,353,962	2,460,000	206,550	2,666,550	6,020,512	577,675	5,442,837
2030	1,833,323	3,360,000	75,600	3,435,600	5,268,923	577,300	4,691,623
2031	1,824,473	-	-	-	1,824,473	576,475	1,247,998
2032	1,831,353	-	-	-	1,831,353	575,200	1,256,153
2033	1,459,175	-	-	-	1,459,175	573,475	885,700
2034	884,075	-	-	-	884,075	-	884,075
2035	888,900	-	-	-	888,900	-	888,900
2036	887,325	-	-	-	887,325	-	887,325
2037	654,500	-	-	-	654,500	-	654,500
2038	581,400	-	-	-	581,400	-	581,400
Total	\$ 34,768,981	\$ 14,100,000	\$ 2,642,288	\$ 16,742,288	\$ 51,511,269	\$ 5,763,450	\$ 45,747,819

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

TAX ADEQUACY (Includes Self-Supporting Debt)

2023 Certified Freeze Adjusted Net Taxable Assessed Valuation	\$ 5,597,553,470
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2027)	6,604,447 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.12040 *

* Preliminary, subject to change. Includes the Notes.

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

TAX ADEQUACY (Excludes Self-Supporting Debt)

2023 Certified Freeze Adjusted Net Taxable Assessed Valuation	\$ 5,597,553,470
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2027)	6,027,372 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.10988 *

* Preliminary, subject to change. Includes the Notes.

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

INTEREST AND SINKING FUND MANAGEMENT INDEX

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2023	\$ 411,997
Fiscal Year Ending 9/30/24 Interest and Sinking Fund Tax Levy at 99% Collections Produce ⁽¹⁾	4,433,318
Total Available for General Obligation Debt	<u>\$ 4,845,315</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/24	<u>4,391,764</u>
Estimated Surplus at Fiscal Year Ending 9/30/2024 ⁽¹⁾	<u>\$ 453,550</u>

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

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(As of December 1, 2023)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year*	Percent of Principal Retired (%)*
	Currently Outstanding	The Notes*	Total*		
2024	\$ 3,400,000	\$ 800,000	\$ 4,200,000	\$ 39,455,000	9.62%
2025	3,380,000	1,395,000	4,775,000	34,680,000	20.56%
2026	3,485,000	1,735,000	5,220,000	29,460,000	32.52%
2027	3,600,000	2,000,000	5,600,000	23,860,000	45.34%
2028	3,145,000	2,350,000	5,495,000	18,365,000	57.93%
2029	2,965,000	2,460,000	5,425,000	12,940,000	70.36%
2030	1,520,000	3,360,000	4,880,000	8,060,000	81.54%
2031	1,565,000	-	1,565,000	6,495,000	85.12%
2032	1,625,000	-	1,625,000	4,870,000	88.84%
2033	1,300,000	-	1,300,000	3,570,000	91.82%
2034	760,000	-	760,000	2,810,000	93.56%
2035	795,000	-	795,000	2,015,000	95.38%
2036	825,000	-	825,000	1,190,000	97.27%
2037	620,000	-	620,000	570,000	98.69%
2038	570,000	-	570,000	1,445,000	100.00%
Total	<u>\$ 29,555,000</u>	<u>\$ 14,100,000</u>	<u>\$ 43,655,000</u>		

* Preliminary, subject to change.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2014-2023

TABLE 3

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2014	1,665,227,270		0.00%
2015	1,864,191,163	198,963,893	11.95%
2016	2,089,434,513	225,243,350	12.08%
2017	2,288,255,622	198,821,109	9.52%
2018	1,997,737,022	(290,518,600)	-12.70%
2019	2,240,932,860	243,195,838	12.17%
2020	2,421,674,854	180,741,994	8.07%
2021	2,904,855,837	483,180,983	19.95%
2022	3,953,251,644	1,048,395,807	36.09%
2023	5,597,553,470	1,644,301,826	41.59%

Source: Nueces County Appraisal District.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 4

	2023	% of Total	2022	% of Total	2021	% of Total
Real, Residential, Single-Family	\$ 4,772,304,384	78.12%	\$ 3,331,252,034	78.85%	\$ 2,385,493,744	77.20%
Real, Residential, Multi-Family	53,579,146	0.88%	40,088,756	0.95%	34,801,298	1.13%
Real, Vacant Lots/Tracts	531,808,282	8.71%	307,755,944	7.28%	227,971,482	7.38%
Qualified Agricultural Land	40,043,122	0.66%	27,445,892	0.65%	27,445,892	0.89%
Non-Qualified Agricultural Land	12,262,143	0.20%	10,020,292	0.24%	12,145,078	0.39%
Real, Commercial	494,445,758	8.09%	364,126,786	8.62%	267,878,687	8.67%
Real, Industrial	25,902,620	0.42%	17,554,448	0.42%	17,301,489	0.56%
Real & Tangible, Personal Utilities	22,089,209	0.36%	21,310,873	0.50%	19,375,365	0.63%
Tangible Personal, Commercial	64,983,635	1.06%	47,965,407	1.14%	74,846,836	2.42%
Tangible Personal, Industrial	16,201,126	0.27%	16,355,774	0.39%	1,628,338	0.05%
Tangible Personal, Mobile Homes	2,424,148	0.04%	1,443,809	0.03%	1,406,265	0.05%
Real Property, Inventory	72,993,429	1.19%	39,183,552	0.93%	19,583,496	0.63%
Special Inventory	54,686	0.00%	61,781	0.00%	53,529	0.00%
Total Appraised Value	\$ 6,109,091,688	100.00%	\$4,224,565,348	100.00%	\$3,089,931,499	100.00%
Less:						
Optional Over-65 or Disabled Homestead	\$ 10,902,534		\$ 10,550,057		\$ 10,390,057	
Homestead	112,712,104		95,472,497		82,649,354	
Veterans Exemptions	8,609,968		7,447,949		6,099,852	
Solar	502,991		600,250		55,062	
Productivity Value Loss	39,933,083		27,340,933		27,335,853	
Loss to 10% HO Cap	338,877,538		129,902,018		58,545,484	
Net Taxable Assessed Valuation	\$ 5,597,553,470		\$ 3,953,251,644		\$ 2,904,855,837	

Source: Nueces County Appraisal District

PRINCIPAL TAXPAYERS

TABLE 5

Name	Type of Business/Property	2023 Net Taxable Assessed Valuation	% of 2023 Assessed Valuation
ERF Port Aransas Inc.	Real Estate	\$ 46,332,004	0.83%
Mustang Island Development Inc.	Real Estate	43,888,043	0.78%
TMINE LTD	Commercial	24,583,223	0.44%
TCRG Opportunity X LLC	Real Estate	23,647,445	0.42%
KM Beach LLC	Real Estate	20,560,266	0.37%
Blue Marlin Holdings LLC	Real Estate	14,991,087	0.27%
RWE Reewables Americas LLC	Renewable Energy	14,179,750	0.25%
Texas Coastal Group LLC	Real Estate	13,261,700	0.24%
C&C Asset Management LLC	Storage Units	11,607,432	0.21%
EC Browning LTC	Real Estate	11,352,355	0.20%
		\$ 224,403,305	4.01%

Source: Nueces County Appraisal District

TAX RATE DISTRIBUTION**TABLE 6**

	2023	2022	2021	2020	2019
General Fund	\$ 0.115018	\$ 0.151290	\$ 0.194411	\$ 0.221915	\$ 0.224784
I&S Fund	0.080001	0.074491	0.052598	0.055431	0.058328
Total Tax Rate	<u>\$ 0.195019</u>	<u>\$ 0.225781</u>	<u>\$ 0.247009</u>	<u>\$ 0.277346</u>	<u>\$ 0.283112</u>

Source: Nueces Central Appraisal District

TAX DATA**TABLE 7**

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

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2014	\$ 1,665,227,270	0.299118	\$ 4,980,995	97.23	97.90	9/30/2015
2015	1,864,191,163	0.275666	5,138,941	97.74	98.41	9/30/2016
2016	2,089,434,513	0.272191	5,687,253	97.11	97.90	9/30/2017
2017	2,288,255,622	0.280906	6,427,847	98.28	100.50	9/30/2018
2018	1,997,737,022	0.310906	6,211,084	99.49	100.51	9/30/2019
2019	2,240,932,860	0.283112	6,344,350	99.14	99.37	9/30/2020
2020	2,421,674,854	0.277346	6,716,418	98.37	99.25	9/30/2021
2021	2,904,855,837	0.247009	7,175,255	97.50	98.36	9/30/2022
2022	3,953,251,644	0.225781	8,925,691	97.59	97.71	9/30/2023
2023	5,597,553,470	0.195019	10,916,293	(In process of collecting)		9/30/2024

Source: Nueces Central Appraisal District

MUNICIPAL SALES TAX COLLECTIONS

TABLE 8

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

Calendar Year	Total Collected	% of Ad Valorem Tax Levy ⁽¹⁾	Equivalent of Ad Valorem Tax Rate
2014	1,914,414	38.43%	0.1150
2015	1,992,046	38.76%	0.1069
2016	2,031,897	35.73%	0.0972
2017	1,973,779	30.71%	0.0863
2018	2,343,788	37.74%	0.1173
2019	2,705,869	42.65%	0.1207
2020	2,687,502	40.01%	0.1110
2021	3,372,428	47.00%	0.1161
2022	3,839,290	43.01%	0.0971
2023	3,234,567	(As of October 2023)	

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

OVERLAPPING DEBT INFORMATION

(As of December 1, 2023)

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

Taxing Body	Gross Debt (As of 12/1/2023)	% Overlapping	Amount Overlapping
Nueces County	\$ 163,045,000	9.45%	\$ 15,407,753
Port Aransas ISD	38,277,000	91.09%	34,866,519
Total Gross Overlapping Debt			\$ 50,274,272
Port Aransas, City of			\$ 43,655,000 *
Total Gross Direct and Overlapping Debt			\$ 93,929,272 *
Ratio of Gross Direct Debt and Overlapping Debt			1.68% *
Per Capita Gross Direct Debt and Overlapping Debt			\$22,541.22 *

Note: The above figures show Gross General Obligation Debt for the City of Port Aransas, Texas. The Issuer's Net General Obligation Debt is \$38,675,000*. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Net Direct and Overlapping Debt	\$ 88,949,272 *
Ratio of Net Direct and Overlapping Debt to 2023 Net Assessed Valuation	1.59% *
Per Capita Net Direct and Overlapping Debt	\$21,346.12 *

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

* Includes the Notes. Preliminary, subject to change.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

TABLE 9

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

	Fiscal Year Ended				
	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018
Fund Balance - Beginning of Year	\$ 12,842,560	\$ 10,747,718	\$ 10,646,943	\$ 5,466,522	\$ 4,320,684
Revenues	14,961,378	12,426,003	10,763,214	11,914,272	10,425,593
Expenditures	11,121,864	10,331,161	10,012,439	10,383,820	9,472,175
Excess (Deficit) of Revenues Over Expenditures	\$ 3,839,514	\$ 2,094,842	\$ 750,775	\$ 1,530,452	\$ 953,418
Other Financing Sources (Uses):					
Community Disaster Loan Proceeds	\$ -	\$ -	\$ -	\$ 4,347,745	\$ 192,420
Capital Lease	-	-	-	2,224	-
Operating Transfers In	-	-	(650,000)	(700,000)	-
Operating Transfers Out	-	-	-	(200,000)	-
Total Other Financing Sources (Uses):	\$ -	\$ -	\$ (650,000)	\$ 3,449,969	\$ 192,420
Fund Balance - End of Year	\$ 16,682,074	\$ 12,842,560	\$ 10,747,718	\$ 10,446,943	\$ 5,466,522

Source: The Issuer’s Comprehensive Annual Financial Reports and information provided by the Issuer.
The City estimates that the General Fund balance for Fiscal Year ended September 30, 2023 was \$19,204,955.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2023 Assessed Valuation	% of Actual	2023 Tax Rate
Nueces County	\$ 47,984,941,037	100%	\$ 0.237411
Nueces County Hospital District	48,344,158,094	100%	\$ 0.085242
Nueces County WC&ID #4	6,272,218,535	100%	-
Port Aransas ISD	6,183,026,744	100%	0.743200
Port of Corpus Christi Authority	13,770,870,220	100%	-

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

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

Issuer	Date of Authorization	Purpose	Amount Authorized	Amount Issued to Date	Amount Unissued
Nueces County	None				
Nueces County Hospital District	None				
Nueces County WC&ID #4	None				
Port Aransas ISD	None				
City of Port Aransas	None				
Port of Corpus Christi Authority	None				

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

EMPLOYEE’S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS

TABLE 10

Information regarding the City’s Pension Plan can be found within the audit under "Note 6 Pension Plan".

APPENDIX B

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

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

General

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

Education

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

Bird Watching

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

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

Nueces County

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

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

Labor Force Statistics ⁽¹⁾

	<u>2023</u> ⁽²⁾	<u>2022</u> ⁽³⁾	<u>2021</u> ⁽³⁾	<u>2020</u> ⁽³⁾
Civilian Labor Force	166,496	164,095	163,979	164,344
Total Employed	159,626	156,419	152,779	149,667
Total Unemployed	6,870	7,676	11,200	14,677
% Unemployment	4.1%	4.7%	6.8%	8.9%
Texas Unemployment	3.8%	3.9%	5.6%	7.7%

(1) Source: Texas Workforce Commission.

(2) As of October 2023.

(3) Average Annual Statistics.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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January 17, 2024

DRAFT

IN REGARD to the authorization and issuance of the “City of Port Aransas, Texas Tax Notes, Series 2024” (the *Obligations*), dated December 1, 2023 in the aggregate principal amount of \$_____, we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Port Aransas, Texas (the *Issuer*). The *Obligations* are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The *Obligations* have Stated Maturities of March 1 in each of the years 2024 through 2030. Interest on the *Obligations* accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the *Obligations*. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

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

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Legal Opinion of Norton Rose Fulbright US LLP in connection with the authorization and issuance of CITY OF PORT ARANSAS, TEXAS TAX NOTES, SERIES 2024

concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Obligations have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Obligations are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Obligations are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the Issuer.

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

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

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Legal Opinion of Norton Rose Fulbright US LLP in connection with the authorization and issuance of CITY OF PORT ARANSAS, TEXAS TAX NOTES, SERIES 2024

Norton Rose Fulbright US LLP

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APPENDIX D

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Aransas, Texas (the City) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the 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.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the net pension liability and other postemployment benefit liabilities required schedules as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund statements and schedules, and schedule of expenditures of federal and state awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *State of Texas Single Audit Circular*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2023 on our consideration of the City of Port Aransas, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

ABIP, PC

San Antonio, Texas
September 21, 2023



CITY OF PORT ARANSAS, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Port Aransas' (the "City") annual financial report presents an overview, through management's discussion and analysis (MD&A), of the City's financial activities and performance during the fiscal year ended September 30, 2022. Please read it in conjunction with the independent auditor's report and the City's financial statements and disclosures, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$100,147,208 (net position). Of this amount, \$39,174,905 (unrestricted net position) may be used to meet the government's ongoing obligation to citizens and creditors.
- The City's total net position increased by \$29,170,046 during the fiscal year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$54,402,690. Approximately 59% of this amount, \$31,987,312 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$16,074,255 or 145% of total general fund expenditures.

Overview of the Financial Statements

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

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

The statement of net position presents information on all of the City's assets and deferred outflows of resources, liabilities and deferred inflows of resources with the difference between these reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other indicators of the City's financial position should be also be taken into consideration, such as the change in the City's property tax base and condition of the City's infrastructure (i.e. roads and drainage systems), in order to more accurately assess the overall financial condition of the City.

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

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

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

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

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

Because the focus of governmental fund level statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. In addition to the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level statements.

Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the general fund, beach fund, hotel motel, hotel motel/facility fund, hurricane recovery fund, and the construction fund, all of which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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 enterprise funds to account for its gas, harbor and sanitation.

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

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents required supplementary information which includes a budgetary comparison schedule for the general fund to demonstrate compliance with the budget. This report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees and retirees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

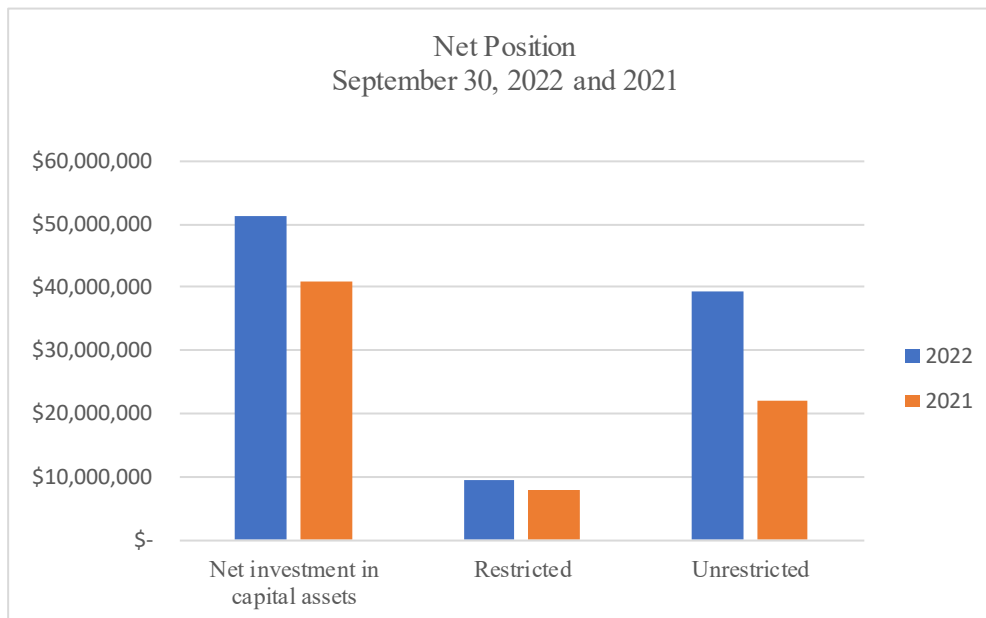
Government-wide Financial Analysis

City of Port Aransas's Net Position Information:

The following table reflects a summary of net position compared to the prior year:

Table 1 – Summary of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 61,384,714	\$ 43,012,833	\$ 1,982,453	\$ 1,764,353	\$ 63,367,167	\$ 44,777,186
Restricted assets	61,857	58,441	-	-	61,857	58,441
Capital assets	<u>56,706,376</u>	<u>45,070,436</u>	<u>22,552,376</u>	<u>15,824,364</u>	<u>79,258,752</u>	<u>60,894,800</u>
Total assets	<u>118,152,947</u>	<u>88,141,710</u>	<u>24,534,829</u>	<u>17,588,717</u>	<u>142,687,776</u>	<u>105,730,427</u>
Deferred outflows of resources	1,740,817	1,197,972	193,426	130,984	1,934,243	1,328,956
Long-term liabilities	28,615,055	30,914,429	710,535	636,207	29,325,590	31,550,636
Other liabilities	<u>10,042,742</u>	<u>2,169,991</u>	<u>392,224</u>	<u>344,076</u>	<u>10,434,966</u>	<u>2,514,067</u>
Total liabilities	38,657,797	33,084,420	1,102,759	980,283	39,760,556	34,064,703
Deferred inflows of resources	4,317,683	1,815,801	396,572	201,717	4,714,255	2,017,518
Net position:						
Net investment in capital assets	28,824,143	25,156,342	22,552,376	15,824,364	51,376,519	40,980,706
Restricted	9,595,784	7,924,808	-	-	9,595,784	7,924,808
Unrestricted	<u>38,498,357</u>	<u>21,358,311</u>	<u>676,548</u>	<u>713,337</u>	<u>39,174,905</u>	<u>22,071,648</u>
Total net position	<u>\$ 76,918,284</u>	<u>\$ 54,439,461</u>	<u>\$ 23,228,924</u>	<u>\$ 16,537,701</u>	<u>\$ 100,147,208</u>	<u>\$ 70,977,162</u>



As noted earlier, net position may serve over time as a useful indicator of a governments financial position. In the case of the City of Port Aransas, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$76,918,284 at the close of the most recent fiscal year for governmental activities and \$23,228,924 for business-type activities.

A large portion of the City’s net position (37% in governmental activities and 97% in business-type activities) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Changes in Net Position:

Governmental activities increased the City’s net position by \$22,478,823 and business-type activities increased the City’s net position by \$6,691,223 for a total increase of \$29,170,046.

Table 2 – Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Total revenues	\$ 54,271,747	\$ 50,035,635	\$ 5,546,708	\$ 7,734,656	\$ 59,818,455	\$ 57,770,291
Total expenses	26,247,338	(27,421,098)	4,401,071	(3,829,575)	30,648,409	(31,250,673)
Increase (decrease) in net position before transfers	28,024,409	22,614,537	1,145,637	3,905,081	90,466,864	26,519,618
Transfers	(5,545,586)	575,225	5,545,586	(575,225)	-	-
Increase (decrease) in net position	22,478,823	23,189,762	6,691,223	3,329,856	29,170,046	26,519,618
Beginning net position	54,439,461	31,249,699	16,537,701	13,207,845	70,977,162	44,457,544
Ending net position	<u>\$ 76,918,284</u>	<u>\$ 54,439,461</u>	<u>\$ 23,228,924</u>	<u>\$ 16,537,701</u>	<u>\$ 100,147,208</u>	<u>\$ 70,977,162</u>

The specific changes in revenues and expenses are shown in the tables that follow:

Table 3 – Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Charges for services	\$ 7,692,585	\$ 3,776,579	\$ 4,174,277	\$ 3,627,508	\$ 11,866,862	\$ 7,404,087
Operating grants and contributions	1,382,567	603,782	-	214,730	1,382,567	818,512
Capital grants and contributions	20,792,145	15,939,733	-	-	20,792,145	15,939,733
General revenues:						
Property taxes	7,103,457	6,671,756	-	-	7,103,457	6,671,756
Sales taxes	3,808,860	3,336,789	-	-	3,808,860	3,336,789
Franchises fees	621,015	581,932	-	-	621,015	581,932
Hotel/motel taxes	12,448,937	11,871,046	-	-	12,448,937	11,871,046
Licenses and permits	-	3,599,382	-	-	-	3,599,382
Investment earnings	301,748	16,488	11,529	1,361	313,277	17,849
Insurance recovery - HH	-	2,250,000	-	3,841,090	-	6,091,090
Grants and contributions not restricted	-	528,527	1,349,952	-	1,349,952	528,527
Miscellaneous	120,433	859,621	10,950	49,967	131,383	909,588
Total revenues	<u>54,271,747</u>	<u>50,035,635</u>	<u>5,546,708</u>	<u>7,734,656</u>	<u>59,818,455</u>	<u>57,770,291</u>
Expenses:						
General administration	10,248,766	8,690,612	-	-	10,248,766	8,690,612
Legal	89,895	144,476	-	-	89,895	144,476
Financial administration	281,534	315,473	-	-	281,534	315,473
Public facilities	1,134,414	1,191,072	-	-	1,134,414	1,191,072
Public safety	6,805,763	10,689,354	-	-	6,805,763	10,689,354
Public transportation	188,331	218,695	-	-	188,331	218,695
Culture and recreation	6,676,090	5,707,149	-	-	6,676,090	5,707,149
Interest and fiscal charges	822,545	464,267	-	-	822,545	464,267
Gas	-	-	1,669,299	1,282,299	1,669,299	1,282,299
Sanitation	-	-	1,253,650	1,321,029	1,253,650	1,321,029
Harbor	-	-	1,478,122	1,226,247	1,478,122	1,226,247
Total expenses	<u>\$ 26,247,338</u>	<u>\$ 27,421,098</u>	<u>\$ 4,401,071</u>	<u>\$ 3,829,575</u>	<u>\$ 30,648,409</u>	<u>\$ 31,250,673</u>

Governmental activities

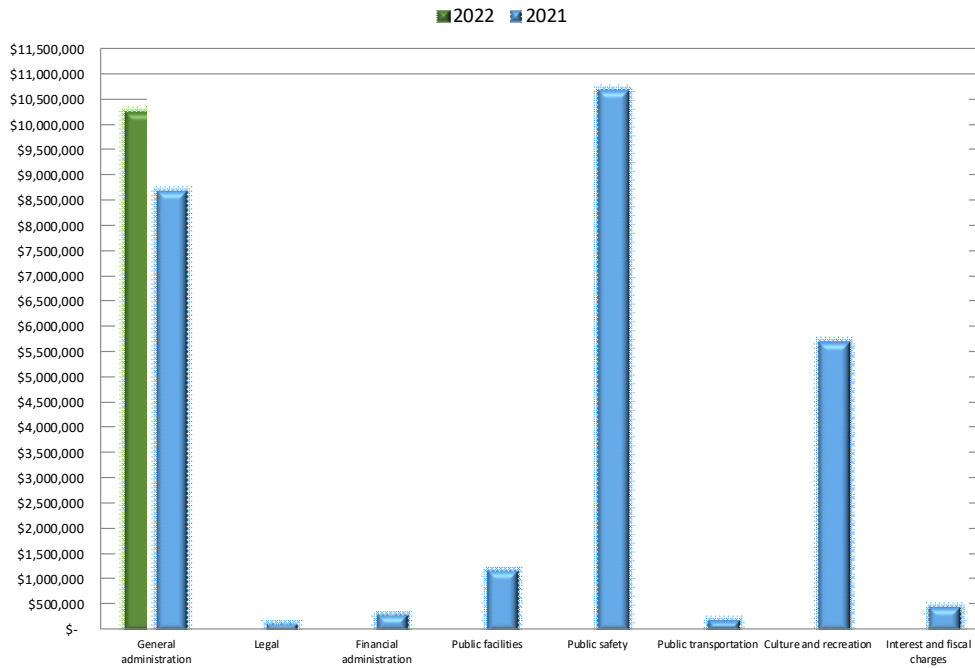
Governmental activities include the functions of the general administration, legal, financial administration, public facilities, public safety, public transportation, culture and recreation, interest and fiscal charges, gas, and harbor. Payment of interest on long-term debt is also considered a governmental activity and it is considered a class of activity but not a function of government. These are the basic services and cost centers any city provides to its citizens.

As shown in table 3, total revenue increased by \$4,236,112. This increase is due to an increase in hotel/motel tax, an increase in grant revenues, and an increase in building permits.

Total expenses decreased by \$1,173,760. This is due to a prior year purchase of replacement equipment for Fire and EMS and a new radio system for Public Safety that didn't occur in the current year.

The chart below presents the City’s major expenses by function, as well as the associated program revenues for governmental activities.

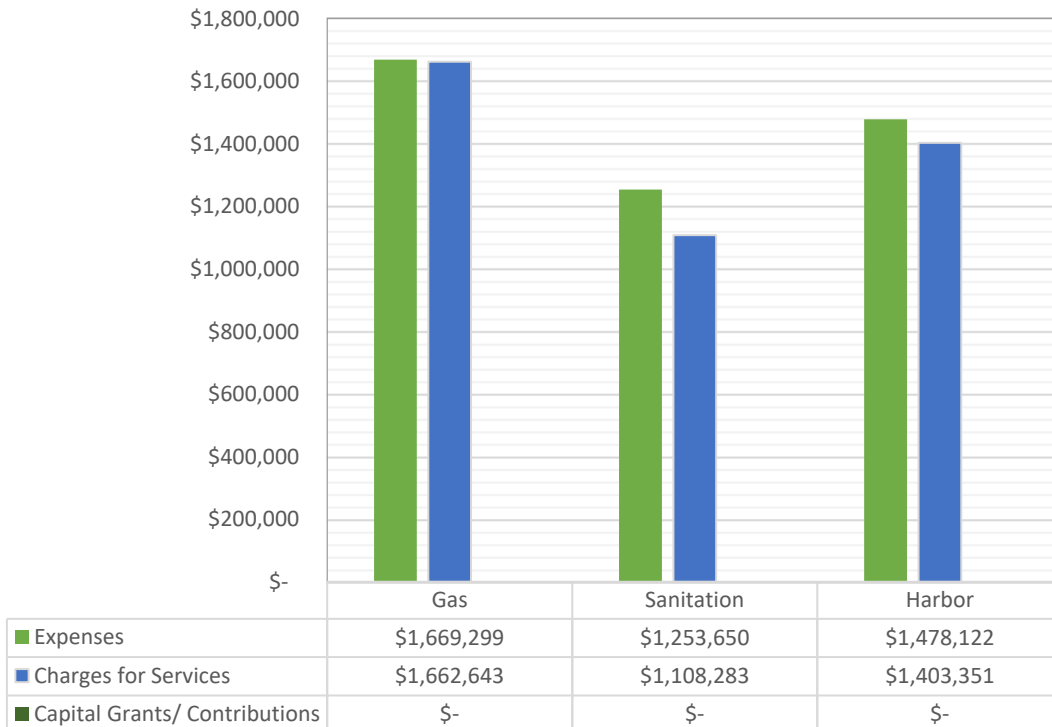
Expenses - Governmental Activities



Business-type activities

As shown in Table 3, total revenues decreased by \$2,187,948 due mainly to an insurance recovery received in the prior year not received in the current year.

The chart below presents the City’s expenses and program revenues for the business-type activities.



Financial Analysis of the Governmental Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$54,402,690, an increase of \$13,868,536 in comparison with the prior year. Approximately 59% or \$31,987,312, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is not available for new spending because it has already been committed/restricted to pay for construction (\$10,749,275), restricted for culture and recreation (\$1,469,339), inventories (\$21,035), public safety (\$885,938), economic development (\$6,640,507), fire (\$600,000), and prepaid items (\$7,897).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$16,674,255, while total fund balance reached \$16,682,074. 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. Unassigned fund balance represents 150% of total general fund expenditures.

The fund balance of the City's general fund increased by \$3,839,514 during the current fiscal year. The key factor for this increase is the increase in property, sales, franchise taxes, and building permits.

Budgetary Highlights

The City's budget was amended two times. The general fund had a net change of \$57,910. This change was due to an increase in expenses for the Planning/Code department for a software program for Short Term Rental registration program. The Facility Fund had a net change of \$265,150. This change was due to an increase in expenditures for the renovation to the Civic Center restrooms and kitchen.

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

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2022, amounts to \$79,258,752 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, infrastructure, fleet, and construction in progress. Governmental activity capital assets increased by \$11,635,940 as a result of \$16,319,809 of additions offset by \$4,299,282 of depreciation and net retirements of \$(679,619). Business-type activity capital assets increased by \$6,728,012 as a result of \$7,360,825 additions less \$816,873 of depreciation.

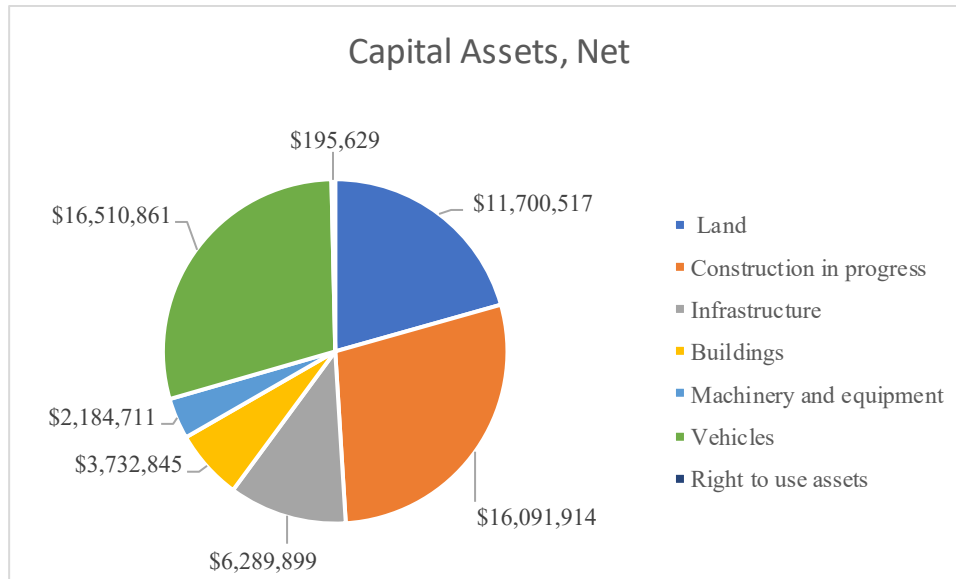
Additional information on the City's capital assets can be found in note 4 of the financial statements.

The following capital asset information is presented net of depreciation:

Table 4 – Capital Assets at Year End, Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 11,700,517	\$ 9,160,738	\$ -	\$ -	\$ 11,700,517	\$ 9,160,738
Construction in progress	16,091,914	12,167,469	10,297,860	6,549,134	26,389,774	18,716,603
Infrastructure	6,289,899	13,360,046	86,320	8,190,607	6,376,219	21,550,653
Buildings	3,732,845	4,445,638	100,646	199,754	3,833,491	4,645,392
Machinery and equipment	2,184,711	2,110,543	193,810	772,690	2,378,521	2,883,233
Vehicles	16,510,861	3,826,002	11,631,774	112,179	28,142,635	3,938,181
Right to use assets	195,629	-	241,966	-	437,595	-
Total capital assets, net	<u>\$ 56,706,376</u>	<u>\$ 45,070,436</u>	<u>\$ 22,552,376</u>	<u>\$ 15,824,364</u>	<u>\$ 79,258,752</u>	<u>\$ 60,894,800</u>

For a more detailed presentation on capital assets, please refer to the notes to financial statements on pages 47-48.



Debt Administration

At the end of the current fiscal year, the City had total bonded debt and capital leases outstanding of \$32,664,654. The table below reflects the outstanding debt at September 30, 2022. Additional information can be found in note 4.

The following is a summary of outstanding debt:

Table 5 – Long-Term Liabilities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
General obligation bonds	\$ 27,145,000	\$ 19,255,000	\$ -	\$ -	\$ 27,145,000	\$ 19,255,000
Premium on bonds	737,233	619,701	-	-	737,233	619,701
Capital leases	-	39,404	-	-	-	39,404
Community disaster loan	-	4,347,745	-	-	-	4,347,745
OPEB liability	3,053,061	3,644,818	339,228	351,416	3,392,289	3,996,234
Pension liability	1,167,312	2,136,996	129,701	236,698	1,297,013	2,373,694
Lease liability on right to use assets	195,302	-	241,606	-	436,908	-
Compensated absences	366,746	870,765	22,659	48,093	389,405	918,858
Total long-term liabilities	<u>\$ 32,664,654</u>	<u>\$ 30,914,429</u>	<u>\$ 733,194</u>	<u>\$ 636,207</u>	<u>\$ 33,397,848</u>	<u>\$ 31,550,636</u>

The City's debt increased by \$1,847,212 or approximately 6%. The key factors to the net change are as follows:

- Issuance of \$9,115,000 Tax Notes
- Issuance of \$885,000 Certificates of Obligation

See note 4 - long-term liabilities for more detailed information on long-term debt activity.

Economic Factors and Next Year's Budgets and Rates

All of these factors were considered in preparing the City's budget for the 2022-2023 fiscal year. At the end of the fiscal year, the economic impact of the hurricane is still not completely known for all projects. The City proceeds and grant assistance to assist the recovery efforts. The State is assisting the City with the required FEMA 10% match. The State has committed to paying 75% of that 10% match which will greatly assist the City on the road to recovery.

The tax rate for the year has decreased to 22.5781 cents per hundred. The tax rate has been split with .15129 for maintenance and operations and .074491 for interest and sinking for the retirement of the bonds. Even though this is a decrease to the tax rate, it was actually an increase as this rate is equal to the voter approval rate (the tax rate that will raise 3.5% more than the no new revenue rate which is the amount of tax revenue as the prior year plus new construction demands).

Overall, the general fund is budgeted to end the fiscal year 2022-2023 with an estimated fund balance of \$9,016,246. This is approximately 68% of general fund operating expenditures.

Requests for Information

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



BASIC FINANCIAL STATEMENTS



CITY OF PORT ARANSAS, TEXAS

STATEMENT OF NET POSITION

September 30, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 59,409,104	\$ 160,181	\$ 59,569,285
Receivables (net of allowance)	1,206,777	1,822,272	3,029,049
Inventories	21,035	-	21,035
Prepays	7,897	-	7,897
Lease receivable	739,901	-	739,901
Restricted assets:			
Cash and cash equivalents	61,857	-	61,857
Capital assets not being depreciated:			
Land	11,700,517	-	11,700,517
Construction in progress	16,510,861	11,631,774	28,142,635
Capital assets net of accumulated depreciation:			
Infrastructure	16,091,914	10,297,860	26,389,774
Buildings	6,289,899	86,320	6,376,219
Machinery and equipment	2,184,711	193,810	2,378,521
Vehicles	3,732,845	100,646	3,833,491
Right to use assets	195,629	241,966	437,595
Total capital assets	<u>56,706,376</u>	<u>22,552,376</u>	<u>78,821,157</u>
Total assets	<u>118,152,947</u>	<u>24,534,829</u>	<u>142,687,776</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	1,740,817	193,426	1,934,243
LIABILITIES			
Accounts payable	5,636,909	96,746	5,733,655
Accrued wages payable	198,558	22,537	221,095
Accrued interest payable	111,963	-	111,963
Unearned revenues	45,713	95	45,808
Customer meter deposits	-	250,187	250,187
Noncurrent liabilities:			
Lease liability	195,302	241,606	436,908
Due within one year	4,049,599	22,659	4,072,258
Due in more than one year	<u>28,419,753</u>	<u>468,929</u>	<u>28,888,682</u>
Total liabilities	<u>38,657,797</u>	<u>1,102,759</u>	<u>39,760,556</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	4,317,683	396,572	4,714,255
NET POSITION			
Net investment in capital assets	28,824,143	22,552,376	51,376,519
Restricted for:			
Culture and recreation	1,469,339	-	1,469,339
Economic development	6,640,507	-	6,640,507
Public safety	885,938	-	885,938
Fire	600,000	-	600,000
Unrestricted	<u>38,498,357</u>	<u>676,548</u>	<u>39,174,905</u>
Total net position	<u>\$ 76,918,284</u>	<u>\$ 23,228,924</u>	<u>\$ 100,147,208</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORT ARANSAS, TEXAS

STATEMENT OF ACTIVITIES

For the year ended September 30, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General administration	\$ 10,248,766	\$ 2,555,060	\$ -	\$ -
Legal	89,895	-	-	-
Financial administration	281,534	-	-	-
Public facilities	1,134,414	1,624,532	38,095	201,899
Public safety	6,805,763	1,470,468	604,769	20,590,246
Public transportation	188,331	246,930	-	-
Culture and recreation	6,676,090	1,795,595	739,703	-
Interest on long-term debt	<u>822,545</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total governmental activities	 <u>26,247,338</u>	 <u>7,692,585</u>	 <u>1,382,567</u>	 <u>20,792,145</u>
Business-type activities:				
Gas	1,669,299	1,662,643	-	-
Sanitation	1,253,650	1,108,283	-	-
Harbor	<u>1,478,122</u>	<u>1,403,351</u>	<u>-</u>	<u>-</u>
 Total business-type activities	 <u>4,401,071</u>	 <u>4,174,277</u>	 <u>-</u>	 <u>-</u>
 Total primary government	 <u>\$ 30,648,409</u>	 <u>\$ 11,866,862</u>	 <u>\$ 1,382,567</u>	 <u>\$ 20,792,145</u>

General revenues:

Taxes:

Property taxes, levies for general purposes

Sales taxes

Franchise taxes

Hotel/motel taxes

Unrestricted investment earnings

Grants and contributions not restricted to specific programs

Miscellaneous

Transfers

Total general revenues and special items

Change in net position

Net position - beginning

Net position - ending

Net (Expenses) Revenues
and Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (7,693,706)	\$ -	\$ (7,693,706)
(89,895)	-	(89,895)
(281,534)	-	(281,534)
730,112	-	730,112
15,859,720	-	15,859,720
58,599	-	58,599
(4,140,792)	-	(4,140,792)
<u>(822,545)</u>	<u>-</u>	<u>(822,545)</u>
 <u>3,619,959</u>	 <u>-</u>	 <u>3,619,959</u>
 -	 (6,656)	 3,325,286
 -	 (145,367)	 2,216,566
 <u>-</u>	 <u>(74,771)</u>	 <u>2,806,702</u>
 <u>-</u>	 <u>(226,794)</u>	 <u>8,348,554</u>
 <u>3,619,959</u>	 <u>(226,794)</u>	 <u>11,968,513</u>
 7,103,457	 -	 7,103,457
3,808,860	-	3,808,860
621,015	-	621,015
12,448,937	-	12,448,937
301,748	11,529	313,277
 -	 1,349,952	 1,349,952
120,433	10,950	131,383
<u>(5,545,586)</u>	<u>5,545,586</u>	<u>-</u>
<u>18,858,864</u>	<u>6,918,017</u>	<u>25,776,881</u>
22,478,823	6,691,223	29,170,046
<u>54,439,461</u>	<u>16,537,701</u>	<u>70,977,162</u>
<u>\$ 76,918,284</u>	<u>\$ 23,228,924</u>	<u>\$ 100,147,208</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORT ARANSAS, TEXAS

BALANCE SHEET – GOVERNMENTAL FUNDS

September 30, 2022

	General Fund	Beach Fund	Hotel/ Motel Fund	Hotel/Motel Special Revenue/ Facility Fund
ASSETS				
Cash and cash equivalents	\$ 17,567,922	\$ 6,543,371	\$ 810,673	\$ 13,674,015
Receivables (net)	374,079	84,133	379	-
Due from other funds	-	-	-	-
Restricted cash and cash equivalents	61,857	-	-	-
Inventories	-	-	-	-
Prepaid expenses	7,819	-	-	-
Lease receivable	-	-	-	-
 Total assets	 <u>\$ 18,011,677</u>	 <u>\$ 6,627,504</u>	 <u>\$ 811,052</u>	 <u>\$ 13,674,015</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,046,871	\$ 44,222	\$ 725,616	\$ 173,806
Accrued wages payable	151,214	28,211	-	2,980
Due to other funds	-	-	-	-
Deferred revenues	45,713	-	-	-
Total liabilities	<u>1,243,798</u>	<u>72,433</u>	<u>725,616</u>	<u>176,786</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred property leases	-	-	-	-
Deferred property taxes	85,805	-	-	-
Total deferred inflows of resources	<u>85,805</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable:				
Prepaid items	7,819	-	-	-
Inventories	-	-	-	-
Restricted:				
Construction	-	-	-	-
Culture and recreation	-	-	-	-
Economic development	-	6,555,071	85,436	-
Fire	600,000	-	-	-
Public safety	-	-	-	-
Committed:				
Construction	-	-	-	-
Culture and recreation	-	-	-	-
Public transportation	-	-	-	-
Unassigned	16,074,255	-	-	13,497,229
Total fund balances	<u>16,682,074</u>	<u>6,555,071</u>	<u>85,436</u>	<u>13,497,229</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 18,011,677</u>	<u>\$ 6,627,504</u>	<u>\$ 811,052</u>	<u>\$ 13,674,015</u>

Hurricane Harvey Fund	Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 6,033,388	\$ 10,504,878	\$ 4,274,857	\$ 59,409,104
-	276,102	165,557	900,250
-	-	193,173	193,173
-	-	-	61,857
-	-	21,035	21,035
-	-	78	7,897
-	-	739,901	739,901
<u>\$ 6,033,388</u>	<u>\$ 10,780,980</u>	<u>\$ 5,394,601</u>	<u>\$ 61,333,217</u>
\$ 3,397,785	\$ 31,705	\$ 216,904	\$ 5,636,909
-	-	16,153	198,558
-	-	193,173	193,173
-	-	-	45,713
<u>3,397,785</u>	<u>31,705</u>	<u>426,230</u>	<u>6,074,353</u>
-	-	748,551	748,551
-	-	21,818	107,623
-	-	770,369	856,174
-	-	78	7,897
-	-	21,035	21,035
-	10,749,275	-	10,749,275
-	-	1,469,339	1,469,339
-	-	-	6,640,507
-	-	-	600,000
-	-	885,938	885,938
-	-	1,099,940	1,099,940
-	-	535,183	535,183
-	-	406,264	406,264
2,635,603	-	(219,775)	31,987,312
<u>2,635,603</u>	<u>10,749,275</u>	<u>4,198,002</u>	<u>54,402,690</u>
<u>\$ 6,033,388</u>	<u>\$ 10,780,980</u>	<u>\$ 5,372,783</u>	<u>\$ 61,333,217</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORT ARANSAS, TEXAS

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

September 30, 2022

Total fund balances - governmental funds	\$ 54,402,690
Amounts reported for governmental funds in the statement of net position are different because:	
Add net capital assets which are not treated as financial resources on the modified accrual basis.	56,706,376
Add property taxes receivable unavailable to pay for current period expenditures.	107,623
Subtract long-term assets/liabilities unavailable to pay for current period expenditures.	(1,521,788)
Subtract long-term liabilities, including bonds payable, which are not due and payable in the current period.	<u>(32,776,617)</u>
Net position of governmental activities	<u>\$ 76,918,284</u>

The accompanying notes are an integral part of these financial statements.



CITY OF PORT ARANSAS, TEXAS

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

For the year ended September 30, 2022

	General Fund	Beach Fund	Hotel/ Motel Fund	Hotel/Motel Special Revenue/ Facility Fund
Revenues:				
Taxes				
Property	\$ 5,609,856	\$ -	\$ -	\$ -
Sales	2,541,298	-	-	-
Franchise fees	621,015	-	-	-
Hotel/motel	-	2,857,011	4,453,394	5,138,532
Licenses and permits	2,659,075	-	-	-
Intergovernmental	1,190,397	407,688	-	-
Licenses and permits	-	725,578	-	-
Charges for services	1,614,752	-	-	-
Fines and forfeitures	487,802	-	-	-
Interest	172,674	16,031	3,280	22,472
Insurance recovery - Hurricane Harvey	-	-	-	-
Miscellaneous	64,509	14,600	-	13,075
Total revenues	<u>14,961,378</u>	<u>4,020,908</u>	<u>4,456,674</u>	<u>5,174,079</u>
Expenditures:				
Current:				
General administration	3,239,956	-	4,453,394	-
Legal	91,732	-	-	-
Financial administration	287,289	-	-	-
Public facilities	973,839	-	-	-
Public safety	4,722,000	-	-	-
Public transportation	181,648	-	-	-
Culture and recreation	852,568	3,066,803	-	547,330
Capital outlay	720,069	111,106	-	2,870,608
Debt service:	-	-	-	-
Principal	51,756	-	-	-
Interest and other charges	1,007	-	-	-
Total expenditures	<u>11,121,864</u>	<u>3,177,909</u>	<u>4,453,394</u>	<u>3,417,938</u>
Excess/(deficiency) of revenues over (under) expenditures	<u>3,839,514</u>	<u>842,999</u>	<u>3,280</u>	<u>1,756,141</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	(63,265)	-	(1,585,616)
Premium	-	-	-	-
Proceeds of bond	-	-	-	-
Total other financing sources	-	(63,265)	-	(1,585,616)
Net change in fund balances	3,839,514	779,734	3,280	170,525
Fund balances - beginning	<u>12,842,560</u>	<u>5,775,337</u>	<u>82,156</u>	<u>13,326,704</u>
Fund balances - ending	<u>\$ 16,682,074</u>	<u>\$ 6,555,071</u>	<u>\$ 85,436</u>	<u>\$ 13,497,229</u>

Hurricane Harvey Fund	Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,515,992	\$ 7,125,848
-	-	1,267,562	3,808,860
-	-	-	621,015
-	-	-	12,448,937
-	-	-	2,659,075
16,316,653	201,899	862,632	18,979,269
-	-	-	725,578
-	-	202,689	1,817,441
-	-	822,902	1,310,704
-	13,490	73,801	301,748
-	-	-	-
<u>18,974</u>	<u>-</u>	<u>36,760</u>	<u>147,918</u>
<u>16,335,627</u>	<u>215,389</u>	<u>4,782,338</u>	<u>49,946,393</u>
-	-	117,810	7,811,160
-	-	-	91,732
-	-	-	287,289
-	-	-	973,839
1,212,450	3,325	4,675	5,942,450
-	-	9,139	190,787
-	-	1,554,907	6,021,608
10,867,966	993,490	756,570	16,319,809
-	-	-	-
87,378	-	2,110,000	2,249,134
<u>738</u>	<u>129,365</u>	<u>569,750</u>	<u>700,860</u>
<u>12,168,532</u>	<u>1,126,180</u>	<u>5,122,851</u>	<u>40,588,668</u>
<u>4,167,095</u>	<u>(910,791)</u>	<u>(340,513)</u>	<u>9,357,725</u>
-	-	1,459,169	1,459,169
(4,905,874)	-	(450,000)	(7,004,755)
-	56,397	-	56,397
<u>-</u>	<u>10,000,000</u>	<u>-</u>	<u>10,000,000</u>
(4,905,874)	10,056,397	1,009,169	4,510,811
(738,779)	9,145,606	668,656	13,868,536
<u>3,374,382</u>	<u>1,603,669</u>	<u>3,529,346</u>	<u>40,534,154</u>
<u>\$ 2,635,603</u>	<u>\$ 10,749,275</u>	<u>\$ 4,198,002</u>	<u>\$ 54,402,690</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORT ARANSAS, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

September 30, 2022

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

Net change in fund balances-total governmental funds	\$ 13,868,536
--	---------------

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 depreciable expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	12,020,527
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Other long-term assets are not available to pay for current period expenditures, and, therefore, are deferred in the funds. This is the change in these amounts in the current year (property taxes).	(22,391)
---	----------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources governmental funds, which the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments	2,110,000
Lease liability payments	39,404
Amortization of bond premiums	(135,532)
Issuance of bonds	(10,000,000)
Forgiveness of loan	4,347,745
Lease liability on right to use assets	99,730

Governmental funds report required contributions to employee pension as expenditures. However, in the statement of activities, the cost of the pension is recorded based on the actuarially determined cost of the plan. This is the amount that contributions exceeded the actuarially determined pension expense.	426,642
---	---------

Governmental funds report required contributions to employee OPEB as expenditures. However, in the statement of activities, the cost of the OPEB is recorded based on the actuarially determined cost of the plan. This is the amount that contributions exceeded the actuarially determined OPEB expense.	(57,688)
--	----------

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 governmental funds.	
Compensated absences	504,019
Interest expense	(42,550)
Loss on capital assets	(679,619)
	(211,140)

Change in net position of governmental activities	<u>\$ 22,478,823</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF PORT ARANSAS, TEXAS

**STATEMENT OF NET POSITION –
PROPRIETARY FUNDS**

For the year ended September 30, 2022

	Business-Type Activities - Enterprise Funds						Total Current Year
	Gas		Harbor		Sanitation		
	2022	2021	2022	2021	2022	2021	
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 158,800	\$ 779,359	\$ -	\$ 569,834	\$ 1,381	\$ -	\$ 160,181
Receivables (net)	3,272	7,059	1,735,596	385,645	83,404	98,089	1,822,272
Due from other funds	711,337	-	-	-	-	-	711,337
Total current assets	<u>873,409</u>	<u>786,418</u>	<u>1,735,596</u>	<u>955,479</u>	<u>84,785</u>	<u>98,089</u>	<u>2,693,790</u>
Noncurrent assets:							
Capital assets:							
Construction in progress	11,013,818	6,107,944	590,348	435,690	27,608	5,500	11,631,774
Infrastructure	1,216,322	1,094,894	17,139,858	14,441,198	22,614	22,614	18,378,794
Buildings	53,133	56,777	199,498	232,168	35,787	35,787	288,418
Machinery and equipment	206,700	321,138	30,732	550,812	285,612	285,612	523,044
Vehicles	217,309	240,622	43,373	40,246	-	-	260,682
Right to use assets	-	-	248,135	-	4,239	-	252,374
Total capital assets	12,707,282	7,821,375	18,251,944	15,460,556	375,860	349,513	31,335,086
Less accumulated depreciation	(1,240,198)	(1,187,736)	(7,342,581)	(6,719,442)	(199,931)	(139,460)	(8,782,710)
Total noncurrent assets	<u>11,467,084</u>	<u>6,633,639</u>	<u>10,909,363</u>	<u>(6,719,442)</u>	<u>175,929</u>	<u>210,053</u>	<u>22,552,376</u>
Total assets	<u>12,340,493</u>	<u>7,420,057</u>	<u>12,644,959</u>	<u>(5,763,963)</u>	<u>260,714</u>	<u>308,142</u>	<u>25,246,166</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows of resources	<u>116,055</u>	<u>81,987</u>	<u>58,028</u>	<u>39,020</u>	<u>19,343</u>	<u>9,977</u>	<u>193,426</u>
LIABILITIES							
Current liabilities (payable from current assets):							
Accounts payable	64,859	81,731	11,556	25,704	20,331	3,737	96,746
Accrued wages	14,155	10,567	6,804	4,800	1,578	1,083	22,537
Due to other funds	-	-	711,337	-	-	-	711,337
Compensated absences	17,666	27,960	2,255	15,804	2,738	4,329	22,659
Deferred revenue	95	95	-	-	-	-	95
Total current liabilities (payable from current assets)	<u>96,775</u>	<u>120,353</u>	<u>731,952</u>	<u>46,308</u>	<u>24,647</u>	<u>9,149</u>	<u>853,374</u>
Current liabilities (payable from restricted assets):							
Customer meter deposits	216,419	190,472	33,768	25,887	-	-	250,187
Total current liabilities (payable from restricted assets)	<u>216,419</u>	<u>190,472</u>	<u>33,768</u>	<u>25,887</u>	<u>-</u>	<u>-</u>	<u>250,187</u>
Total current liabilities	<u>313,194</u>	<u>310,825</u>	<u>765,720</u>	<u>72,195</u>	<u>24,647</u>	<u>9,149</u>	<u>1,103,561</u>
Noncurrent liabilities:							
Lease liability	-	-	238,432	-	3,174	-	241,606
Other postemployment benefits	203,536	216,176	101,769	107,920	33,923	27,320	339,228
Net pension liability	77,821	144,326	38,910	77,273	12,970	15,099	129,701
Total non-current liabilities	<u>281,357</u>	<u>360,502</u>	<u>379,111</u>	<u>185,193</u>	<u>50,067</u>	<u>42,419</u>	<u>710,535</u>
Total liabilities	<u>594,551</u>	<u>671,327</u>	<u>1,144,831</u>	<u>257,388</u>	<u>74,714</u>	<u>51,568</u>	<u>1,814,096</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows of resources	<u>237,943</u>	<u>126,665</u>	<u>118,971</u>	<u>59,835</u>	<u>39,658</u>	<u>15,217</u>	<u>396,572</u>
NET POSITION							
Net investment in capital assets	11,467,084	6,633,639	10,909,363	8,980,672	175,929	210,053	22,552,376
Unrestricted	156,970	70,413	529,822	677,276	(10,244)	(34,352)	676,548
Total net position	<u>\$ 11,624,054</u>	<u>\$ 6,704,052</u>	<u>\$ 11,439,185</u>	<u>\$ 9,657,948</u>	<u>\$ 165,685</u>	<u>\$ 175,701</u>	<u>\$ 23,228,924</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORT ARANSAS, TEXAS

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

For the year ended September 30, 2022

	Business-Type Activities - Enterprise Funds						Total Current Year
	Gas		Harbor		Sanitation		
	2022	2021	2022	2021	2022	2021	
Operating revenues:							
Charges for sales and services	\$ 1,662,643	\$ 1,294,531	\$ 1,108,283	\$ 1,081,930	\$ 1,403,351	\$ 1,251,047	\$ 4,174,277
Total operating revenues	<u>1,662,643</u>	<u>1,294,531</u>	<u>1,108,283</u>	<u>1,081,930</u>	<u>1,403,351</u>	<u>1,251,047</u>	<u>4,174,277</u>
Operating expenses:							
Personnel services	646,441	591,109	299,121	310,145	88,597	70,924	1,034,159
Supplies and other services and charges	932,110	593,143	278,466	237,123	1,329,054	1,197,053	2,539,630
Depreciation	<u>90,748</u>	<u>98,047</u>	<u>676,063</u>	<u>678,979</u>	<u>60,471</u>	<u>53,052</u>	<u>827,282</u>
Total operating expenses	<u>1,669,299</u>	<u>1,282,299</u>	<u>1,253,650</u>	<u>1,226,247</u>	<u>1,478,122</u>	<u>1,321,029</u>	<u>4,401,071</u>
Operating income (loss)	<u>(6,656)</u>	<u>12,232</u>	<u>(145,367)</u>	<u>(144,317)</u>	<u>(74,771)</u>	<u>(69,982)</u>	<u>(226,794)</u>
Nonoperating revenues (expenses):							
Interest and investment revenue	9,834	558	205	740	1,490	63	11,529
Sale of assets	11,375	811	-	-	-	-	11,375
Other income (expense)	(425)	30,626	-	14,917	-	3,613	(425)
Federal and state grants	<u>-</u>	<u>184</u>	<u>1,349,952</u>	<u>214,546</u>	<u>-</u>	<u>-</u>	<u>1,349,952</u>
Total nonoperating revenues (expenses)	<u>20,784</u>	<u>32,179</u>	<u>1,350,157</u>	<u>230,203</u>	<u>1,490</u>	<u>3,676</u>	<u>1,372,431</u>
Net income (loss) before transfers	<u>14,128</u>	<u>44,411</u>	<u>1,204,790</u>	<u>85,886</u>	<u>(73,281)</u>	<u>(66,306)</u>	<u>1,145,637</u>
Transfers in	4,905,874	3,841,090	1,154,597	-	63,265	-	6,123,736
Transfers out	<u>-</u>	<u>-</u>	<u>(578,150)</u>	<u>(575,225)</u>	<u>-</u>	<u>-</u>	<u>(578,150)</u>
Change in net position	4,920,002	3,885,501	1,781,237	(489,339)	(10,016)	(66,306)	6,691,223
Net position - beginning	<u>6,704,052</u>	<u>2,818,551</u>	<u>9,657,948</u>	<u>10,147,287</u>	<u>175,701</u>	<u>242,007</u>	<u>16,537,701</u>
Net position - ending	<u>\$ 11,624,054</u>	<u>\$ 6,704,052</u>	<u>\$ 11,439,185</u>	<u>\$ 9,657,948</u>	<u>\$ 165,685</u>	<u>\$ 175,701</u>	<u>\$ 23,228,924</u>

The accompanying notes are an integral part of these financial statements.

CITY OF PORT ARANSAS, TEXAS

**STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS**

For the year ended September 30, 2022

	Business-Type Activities Enterprise Funds			Totals Enterprise Funds
	Gas	Harbor	Sanitation	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,692,377	\$ (233,787)	\$ 1,490,413	\$ 2,949,003
Payments to suppliers	(945,394)	(290,610)	(1,311,965)	(2,547,969)
Payments to employees	(658,670)	(317,056)	(79,751)	(1,055,477)
Net cash provided by (used in) operating activities	<u>88,313</u>	<u>(841,453)</u>	<u>98,697</u>	<u>(654,443)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Federal grants and contributions	-	1,349,952	-	1,349,952
Sale of fixed assets	(26,911)	(52,924)	-	(79,835)
Due to/from other funds	(711,337)	711,337	-	-
Transfers from other funds	4,905,874	1,154,597	-	6,060,471
Transfers to other funds	-	(578,150)	-	(578,150)
Net cash provided by (used in) noncapital financing activities	<u>4,167,626</u>	<u>2,584,812</u>	<u>-</u>	<u>6,752,438</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES				
Purchases of capital assets and construction in progress	(4,885,907)	(2,551,830)	(26,347)	(7,464,084)
Capital leases	-	238,432	3,174	241,606
Net cash provided by (used in) capital and related financing activities	<u>(4,885,907)</u>	<u>(2,313,398)</u>	<u>(23,173)</u>	<u>(7,222,478)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and investment revenue received	<u>9,409</u>	<u>205</u>	<u>1,490</u>	<u>11,104</u>
Net cash provided by (used in) investing activities	<u>9,409</u>	<u>205</u>	<u>1,490</u>	<u>11,104</u>
Net increase (decrease) in cash and cash equivalents	(620,559)	(569,834)	77,014	(1,113,379)
Balances - beginning of year	<u>779,359</u>	<u>569,834</u>	<u>(75,633)</u>	<u>1,273,560</u>
Balances - end of year	<u>\$ 158,800</u>	<u>\$ -</u>	<u>\$ 1,381</u>	<u>\$ 160,181</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (6,656)	\$ (145,367)	\$ (74,771)	\$ (226,794)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation expense	90,748	676,063	60,471	827,282
Changes in assets and liabilities:				
Accounts receivable	3,787	(1,349,951)	87,062	(1,259,102)
Accounts payable	(16,872)	(14,148)	16,594	(14,426)
Accrued liabilities	3,588	2,004	495	6,087
Customer deposits	25,947	7,881	-	33,828
Compensated absences	(10,294)	(13,549)	(1,591)	(25,434)
Pension	(30,314)	(20,186)	(2,129)	(52,629)
Net OPEB obligation	<u>28,379</u>	<u>15,800</u>	<u>12,566</u>	<u>56,745</u>
Net cash provided by (used in) operating activities	<u>\$ 88,313</u>	<u>\$ (841,453)</u>	<u>\$ 98,697</u>	<u>\$ (654,443)</u>

The accompanying notes are an integral part of these financial statements.



NOTES TO BASIC FINANCIAL STATEMENTS



CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(1) Summary of significant accounting policies

Reporting entity

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

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

Blended Component Unit

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

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

Government-wide and fund financial statements

The City’s government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental and business-type activities for the City accompanied by a total column.

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

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(1) Summary of significant accounting policies (continued)

Government-wide and fund financial statements (continued)

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the statement of activities, those transactions between governmental and business-type activities have both been eliminated. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government wide financial statements.

Measurement focus, basis of accounting, and financial statement presentation

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The statement of revenues, expenditures and changes in fund balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses). Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, hotel/motel taxes, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The governmental reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Beach Fund* accounts for the portion of sales taxes required to provide beach cleaning and safety.
- The *Hotel-Motel/Facility Funds* account for the hotel/motel taxes that the Council requires to be set aside for recreational development.
- The *Hurricane Harvey Fund* is used to administer FEMA monies for reconstruction and cleanup within the City of Port Aransas.
- The *Construction Fund* is used to administer bond monies for various construction projects.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(1) Summary of significant accounting policies (continued)

Proprietary fund financial statements

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses and changes in fund net position, and a statement of cash flows for each major proprietary fund and for the nonmajor funds aggregated. Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses, and changes in fund net position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

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

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

Assets, liabilities, deferred outflows/inflows of resources, and net position or fund balance

Deposits and investments

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

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

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

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

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(1) Summary of significant accounting policies (continued)

Receivables and payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding trade accounts receivable at September 30, 2022, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at September 30, 2022, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding trade accounts receivable at September 30, 2022, and the trade accounts receivable allowance in excess of 120 days is equal to 50 percent of outstanding trade accounts receivable at September 30, 2022. The property tax receivable allowance is equal to 5 percent of current outstanding property taxes on September 30, 2022, and 5 percent of delinquent outstanding property taxes on September 30, 2022. Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

Inventories and prepaid items

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

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

Restricted assets

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

Type	Governmental Activities
Public Safety	\$ 61,857

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(1) Summary of significant accounting policies (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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

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

Assets	Years
Buildings	50
Improvements other than buildings	20
Gas pipelines	30
Infrastructure	50
Runways and related improvements	50
Vehicles	5
Machinery and equipment	5
Office furniture	5

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(1) Summary of significant accounting policies (continued)

Compensated absences

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

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 effective interest method. 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 withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund balances – governmental funds

As of September 30, 2022, fund balances of the governmental funds are classified as follows:

- *Nonspendable* – accounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- *Unassigned* – all other spendable amounts.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(1) Summary of significant accounting policies (continued)

Fund balances – governmental funds (continued)

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

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

Comparative data/reclassifications

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

Deferred outflows/inflows of resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section of 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 (expenses/expenditure) until then. The deferred outflows of resources are reported in the government-wide statement of net position for governmental and business-type activities and the fund level for the proprietary statement of net position. The City has the following that qualifies for reporting in this category: amounts deferred under GASB 68 and GASB 75.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following that qualifies for reporting in this category: amounts deferred under GASB 68, GASB 75, and leases.

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

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(1) Summary of significant accounting policies (continued)

The components of the City’s government-wide deferred outflows of resources and deferred inflows of resources are as follows:

	Governmental				
	Activities	Gas	Sanitation	Harbor	Total
Deferred outflows of resources					
Deferred outflows from pension activities	\$ 559,101	\$ 37,273	\$ 6,213	\$ 18,638	\$ 621,225
Deferred outflows related to OPEB	<u>1,181,716</u>	<u>78,782</u>	<u>13,130</u>	<u>39,390</u>	<u>1,313,018</u>
Total deferred outflows of resources	<u>\$ 1,740,817</u>	<u>\$ 116,055</u>	<u>\$ 19,343</u>	<u>\$ 58,028</u>	<u>\$ 1,934,243</u>
Deferred inflows of resources					
Deferred inflows related to pensions	\$ 1,084,144	\$ 72,277	\$ 12,046	\$ 36,138	\$ 1,204,605
Deferred inflows related to OPEB	2,484,988	165,666	27,612	82,833	2,761,099
Deferred inflows related to leases	<u>748,551</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>748,551</u>
Deferred inflows of resources	<u>\$ 4,317,683</u>	<u>\$ 237,943</u>	<u>\$ 39,658</u>	<u>\$ 118,971</u>	<u>\$ 4,714,255</u>

Pensions

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

Other postemployment benefits

The other postemployment benefit liability of the Texas Municipal Retirement System (TMRS) Supplemental Death Benefit Plan (SDBF) and retiree healthcare plan have been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the other postemployment benefit (OPEB) liability and deferred outflows and inflows of resources related to the other postemployment benefits, (OPEB) expense. Benefit payments are recognized when due and payable in accordance with the benefit terms. Contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

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. 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 applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(1) Summary of significant accounting policies (continued)

New accounting pronouncements

The GASB has issued the following statements:

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement changes the recognition requirements for certain lease assets and liabilities for leases that were previously classified as operating leases. It establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use asset an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

(2) Reconciliation of government-wide and fund financial statements

Below are explanations of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this (\$32,776,617) difference are as follows:

Right to use payable	\$ (195,302)
Bonds payable	(27,145,000)
Bond premium	(737,233)
OPEB liabilities	(3,053,061)
Net pension liability	(1,167,312)
Accrued interest payable	(111,963)
Compensated absences	(366,746)
	<u>\$ (32,776,617)</u>

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(2) Reconciliation of government-wide and fund financial statements (continued)

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The details of this \$56,706,376 difference are as follows:

Capital assets not being depreciated	\$ 28,211,378
Capital assets being depreciated	65,122,300
Accumulated depreciation	<u>(36,627,302)</u>
Net adjustment to increase net changes in fund balances - total funds to arrive at changes in net position of governmental activities	<u>\$ 56,706,376</u>

The governmental fund balance sheet includes reconciliation fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles). The details of this \$107,623 difference are as follows:

Property taxes receivable	\$ 113,338
Allowance for doubtful accounts	<u>(5,715)</u>
Net	<u>\$ 107,623</u>

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that other long-term assets/liabilities are unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles). The details of the (\$1,521,788) difference is as follows:

Fines and fees receivable	\$ 306,527
<u>GASB 68</u>	
Deferred outflows of resources - pensions	559,101
Deferred inflows of resources - pensions	(1,084,145)
<u>GASB 75</u>	
Deferred outflows of resources - TMRS	74,820
Deferred outflows of resources - Retiree health	1,106,896
Deferred inflows of resources - TMRS	(29,467)
Deferred inflows of resources - Retiree health	<u>(2,455,520)</u>
Net	<u>\$ (1,521,788)</u>

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(2) Reconciliation of government-wide and fund financial statements (continued)

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$12,020,527 difference are as follows:

Capital outlay - additions not being depreciated	\$ 13,478,905
Capital outlay - additions being depreciated	2,840,904
Depreciation expense	<u>(4,299,282)</u>
Net adjustment to increase net changes in fund balances - total	
funds to arrive at changes in net position of governmental activities	<u>\$ 12,020,527</u>

(3) Stewardship, compliance, and accountability

Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the library fund, the COVID-19 fund, drainage impact fees fund, winter storm URI fund, and the Hurricane Harvey fund. All annual appropriations lapse at fiscal year end.

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

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

Deficit fund equity

On September 30, 2022, three funds had deficit fund balances. The drainage impact fees fund had a deficit of (\$83,666), the winter storm Uri fund had a deficit of (\$47,555), and the debt service fund had a deficit of (\$88,554). These deficits are expected to be liquidated with future resources of the fund.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(4) Detailed notes on all funds

Deposits and investments

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

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

Deposits

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government has a deposit policy for custodial credit risk. As of September 30, 2022, the City had a bank balance of \$1,810,432 in American Bank and was fully insured and collateralized with securities held by the pledging financial institution's trust department or agent, in the government's name. The fair market value of the securities pledged is \$5,773,880 and the FDIC coverage is \$250,000. The City also has a balance of \$438,309 with Value Bank of Texas with \$295,000 securities pledged and FDIC coverage of \$250,000. The book balance of the City's bank balances on September 30, 2022, is \$2,985,729.

Investments

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

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

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

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(4) Detailed notes on all funds (continued)

Deposits and investments (continued)

The City’s investments are authorized by City resolutions, bond ordinances, and State statutes. The City is authorized to invest in obligations of the U.S. Government and its agencies or instrumentalities; direct obligations of Texas and its agencies and instrumentalities; obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent rating; insured or collateralized certificates of deposit; fully collateralized repurchase agreements; and government pools.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City’s investments by fair value level are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices. The City has no level 1 investments (investments valued using prices quoted in active markets for identical securities) or level 3 investments (investments valued using significant unobservable inputs). As of September 30, 2022 the City had the following investments:

Investment Type	Fair Value	Maturity (Years)	Weighted Average
TexPool	\$ 51,232,034	Less than 1 year	Less than 1 year
Texas Class Funds	5,413,379	Less than 1 year	Less than 1 year

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

Concentration of credit risk. The City places no limit on the amount the City may invest in any one issuer. TexPool (90% of portfolio) and Texas Class (10% of portfolio).

Receivables

Receivables at year end for the City’s individual major funds, and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Beach	Hotel/ Motel Fund	Construction	Nonmajor Funds	Total Governmental Funds
Receivables:						
Taxes - ad valorem	\$ 91,412	\$ -	\$ -	\$ -	\$ 21,926	\$ 113,338
Intergovernmental	267,432	-	-	276,102	125,366	668,900
Accounts	-	-	-	-	16,759	16,759
Lease	739,901	-	-	-	-	739,901
Other	40,571	84,133	379	-	2,603	127,686
Gross receivables	1,139,316	84,133	379	276,102	166,654	1,666,584
Less allowances for uncollectibles	(25,336)	-	-	-	(1,097)	(26,433)
Net total receivables	<u>\$ 1,113,980</u>	<u>\$ 84,133</u>	<u>\$ 379</u>	<u>\$ 276,102</u>	<u>\$ 165,557</u>	<u>\$ 1,640,151</u>

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(4) Detailed notes on all funds (continued)

Receivables (continued)

	Gas	Sanitation	Harbor	Total Enterprise Funds	Grand Total
Receivables:					
Taxes - ad valorem	\$ -	\$ -	\$ -	\$ -	\$ 113,338
Intergovernmental	-	-	1,735,596	1,735,596	2,404,496
Accounts	14,546	83,404	-	97,950	114,709
Other	-	-	-	-	127,686
Gross receivables	14,546	83,404	1,735,596	1,833,546	2,760,229
Less allowances for uncollectibles	(11,274)	-	-	(11,274)	(37,707)
Net total receivables	<u>\$ 3,272</u>	<u>\$ 83,404</u>	<u>\$ 1,735,596</u>	<u>\$ 1,822,272</u>	<u>\$ 2,722,522</u>

The receivables are expected to be collected within one year.

Lease receivable

The City has entered into various (18) lease agreements as the lessor for the use of hangers at the City's airport. The leases have interest rates ranging from 1.608% to 3.434%. The value of the lease receivable on September 30, 2022 is \$739,901 and the City recognized lease revenue of \$31,690 during the fiscal year.

Future minimum lease payments are as follows:

GOVERNMENTAL ACTIVITIES			
Fiscal Year	Principal	Interest	Total
September 30,			
2023	\$ 29,344	\$ 14,691	\$ 44,035
2024	29,784	14,251	44,035
2025	30,347	13,688	44,035
2026	30,923	13,112	44,035
2027	31,510	12,525	44,035
2028-2032	166,786	53,389	220,175
2033-2037	183,388	36,787	220,175
2038-2042	158,976	18,794	177,770
2043-2047	78,843	5,507	84,350
	<u>\$ 739,901</u>	<u>\$ 182,744</u>	<u>\$ 922,645</u>

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(4) Detailed notes on all funds (continued)

Capital assets

Capital asset activity for governmental activities for the year ended September 30, 2022, was as follows:

Governmental activities:	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 9,142,564	\$ 2,557,953	\$ -	\$ -	\$ 11,700,517
Construction in progress	<u>12,091,000</u>	<u>10,920,952</u>	<u>(6,501,091)</u>	<u>-</u>	<u>16,510,861</u>
Total capital assets, not being depreciated	<u>21,233,564</u>	<u>13,478,905</u>	<u>(6,501,091)</u>	<u>-</u>	<u>28,211,378</u>
Capital assets, being depreciated:					
Infrastructure	35,347,981	292,432	5,852,150	(495,895)	40,996,668
Buildings	10,034,626	687,793	648,941	(1,084,814)	10,286,546
Machinery and equipment	6,901,007	652,141	-	(659,768)	6,893,380
Vehicles	6,103,454	1,208,538	-	(661,318)	6,650,674
Right to use assets	<u>295,032</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,032</u>
Total capital assets being depreciated	<u>58,682,100</u>	<u>2,840,904</u>	<u>6,501,091</u>	<u>(2,901,795)</u>	<u>65,122,300</u>
Less accumulated depreciation for:					
Infrastructure	(23,377,072)	(1,949,585)	-	421,903	(24,904,754)
Buildings	(3,765,556)	(710,723)	-	479,632	(3,996,647)
Machinery and equipment	(4,662,527)	(705,465)	-	659,323	(4,708,669)
Vehicles	(2,745,041)	(834,106)	-	661,318	(2,917,829)
Right to use assets	<u>-</u>	<u>(99,403)</u>	<u>-</u>	<u>-</u>	<u>(99,403)</u>
Total accumulated depreciation	<u>(34,550,196)</u>	<u>(4,299,282)</u>	<u>-</u>	<u>2,222,176</u>	<u>(36,627,302)</u>
Total capital assets being depreciated, net	<u>24,131,904</u>	<u>(1,458,378)</u>	<u>6,501,091</u>	<u>(679,619)</u>	<u>28,494,998</u>
Governmental activities capital assets, net	<u>\$ 45,365,468</u>	<u>\$ 12,020,527</u>	<u>\$ -</u>	<u>\$ (679,619)</u>	<u>\$ 56,706,376</u>

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(4) Detailed notes on all funds (continued)

Capital assets (continued)

Capital asset activity for business-type activities for the year ended September 30, 2022, was as follows:

	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Construction in progress	\$ 6,549,134	\$ 5,350,822	\$ (288,182)	\$ -	\$ 11,611,774
Total capital assets, not being depreciated	<u>6,549,134</u>	<u>5,350,822</u>	<u>(288,182)</u>	<u>-</u>	<u>11,611,774</u>
Capital assets, being depreciated:					
Infrastructure	16,221,089	1,993,389	288,182	(103,866)	18,398,794
Buildings	290,296	-	-	(1,878)	288,418
Machinery and equipment	559,245	5,234	-	(41,435)	523,044
Vehicles	251,238	11,380	-	(1,936)	260,682
Right to use assets	<u>252,374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>252,374</u>
Total capital assets being depreciated	<u>17,574,242</u>	<u>2,010,003</u>	<u>288,182</u>	<u>(149,115)</u>	<u>19,723,312</u>
Less accumulated depreciation for:					
Infrastructure	(7,453,042)	(673,852)	-	45,960	(8,080,934)
Buildings	(190,472)	(13,504)	-	1,878	(202,098)
Machinery and equipment	(283,447)	(87,222)	-	41,435	(329,234)
Vehicles	(119,677)	(42,295)	-	1,936	(160,036)
Right to use assets	<u>-</u>	<u>(10,408)</u>	<u>-</u>	<u>-</u>	<u>(10,408)</u>
Total accumulated depreciation	<u>(8,046,638)</u>	<u>(827,281)</u>	<u>-</u>	<u>91,209</u>	<u>(8,782,710)</u>
Total capital assets being depreciated, net	<u>9,527,604</u>	<u>1,182,722</u>	<u>288,182</u>	<u>(57,906)</u>	<u>10,940,602</u>
Business-type activities capital assets, net	<u>\$ 16,076,738</u>	<u>\$ 6,533,544</u>	<u>\$ -</u>	<u>\$ (57,906)</u>	<u>\$ 22,552,376</u>

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

Governmental Activities	
General administration	\$ 2,405,183
Public facilities	185,190
Public safety	916,723
Culture and recreation	792,186
Total depreciation expense - governmental activities	<u>\$ 4,299,282</u>
Business-Type Activities	
Gas	\$ 90,748
Sanitation	60,471
Harbor	676,063
Total depreciation expense - business-type activities	<u>\$ 827,282</u>

Construction commitments: significant construction activity during the year was for various street, ramp, harbor, and dock construction and paving projects.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(4) Detailed notes on all funds (continued)

Interfund balances and transfers

Interfund balances represent reimbursements for expenditures paid or cash received on behalf of other funds and are expected to be liquidated in the next fiscal year. In the fund financial statements, the due from other funds in the Gas Fund from the Harbor Fund in the amount of \$711,337 represents costs incurred in the Harbor Fund that will be reimbursed to the Gas Fund.

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

In the year ended September 30, 2022, the government made the following one-time transfers:

	Transfers	
	In	Out
Beach Fund		
Sanitation Fund	\$ -	\$ 63,265
Hurricane Harvey Fund		
Gas Fund	-	4,905,874
Hotel/Motel Special Revenue Fund		
Nature Preserve Fund	-	317,402
Harbor Fund	-	1,154,597
Debt Service Fund	-	113,617
Total Hotel/Motel Special Revenue Fund	-	1,585,616
Nonmajor Governmental Funds		
Impact Fees Zone 1	-	450,000
Debt Service Fund	578,150	-
Debt Service Fund	450,000	-
Debt Service Fund	113,617	-
Nature Preserve Fund	317,402	-
Total Nonmajor Governmental Funds	1,459,169	450,000
Harbor Fund		
Debt Service Fund	-	578,150
Hotel/Motel Special Revenue Fund	1,154,597	-
Total Harbor Fund	1,154,597	578,150
Gas Fund		
Hurricane Harvey Fund	4,905,874	-
Sanitation Fund		
Beach Fund	63,265	-
Total Funds	\$ 7,582,905	\$ 7,582,905

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(4) Detailed notes on all funds (continued)

Right to use lease obligations

At September 30, 2022, the City was obligated under the right to use leases for the Jail (\$270,302) and a copier (\$24,730) in the governmental activities and Robert’s Point Park (\$248,135) and a collection station sublease (\$4,239) in the business-type activities. The Jail was leased for a term of 3 years at a fixed interest rate of 3.28% with a monthly payment of \$7,343. The copier was leased for a term of 2 years at a fixed interest rate of 2.48% with a monthly payment of \$1,033. Robert’s Point Park was leased for a term of 26.5 years at a fixed interest rate of 1.851% with an annual payment of \$12,000. The collection substation was leased for a term of 4 years at a fixed interest rate of 4.31% with an annual payment of \$1,067.

Future minimum lease payments for these leases are as follows:

Fiscal Year	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	Principal	Interest	Total	Principal	Interest	Total
September 30,						
2023	\$ 100,025	\$ 485	\$ 100,510	\$ 8,640	\$ 4,427	\$ 13,067
2024	87,936	180	88,116	8,785	4,282	13,067
2025	7,341	2	7,343	8,933	4,135	13,068
2026	-	-	-	8,016	3,984	12,000
2027	-	-	-	8,164	3,836	12,000
2028-2032	-	-	-	43,144	16,856	60,000
2033-2037	-	-	-	47,288	12,712	60,000
2038-2042	-	-	-	51,829	8,171	60,000
2043-2047	-	-	-	56,807	3,193	60,000
	<u>\$ 195,302</u>	<u>\$ 667</u>	<u>\$ 195,969</u>	<u>\$ 241,606</u>	<u>\$ 61,596</u>	<u>\$ 303,202</u>

Long-term liabilities

General obligation bonds and revenue bonds

The City issues certificates of obligation and general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Certificates of obligation and general obligation bonds have been issued for governmental activities. The certificates of obligation bonds are direct obligations and pledge the full faith and credit of the City.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(4) Detailed notes on all funds (continued)

Long-term liabilities (continued)

Certificates of obligation and general obligation bonds currently outstanding are as follows:

Governmental Activities	Date of Issuance	Amount of Issuance	Rate to Maturity	Maturity Date	Balances Sept. 30, 2022
General Obligation Debt:					
General Obligation Bonds, Series 2012	2/1/2012	\$ 6,400,000	1.75-2.125%	2/1/2027	\$ 2,575,000
General Obligation Bonds, Series 2017	2/15/2017	4,380,000	2.70-4.00	2/1/2032	3,205,000
General Obligation Refunding Bonds, Series 2019	3/28/2019	2,020,000	2.56	9/30/2024	840,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014	10/1/2014	1,685,000	2.49	2/1/2029	870,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018	11/15/2017	6,300,000	3.00	2/1/2033	5,400,000
Combination Tax and Limited Pledge Revenues Certificates of Obligation, Series 2021	3/17/2021	2,695,000	2.00-3.00	9/30/2036	2,695,000
Combination Tax and Limited Pledge Revenues Certificates of Obligation, Series 2022	2/16/2022	885,000	2.00-4.00	2/1/2037	885,000
Tax Notes, Series 2021	3/18/2021	1,790,000	2.00-3.00	2/1/2028	1,560,000
Tax Notes, Series 2022	9/28/2022	9,115,000	2.62-2.85	2/1/2029	9,115,000
Total of bonded debt					<u>\$ 27,145,000</u>

Debt service requirements on outstanding bonds and certificates of obligation are as follows:

General Obligation Bonds			
Year Ending	Principal	Interest	Total
September 30,			
2023	\$ 3,610,000	\$ 662,740	\$ 4,272,740
2024	3,400,000	607,502	4,007,502
2025	3,070,000	520,653	3,590,653
2026	3,160,000	436,245	3,596,245
2027	3,260,000	346,797	3,606,797
2028-2032	8,850,000	709,447	9,559,447
2033-2037	1,795,000	61,875	1,856,875
	<u>\$ 27,145,000</u>	<u>\$ 3,345,259</u>	<u>\$ 30,490,259</u>

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(4) Detailed notes on all funds (continued)

Capital leases

The government has entered into a capital lease agreement as lessee for financing the acquisition of machinery and equipment as set forth below. This lease agreement qualifies as capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date. The security pledged for this capital lease is the equipment financed.

Asset	Governmental Activities Ambulance
Cost	\$ 192,919
Accumulated depreciation	<u>(183,273)</u>
Net asset	<u>\$ 9,646</u>

The capital lease was paid in full as of September 30, 2022.

FEMA community disaster loan

The City applied for and received a \$4,347,745 FEMA Community Disaster loan. The community disaster loan (CDL) program provides operational funding to help local governments that have incurred a significant loss in revenue, due to a major disaster, that has or will adversely affect their ability to provide essential municipal services. The principal and interest was canceled during fiscal year 2022 pursuant to Section 417 of the Stafford Disaster Relief and Emergency Assistance Act, Public Law 93-288, as amended. FEMA has, at its discretion, canceled all of the loan.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(4) Detailed notes on all funds (continued)

Changes in long-term liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended September 30, 2022:

	Beginning Balance	Additions	Retirements/ Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 19,255,000	\$ 10,000,000	\$ (2,110,000)	\$ 27,145,000	\$ 3,610,000
Bond premiums	761,989	56,397	(81,153)	737,233	72,853
Total long-term debt	<u>20,016,989</u>	<u>10,056,397</u>	<u>(2,191,153)</u>	<u>27,882,233</u>	<u>3,682,853</u>
Other long-term liabilities:					
Capital lease purchases	39,404	-	(39,404)	-	-
Community disaster loan proceeds	4,347,745	-	(4,347,745)	-	-
OPEB liability - TMRS	422,632	-	(27,347)	395,285	-
OPEB liability - Retiree Health	3,222,186	-	(564,410)	2,657,776	-
Net pension liability - TMRS	2,136,996	-	(969,684)	1,167,312	-
Compensated absences	870,765	366,746	(870,765)	366,746	366,746
Total other long-term liabilities	<u>11,039,728</u>	<u>366,746</u>	<u>(6,819,355)</u>	<u>4,587,119</u>	<u>366,746</u>
 Total governmental activities	 <u>31,056,717</u>	 <u>10,423,143</u>	 <u>(9,010,508)</u>	 <u>32,469,352</u>	 <u>4,049,599</u>
Business-type activities:					
OPEB liability - TMRS	-	43,920	-	43,920	-
OPEB liability - Retiree Health	351,416	-	(56,108)	295,308	-
Net pension liability	236,698	-	(106,997)	129,701	-
Compensated absences	48,093	22,659	(48,093)	22,659	22,659
Total business-type activities	<u>636,207</u>	<u>66,579</u>	<u>(211,198)</u>	<u>491,588</u>	<u>22,659</u>
 Total long-term liabilities	 <u>\$ 31,692,924</u>	 <u>\$ 10,489,722</u>	 <u>\$ (9,221,706)</u>	 <u>\$ 32,960,940</u>	 <u>\$ 4,072,258</u>

For a discussion of other postemployment benefits, please see note 7.

Segment information

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

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(5) Other information

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; natural disasters; and workers' compensation for which the City carries commercial insurance. Liabilities of the fund are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated.

General liability insurance

The City is insured for general, police officers and automobile liability.

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

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

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

Property and casualty insurance

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

Worker's compensation insurance

The City insures against workers' compensation claims through TML.

Group health and life insurance

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

Unemployment compensation insurance

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

Evaluation of subsequent events

In preparing the financial statements, the management of the City of Port Aransas has evaluated events and transactions for potential recognition or disclosure through September 21, 2023, the date the financial statements were available to be issued. There were no subsequent events for disclosure.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(5) Other information

Contingent liabilities

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

Related party transactions

Wendy Moore, Mayor, is an officer with American Bank, N.A., which is the depository bank for the City of Port Aransas. Ms. Moore states no direct benefit (financially or otherwise) over the City of Port Aransas accounts.

(6) Defined benefit pension plan

Texas Municipal Retirement System (TMRS)

Plan description – The City participates as one of the 901 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at TMRS.com.

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

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

At retirement, the member's benefit is calculated based on the sum of the member's contributions, with interest and the City-financed monetary credits with interest. The retiring member may select one of seven monthly payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total member's contributions and interest.

The plan provisions are adopted by the City Council with in the options available in statutes governing TMRS. Plan provisions for the City are as follows:

Employee deposit rate	6.00%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	20 years at any age, 5 years at 60 and above

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(6) Defined benefit pension plan (continued)

Texas Municipal Retirement System (TMRS) (continued)

At December 31, 2021 valuation and measurement date, the following employees were covered by benefit terms:

Active employees	122
Inactive employees or beneficiaries currently receiving benefits	65
Inactive employees entitled to but not yet receiving benefits	<u>64</u>
Total	<u><u>251</u></u>

Contributions – The contribution rates in TMRS are either 5%, 6%, or 7% of the member’s total compensation, and the City matching ratios are either 1:1, 1.5:1, or 2:1, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary using the entry age normal (EAN) actuarial cost method. The 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 of Port Aransas were required to contribute 6% of their annual compensation during the fiscal year. The contribution rates for the City were 11.38% and 10.92% in calendar years 2021 and 2022, respectively. The City’s contributions to TMRS for the year ended September 30, 2022 were \$799,303 and were equal to the required contributions.

Net pension liability – The City’s net pension liability (NPL) was measured as of December 31, 2021 and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions – The TPL in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases are 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, healthy retirees and beneficiaries are projected on a fully generational basis by scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(6) Defined benefit pension plan (continued)

Texas Municipal Retirement System (TMRS) (continued)

Actuarial assumptions (continued)

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global equity	35.00%	7.55%
Core fixed income	6.00%	2.00%
Non-core fixed income	20.00%	5.68%
Other private and public markets	12.00%	7.22%
Real estate	12.00%	6.85%
Hedge funds	5.00%	5.35%
Private equity	10.00%	10.00%
Total	100.00%	

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(6) Defined benefit pension plan (continued)

Texas Municipal Retirement System (TMRS) (continued)

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

Changes in the net pension liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2020	\$ 18,918,959	\$ 16,545,265	\$ 2,373,694
Changes for the year:			
Service cost	969,700	-	969,700
Interest	1,283,703	-	1,283,703
Changes of benefit terms	-	-	-
Difference between expected and actual experience	16,241	-	16,241
Changes of assumptions	-	-	-
Contributions - employer	-	784,283	(784,283)
Contributions - employee	-	413,518	(413,518)
Net investment income	-	2,158,435	(2,158,435)
Benefit payments, including refunds of employee contributions	(771,971)	(771,971)	-
Administrative expenses	-	(9,980)	9,980
Other changes	-	69	(69)
Net changes	<u>1,497,673</u>	<u>2,574,354</u>	<u>(1,076,681)</u>
Balance at 12/31/2021	<u>\$ 20,416,632</u>	<u>\$ 19,119,619</u>	<u>\$ 1,297,013</u>

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1.0% lower (5.75%) or 1.0% higher (7.75%) than the current rate:

	1% Decrease <u>(5.75%)</u>	Current Discount Rate (6.75%)	1% Increase <u>(7.75%)</u>
Net pension liability/(asset)	<u>\$ 4,338,609</u>	<u>\$ 1,297,013</u>	<u>\$ (1,181,697)</u>

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the schedule of changes in fiduciary net position by participating city. That report may be obtained at TMRS.com.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(6) Defined benefit pension plan (continued)

Texas Municipal Retirement System (TMRS) (continued)

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended September 30, 2022, the City recognized pension expense of \$314,959.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 11,886	\$ 101,459
Changes in actuarial assumptions	25,450	-
Difference between projected and actual earnings on investment earnings	-	1,103,148
Contributions subsequent to the measurement date	<u>583,889</u>	<u>-</u>
Total	<u>\$ 621,225</u>	<u>\$ 1,204,607</u>

\$583,889 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>December 31,</u>	<u>Amortization Expense</u>
2022	\$ (254,559)
2023	(474,057)
2024	(230,329)
2025	(208,326)
2026	-
Thereafter	<u>-</u>
Total	<u>\$ (1,167,271)</u>

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(7) Post retirement benefits other than pensions

The City provides for two postemployment benefit (OPEB) plans; one provides for postemployment medical care through a single-member defined benefit medical plan (medical OPEB) and the other is the Texas Municipal Retirement System Supplemental Death Benefits Fund (TMRS SDBF), a single-employer defined benefit OPEB plan. Both plans are described in detail below.

Aggregate amounts for the two OPEB plans are as follows:

	Medical OPEB	TMRS SDBF	Total
OPEB liability	\$2,953,084	\$ 439,205	\$ 3,392,289
Deferred outflows of resources	1,229,885	83,133	1,313,018
Deferred inflows of resources	2,728,357	32,742	2,761,099
OPEB expense	144,207	49,315	193,522

Medical benefits

Plan description, benefits provided, and contributions

The City provides medical benefits through a single employer defined benefit OPEB plan. The City maintains fully-insured medical insurance coverage for eligible retirees. The City contributes 100% of the contribution rate for individual retiree coverage for the medical plan before age 65 and for a medical supplement policy for age 65 and older. No dependent coverage or other benefits are available to the retiree. The plan does not issue a publicly available financial report.

The City has elected service retirement with 15 years of service at any age or age 60 with at least 5 years of service.

At September 30, 2022, the following employees were covered by the benefit terms:

Retirees currently receiving benefits	11
Inactive employees entitled to but not receiving benefits	-
Active employees	114
Total	125

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(7) Post retirement benefits other than pensions (continued)

OPEB liability

The City's OPEB liability of \$2,953,084 was measured as of September 30, 2022 and was determined by an actuarial valuation as of September 30, 2022.

Changes in the total OPEB liability:

Balance at September 30, 2021	\$	3,573,602
Changes for the year:		
Service cost		258,315
Interest on total OPEB liability		85,956
Changes of benefit terms		866,362
Difference between expected and actual experience		(1,774,021)
Changes of assumptions		-
Benefit payments		<u>(57,130)</u>
Net changes		<u>(620,518)</u>
 Balance at September 30, 2022	 \$	 <u>2,953,084</u>

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 4.77%, as well as what the City's OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.77%) or 1-percentage-point higher (5.77%) than the current rate:

	<u>1% Decrease</u> <u>(3.77%)</u>	<u>Current Discount</u> <u>Rate (4.77%)</u>	<u>1% Increase</u> <u>(5.77%)</u>
OPEB liability	<u>\$ 3,537,361</u>	<u>\$ 2,953,084</u>	<u>\$ 2,491,599</u>

Sensitivity of the total OPEB liability to the healthcare cost trend rate assumption:

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (1.00%) or 1-percentage-point higher (3.0%) than the current healthcare cost trend rates:

	<u>1% Decrease</u> <u>(1.00%)</u>	<u>Current Healthcare</u> <u>Cost Trend Rate</u> <u>Assumption</u> <u>(2.00%)</u>	<u>1% Increase</u> <u>(3.00%)</u>
OPEB liability	<u>\$ 2,437,952</u>	<u>\$ 2,953,084</u>	<u>\$ 3,622,583</u>

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(7) Post retirement benefits other than pension (continued)

OPEB liability (continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB:

For the year ended September 30, 2022, the City reported OPEB expense of \$144,207 and deferred outflows of resources as determined inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 769,609	\$ 1,070,785
Changes in actuarial assumptions	460,273	1,657,572
Contributions made subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u>\$ 1,229,882</u>	<u>\$ 2,728,357</u>

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

<u>Year Ended September 30,</u>	<u>Net Deferred Outflows/(Inflows)</u>
2023	\$ (200,064)
2024	(200,064)
2025	(200,064)
2026	(200,064)
2027	(297,845)
Thereafter	<u>(400,374)</u>
	<u>\$ (1,498,475)</u>

Actuarial valuation information:

Actuarial assumptions and other inputs - the OPEB liability in the September 30, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50%
Discount rate	4.77%

The discount rate was based on the average of the September 30, 2022 Fidelity General Obligation AA 20-year yield and the S&P Municipal Bond 20 year high grade index.

The mortality assumption for this valuation was based on the RPH-2014 total table with Projection MP-2021.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(7) Post retirement benefits other than pension (continued)

OPEB liability (continued)

The following change was made to assumptions since the prior valuation:

- The discount rate was changed from 2.26% to 4.77% based on updated 20-year municipal bond rates.

Supplemental death benefits fund (SDBF)

Plan description

The City voluntarily participates in the Texas Municipal Retirement System Supplemental Death Benefit Fund (SDBF). SDBF provides group-term life insurance to employees who are active members in TMRS. The City Council opted into this system via an ordinance, and may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1st of any year to be effective the following January 1st.

Benefits provided

The death benefit for active members provides a lump-sum payment approximately equal to the member’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired members are insured for \$7,500; this coverage is an “other postemployment benefit” or OPEB. As the SDBF covers both active and retiree members, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated).

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. 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. As such, contributions fund the covered active member and retiree deaths on a pay-as-you-go basis.

The contribution rate for the City was 0.21% and 0.22% for calendar years 2022 and 2021, respectively. The City’s contributions to TMRS for the SDBF program for the year ended September 30, 2022 were \$15,393 and were equal to the required contributions.

At December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Active employees	122
Inactive employees currently receiving benefits	45
Inactive employees entitled to but not yet receiving benefits	<u>15</u>
Total	<u><u>182</u></u>

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(7) Post retirement benefits other than pension (continued)

Other postemployment benefits (OPEB) liability

The City's total OPEB liability of \$439,205 was measured as of December 31, 2021 and was determined by an actuarial valuation as of that date.

Funding policy

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.22% for 2021 and 0.21% for 2022. The rate is equal to the cost of providing one-year term life insurance. The funding policy for SDBF program is to assure that adequate resources are available to meet all the death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contribution to the SDBF for the year ended September 30, 2022 was \$15,393 which equaled the required contribution for the year.

Actuarial assumptions:

The total OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.50% to 11.5% including inflation
Discount rate *	1.84%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retires of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(7) Post retirement benefits other than pension (continued)

Other postemployment benefits (OPEB) liability (continued)

Changes in the total OPEB liability:

Balance at December 31, 2020	\$	422,631
Changes for the year:		
Service cost		25,500
Interest on the total OPEB liability		8,632
Changes of benefit terms		-
Differences between expected and actual experience		(22,894)
Changes of assumptions		12,916
Benefit payments*		(7,580)
Net changes		<u>16,574</u>
Balance at December 31, 2021	\$	<u>439,205</u>

* 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 contribution for retirees.

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

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

	1% Decrease (0.84%)	Current Discount Rate (1.84%)	1% Increase (2.84%)
OPEB liability	\$ <u>532,872</u>	\$ <u>439,205</u>	\$ <u>366,512</u>

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB:

For the year ended September 30, 2022, the City recognized OPEB expense of \$49,315 related to the SDBF.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ 27,281
Changes in actuarial assumptions	71,904	5,461
Contributions made subsequent to the measurement date	11,229	-
Total	<u>\$ 83,133</u>	<u>\$ 32,742</u>

CITY OF PORT ARANSAS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2022

(7) Post retirement benefits other than pension (continued)

Other postemployment benefits (OPEB) liability (continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB (continued)

The City reported \$11,229 as deferred outflows of resources related to the OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability for the year ended September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

December 31,	Amortization Expense
2022	\$ 14,054
2023	13,244
2024	12,363
2025	(499)
Total	\$ 39,162

(8) Subsequent event

On April 12, 2023 the City issued \$6,020,000 General Obligation Bonds, Series 2023, to be used for street and drainage projects.

REQUIRED SUPPLEMENTARY INFORMATION



CITY OF PORT ARANSAS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL**

For the year ended September 30, 2022

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Taxes:				
Property	\$ 5,672,000	\$ 5,672,000	\$ 5,609,856	\$ (62,144)
Sales	2,023,000	2,023,000	2,541,298	518,298
Franchise	539,000	539,000	621,015	82,015
Intergovernmental	463,250	463,250	1,190,397	727,147
Licenses and permits	1,499,500	1,499,500	2,659,075	1,159,575
Charges for services	210,000	210,000	1,614,752	1,404,752
Fines and forfeitures	317,500	317,500	487,802	170,302
Interest	10,000	10,000	172,674	162,674
Miscellaneous	1,084,300	1,084,300	64,509	(1,019,791)
Total revenues	<u>11,818,550</u>	<u>11,818,550</u>	<u>14,961,378</u>	<u>3,142,828</u>
Expenditures:				
Current:				
General administration	3,285,920	3,343,830	3,239,956	103,874
Legal	200,500	200,500	91,732	108,768
Financial administration	297,250	297,250	287,289	9,961
Public facilities	1,136,650	1,136,650	973,839	162,811
Public safety	5,675,630	5,675,630	4,722,000	953,630
Public transportation	233,550	233,550	181,648	51,902
Culture and recreation	855,875	855,875	852,568	3,307
Capital outlay	748,450	748,450	720,069	28,381
Debt service:				
Principal retirement	-	-	51,756	(51,756)
Interest retirement	-	-	1,007	(1,007)
Total expenditures	<u>12,433,825</u>	<u>12,491,735</u>	<u>11,121,864</u>	<u>1,369,871</u>
Net change in fund balances	(615,275)	(673,185)	3,839,514	4,512,699
Fund balance at October 1, 2021	<u>12,842,560</u>	<u>12,842,560</u>	<u>12,842,560</u>	-
Fund balance at September 30, 2022	<u>\$ 12,227,285</u>	<u>\$ 12,169,375</u>	<u>\$ 16,682,074</u>	<u>\$ 4,512,699</u>

CITY OF PORT ARANSAS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
BEACH FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL**

For the year ended September 30, 2022

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Taxes:				
Hotel/Motel	\$ 1,800,000	\$ 1,800,000	\$ 2,857,011	\$ 1,057,011
Beach parking permits	1,150,000	1,150,000	725,578	(424,422)
Intergovernmental	317,000	317,000	407,688	90,688
Interest	1,500	1,500	16,031	14,531
Miscellaneous	-	-	14,600	14,600
Total revenues	<u>3,268,500</u>	<u>3,268,500</u>	<u>4,020,908</u>	<u>752,408</u>
Expenditures:				
Culture and recreation:				
Lifeguards and permits	446,900	446,900	397,269	49,631
Beach public works	1,931,400	1,931,400	2,669,534	(738,134)
Capital outlay	<u>414,900</u>	<u>414,900</u>	<u>111,106</u>	<u>303,794</u>
Total expenditures	<u>2,793,200</u>	<u>2,793,200</u>	<u>3,177,909</u>	<u>(384,709)</u>
Excess (deficiency) of revenues over (under) expenditures	475,300	475,300	842,999	367,699
Other financing sources (uses):				
Transfers out	<u>(1,050,000)</u>	<u>(1,050,000)</u>	<u>(63,265)</u>	<u>986,735</u>
Total other financing sources (uses)	<u>(1,050,000)</u>	<u>(1,050,000)</u>	<u>(63,265)</u>	<u>986,735</u>
Net change in fund balances	(574,700)	(574,700)	779,734	1,354,434
Fund balance at October 1, 2021	<u>5,775,337</u>	<u>5,775,337</u>	<u>5,775,337</u>	<u>-</u>
Fund balance at September 30, 2022	<u>\$ 5,200,637</u>	<u>\$ 5,200,637</u>	<u>\$ 6,555,071</u>	<u>\$ 1,354,434</u>

CITY OF PORT ARANSAS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
HOTEL/MOTEL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL**

For the year ended September 30, 2022

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Taxes:				
Hotel/Motel	\$ 3,072,175	\$ 3,072,175	\$ 4,453,394	\$ 1,381,219
Interest	<u>250</u>	<u>250</u>	<u>3,280</u>	<u>3,030</u>
Total revenues	<u>3,072,425</u>	<u>3,072,425</u>	<u>4,456,674</u>	<u>1,384,249</u>
Expenditures:				
General administration:				
Mayor and council	<u>1,772,900</u>	<u>1,772,900</u>	<u>4,453,394</u>	<u>(2,680,494)</u>
Total expenditures	<u>1,772,900</u>	<u>1,772,900</u>	<u>4,453,394</u>	<u>(2,680,494)</u>
Net change in fund balances	1,299,525	1,299,525	3,280	(1,296,245)
Fund balance at October 1, 2021	<u>82,156</u>	<u>82,156</u>	<u>82,156</u>	<u>-</u>
Fund balance at September 30, 2022	<u>\$ 1,381,681</u>	<u>\$ 1,381,681</u>	<u>\$ 85,436</u>	<u>\$ (1,296,245)</u>

CITY OF PORT ARANSAS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
HOTEL/MOTEL SPECIAL REVENUE/FACILITY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL**

For the year ended September 30, 2022

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Taxes:				
Hotel/Motel	\$ 472,650	\$ 472,650	\$ 5,138,532	\$ 4,665,882
Miscellaneous	15,000	15,000	13,075	(1,925)
Interest	<u>1,000</u>	<u>1,000</u>	<u>22,472</u>	<u>21,472</u>
Total revenues	<u>488,650</u>	<u>488,650</u>	<u>5,174,079</u>	<u>4,685,429</u>
Expenditures:				
General administration:				
Culture and recreation	266,300	531,450	547,330	(15,880)
Capital outlay	<u>132,900</u>	<u>132,900</u>	<u>2,870,608</u>	<u>(2,737,708)</u>
Total expenditures	<u>399,200</u>	<u>664,350</u>	<u>3,417,938</u>	<u>(2,753,588)</u>
Excess (deficiency) of revenues over (under) expenditures	89,450	(175,700)	1,756,141	1,931,841
Other financing sources (uses):				
Transfers out	<u>-</u>	<u>-</u>	<u>(1,585,616)</u>	<u>(1,585,616)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,585,616)</u>	<u>(1,585,616)</u>
Net change in fund balances	89,450	(175,700)	170,525	346,225
Fund balance at October 1, 2021	<u>13,326,704</u>	<u>13,326,704</u>	<u>13,326,704</u>	<u>-</u>
Fund balance at September 30, 2022	<u>\$ 13,416,154</u>	<u>\$ 13,151,004</u>	<u>\$ 13,497,229</u>	<u>\$ 346,225</u>

CITY OF PORT ARANSAS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
CONSTRUCTION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL**

For the year ended September 30, 2022

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	
Revenues:				
Grant proceeds	\$ 4,750,000	\$ 4,750,000	\$ 201,899	\$ (4,548,101)
Bond proceeds	-	-	10,056,397	10,056,397
Interest	-	-	13,490	13,490
Total revenues	<u>4,750,000</u>	<u>4,750,000</u>	<u>10,271,786</u>	<u>5,521,786</u>
Expenditures:				
Capital projects:				
Capital outlay and other	<u>5,763,300</u>	<u>5,763,300</u>	<u>1,126,180</u>	<u>4,637,120</u>
Total expenditures	<u>5,763,300</u>	<u>5,763,300</u>	<u>1,126,180</u>	<u>4,637,120</u>
Net change in fund balances	(1,013,300)	(1,013,300)	9,145,606	10,158,906
Fund balance at October 1, 2021	<u>1,603,669</u>	<u>1,603,669</u>	<u>1,603,669</u>	<u>-</u>
Fund balance at September 30, 2022	<u>\$ 590,369</u>	<u>\$ 590,369</u>	<u>\$ 10,749,275</u>	<u>\$ 10,158,906</u>

CITY OF PORT ARANSAS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS) RELATED RATIOS**

For the measurement year ended December 31,

	<u>Plan Year Ended December 31, 2021</u>	<u>Plan Year Ended December 31, 2020</u>
Total pension liability		
Service cost	\$ 969,700	\$ 956,505
Interest	1,283,703	1,196,253
Differences between expected and actual experience	16,241	(126,601)
Changes of assumptions	-	-
Benefit payments, including refunds of employee contributions	<u>(771,971)</u>	<u>(702,410)</u>
Net change in total pension liability	1,497,673	1,323,747
Total pension liability - beginning	<u>18,918,959</u>	<u>17,595,212</u>
Total pension liability - ending (a)	<u>20,416,632</u>	<u>18,918,959</u>
Plan fiduciary net position		
Contributions - employer	784,283	796,179
Contributions - employee	413,518	409,346
Net investment income	2,158,435	1,132,787
Benefit payments, including refunds of employee contributions	(771,971)	(702,410)
Administrative expense	(9,980)	(7,327)
Other	<u>69</u>	<u>(286)</u>
Net change in plan fiduciary net position	2,574,354	1,628,289
Plan fiduciary net position - beginning	<u>16,545,265</u>	<u>14,916,976</u>
Plan fiduciary net position - ending (b)*	<u>19,119,619</u>	<u>16,545,265</u>
City's net position liability - ending (a) - (b)	<u>\$ 1,297,013</u>	<u>\$ 2,373,694</u>
Plan fiduciary net position as a percentage of the total pension liability	93.65%	87.45%
Covered payroll	<u>\$ 6,891,970</u>	<u>\$ 6,822,433</u>
City's net pension liability as a percentage of covered payroll	18.82%	34.79%

*FNP may be off a dollar due to rounding

Note to schedule: N/A

(continued)

<u>Plan Year Ended December 31, 2019</u>	<u>Plan Year Ended December 31, 2018</u>	<u>Plan Year Ended December 31, 2017</u>	<u>Plan Year Ended December 31, 2016</u>	<u>Plan Year Ended December 31, 2015</u>	<u>Plan Year Ended December 31, 2014</u>
\$ 842,106	\$ 848,018	\$ 907,907	\$ 826,657	\$ 714,598	\$ 571,442
1,114,685	1,036,361	957,205	875,901	865,317	803,551
(214,179)	(20,913)	-	45,133	(565,781)	(11,868)
125,908	-	1,626	-	105,958	-
<u>(732,215)</u>	<u>(668,095)</u>	<u>(660,131)</u>	<u>(507,493)</u>	<u>(615,455)</u>	<u>(489,225)</u>
1,136,305	1,195,371	1,206,607	1,240,198	504,637	873,900
<u>16,458,907</u>	<u>15,263,536</u>	<u>14,056,929</u>	<u>12,816,731</u>	<u>12,312,094</u>	<u>11,438,194</u>
<u>17,595,212</u>	<u>16,458,907</u>	<u>15,263,536</u>	<u>14,056,929</u>	<u>12,816,731</u>	<u>12,312,094</u>
677,320	676,202	739,519	702,974	642,335	560,988
351,855	349,458	376,985	345,160	308,238	272,766
1,960,094	(380,621)	1,491,703	647,381	13,638	481,740
(732,215)	(668,095)	(660,131)	(507,493)	(615,455)	(489,225)
(11,069)	(7,354)	(7,730)	(7,313)	(8,306)	(5,029)
<u>(333)</u>	<u>(384)</u>	<u>(392)</u>	<u>(394)</u>	<u>(410)</u>	<u>(414)</u>
2,245,652	(30,794)	1,939,954	1,180,315	340,040	820,826
<u>12,671,324</u>	<u>12,702,118</u>	<u>10,762,164</u>	<u>9,581,849</u>	<u>9,241,809</u>	<u>8,420,983</u>
<u>14,916,976</u>	<u>12,671,324</u>	<u>12,702,118</u>	<u>10,762,164</u>	<u>9,581,849</u>	<u>9,241,809</u>
<u>\$ 2,678,236</u>	<u>\$ 3,787,583</u>	<u>\$ 2,561,418</u>	<u>\$ 3,294,765</u>	<u>\$ 3,234,882</u>	<u>\$ 3,070,285</u>
84.78%	76.99%	83.22%	76.56%	74.76%	75.06%
<u>\$ 5,864,246</u>	<u>\$ 5,824,298</u>	<u>\$ 6,283,090</u>	<u>\$ 5,752,659</u>	<u>\$ 5,137,298</u>	<u>\$ 4,546,100</u>
45.67%	65.03%	40.77%	57.27%	62.97%	67.54%

GASB 68 requires 10 fiscal years of data to be provided in this schedule. This is the eighth year of implementation of GASB 68. The City will develop the schedule prospectively.

CITY OF PORT ARANSAS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS AND NOTES TO
SCHEDULE OF CONTRIBUTIONS – NET PENSION LIABILITY**

For the year ended September 30,

	2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 799,303	\$ 689,194	\$ 687,841	\$ 677,320	\$ 676,202
Contributions in relation to the actuarially determined contribution	799,303	689,194	687,841	677,320	676,202
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 7,239,887	\$ 6,056,186	\$ 5,894,098	\$ 5,864,246	\$ 5,837,617
Contributions as a percentage of covered payroll	11.04%	11.38%	11.67%	11.55%	11.58%

Notes to schedule of contributions

Valuation date

Notes

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

Methods and assumptions used to

Determine contribution rates:

Actuarial cost method

Entry age normal

Amortization method

Level percentage of payroll, closed

Remaining amortization period

25 years

Asset valuation method

10 year smoothed market; 12.0% soft corridor

Actuarial assumption:

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 experience study of the period 2014-2018.

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.

Other information:

Notes

There were no benefit changes during the year.

(continued)

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 739,519	\$ 702,974	\$ 642,335
<u>739,519</u>	<u>702,974</u>	<u>642,335</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 5,824,298</u>	<u>\$ 5,752,659</u>	<u>\$ 5,137,298</u>
12.70%	12.22%	12.50%

GASB 68 requires 10 fiscal years of data to be provided in this schedule. This is the eighth year of implementation of GASB 68. The City will develop the schedule prospectively.

CITY OF PORT ARANSAS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE OPEB LIABILITY AND
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS) RELATED RATIOS - SDBF**

For the year ended September 30,

	<u>Plan Year Ended December 31, 2021</u>	<u>Plan Year Ended December 31, 2020</u>	<u>Plan Year Ended December 31, 2019</u>	<u>Plan Year Ended December 31, 2018</u>
Total OPEB liability				
Service cost	\$ 25,500	\$ 22,514	\$ 17,006	\$ 19,803
Interest	8,632	9,685	10,173	9,256
Differences between expected and actual experience	(22,894)	(4,264)	(5,568)	(12,937)
Changes of assumptions	12,916	55,127	55,864	(18,393)
Benefit payments *	<u>(7,580)</u>	<u>(2,729)</u>	<u>(1,759)</u>	<u>(1,747)</u>
Net change in total OPEB liability	16,574	80,333	75,716	(4,018)
Total OPEB liability - beginning	<u>422,631</u>	<u>342,298</u>	<u>266,582</u>	<u>270,600</u>
Total OPEB liability - ending	<u>\$ 439,205</u>	<u>\$ 422,631</u>	<u>\$ 342,298</u>	<u>\$ 266,582</u>
Covered payroll	<u>\$ 6,891,970</u>	<u>\$ 6,822,433</u>	<u>\$ 6,283,090</u>	<u>\$ 5,824,298</u>
City's OPEB liability as a percentage of covered payroll	6.37%	6.19%	5.45%	4.58%

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

Changes of assumptions reflect a change in the discount rate each period. The following are the discount used each period

2021 - 1.84%

2020 - 2.00%

2019 - 2.75%

2018 - 3.71%

2017 - 3.31%

GASB 75 requires 10 fiscal years of data to be provided in this schedule. This is the fourth year of implementation of GASB 75. The City will develop the schedule prospectively.

CITY OF PORT ARANSAS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE OPEB LIABILITY -
RETIREE HEALTH INSURANCE**

For the year ended September 30,

	September 30, 2022	September 30, 2021	September 30, 2020	September 30, 2019	September 30, 2018
Total OPEB liability					
Service cost	\$ 258,315	\$ 374,016	\$ 307,141	\$ 191,338	\$ 183,873
Interest	85,956	112,619	123,008	136,314	126,648
Differences between expected and actual experience	(1,774,021)	(1,429,860)	18,683	(4,841)	-
Changes of assumptions	866,362	(85,226)	(67,046)	907,144	-
Benefit payments	<u>(57,130)</u>	<u>(58,404)</u>	<u>(77,103)</u>	<u>(80,640)</u>	<u>(79,211)</u>
Net change in total OPEB liability	(620,518)	(1,086,855)	304,683	1,149,315	231,310
Total OPEB liability - beginning	<u>3,573,602</u>	<u>4,660,457</u>	<u>4,355,774</u>	<u>3,206,459</u>	<u>2,975,149</u>
Total OPEB liability - ending	<u>\$ 2,953,084</u>	<u>\$ 3,573,602</u>	<u>\$ 4,660,457</u>	<u>\$ 4,355,774</u>	<u>\$ 3,206,459</u>
 Covered-employee payroll	 <u>\$ 7,239,887</u>	 <u>\$ 6,056,186</u>	 <u>\$ 5,724,183</u>	 <u>\$ 4,462,083</u>	 <u>\$ 5,151,896</u>
 City's OPEB liability as a percentage of covered-employee payroll	 40.79%	 59.01%	 81.42%	 97.62%	 62.24%

FYE22 - The demographic assumptions were updated to reflect the 2019 TMRS Experience Study and the health care trend rates were updated to better reflect the plan's anticipated experience and the repeal of the excise tax on high-cost employer health plans.

FYE22 - The health care trend assumption was modified.

Changes of assumptions reflect the effects of changes in the discount rate of each period.
The following are the discount rates used in each period:

<u>FYE</u>	<u>Discount rate</u>
2022	4.77%
2021	2.00%
2020	2.00%
2019	2.75%
2018	3.31%

GASB 75 requires 10 fiscal years of data to be provided in this schedule. This is the fifth year of implementation of GASB 75. The City will develop the schedule prospectively.

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Financial Advisory Services
Provided By:

