

OFFICIAL STATEMENT

Dated: January 7, 2026

Ratings:

S&P: "AA" (AG Insured)

Moody's: "A1" (Underlying)

Fitch: "AA-" (Underlying)

(See "OTHER INFORMATION – Ratings";
"BOND INSURANCE" and "BOND
INSURANCE RISK FACTORS" herein)

NEW ISSUE - Book-Entry-Only

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

\$97,925,000
CITY OF GARLAND, TEXAS
(Dallas, Collin and Rockwall Counties)
ELECTRIC UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2026

Dated Date: January 1, 2026

Due: March 1, as shown on page 2

Interest to accrue from the date of initial delivery

PAYMENT TERMS . . . Interest on the \$97,925,000 City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, Series 2026 (the "Bonds") will accrue from the date of initial delivery to the underwriters thereof (collectively, the "Underwriters"), will be payable September 1, 2026, and each September 1 and March 1 thereafter until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a stated maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are authorized and issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207 of the Texas Government Code, as amended, Chapter 1371 of the Texas Government Code, as amended, and an ordinance (the "Bond Ordinance") adopted by the City Council of the City of Garland, Texas (the "City") on December 2, 2025, in which the City Council delegated to certain officers of the City the authority to complete the sale of the Bonds through the execution of a "Pricing Certificate." The Pricing Certificate, which contained the final terms of sale of the Bonds, was executed on behalf of the City on January 7, 2026 (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance"). The Bonds are special obligations of the City, payable, both as to principal and interest, together with the Bonds Similarly Secured and any Additional Bonds (each as defined in the Ordinance), solely from and secured by a first lien on and pledge of the Net Revenues of the City's Electric Utility System (the "System" or "Electric System"). The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see "THE BONDS - Authority for Issuance" and "THE BONDS – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's outstanding Electric System revenue bonds (the "Refunded Bonds") for debt service savings and a portion of the City's outstanding Electric System revenue commercial paper notes (the "Refunded Notes") described in Schedule I (collectively, the "Refunded Obligations") and (ii) pay the costs of issuance associated with the sale of the Bonds (see "PLAN OF FINANCING," "SCHEDULE I – Schedule of Refunded Obligations" and "DEBT INFORMATION – Variable Rate Programs").

CUSIP PREFIX: 366133

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page 2

INSURANCE . . . The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY INC.** (see "BOND INSURANCE", "BOND INSURANCE RISK FACTORS" and "APPENDIX E – SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY").



LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix D, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Bracewell LLP, Dallas, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Bonds will be available for delivery through the facilities of DTC on January 29, 2026.

MATURITY SCHEDULE

CUSIP Prefix: 366133⁽¹⁾

	Par Amount	Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$	2,660,000	3/1/2027	5.000%	2.500%	UJ3
	2,800,000	3/1/2028	5.000%	2.490%	UK0
	2,945,000	3/1/2029	5.000%	2.460%	UL8
	3,090,000	3/1/2030	5.000%	2.510%	UM6
	3,255,000	3/1/2031	5.000%	2.550%	UN4
	3,425,000	3/1/2032	5.000%	2.630%	UP9
	3,590,000	3/1/2033	5.000%	2.760%	UQ7
	3,780,000	3/1/2034	5.000%	2.800%	UR5
	3,970,000	3/1/2035	5.000%	2.900%	US3
	4,175,000	3/1/2036	5.000%	3.020%	UT1
	4,390,000	3/1/2037	5.000%	3.110%	⁽²⁾ UU8
	1,935,000	3/1/2038	5.000%	3.270%	⁽²⁾ UV6
	2,035,000	3/1/2039	5.000%	3.370%	⁽²⁾ UW4
	2,140,000	3/1/2040	5.000%	3.500%	⁽²⁾ UX2
	2,250,000	3/1/2041	5.000%	3.650%	⁽²⁾ UY0
	2,365,000	3/1/2042	5.000%	3.780%	⁽²⁾ UZ7
	2,485,000	3/1/2043	5.000%	3.910%	⁽²⁾ VA1
	2,610,000	3/1/2044	5.000%	4.050%	⁽²⁾ VB9
	2,745,000	3/1/2045	5.000%	4.190%	⁽²⁾ VC7
	2,885,000	3/1/2046	5.000%	4.300%	⁽²⁾ VD5
	3,035,000	3/1/2047	5.000%	4.370%	⁽²⁾ VE3

\$13,775,000 5.000% Term Bonds due March 1, 2051 at a Price of 103.686 to Yield 4.540% ⁽²⁾ CUSIP Suffix ⁽¹⁾ VF0
\$21,585,000 5.000% Term Bonds due March 1, 2056 at a Price of 103.114 to Yield 4.610% ⁽²⁾ CUSIP Suffix ⁽¹⁾ VG8

(Interest to accrue from the Delivery Date)

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- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. CUSIP data is not intended to create a database and does not serve in any way as a substitute for the CGS database. None of the City, the Underwriters or their agents or counsel assume responsibility for the selection or accuracy of the CUSIP numbers set forth herein.
- (2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on March 1, 2036, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2037, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

MANDATORY SINKING FUND REDEMPTION. . . The Bonds maturing on March 1 in the years 2051 and 2056 are subject to mandatory sinking fund redemption in part prior to maturity at a price of par plus accrued interest to the redemption dates as described under "THE BONDS – Mandatory Sinking Fund Redemption".

No dealer, broker, salesperson or other person has been authorized by the City to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

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

This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

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

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

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

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

ASSURED GUARANTY INC. ("AG") MAKES NO REPRESENTATION REGARDING THE BONDS OR THE ADVISABILITY OF INVESTING IN THE BONDS. IN ADDITION, AG HAS NOT INDEPENDENTLY VERIFIED, MAKES NO REPRESENTATION REGARDING, AND DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT OR ANY INFORMATION OR DISCLOSURE CONTAINED HEREIN, OR OMITTED HEREFROM, OTHER THAN WITH RESPECT TO THE ACCURACY OF THE INFORMATION REGARDING AG SUPPLIED BY AG AND PRESENTED UNDER THE HEADING "BOND INSURANCE" AND "APPENDIX E - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

NONE OF THE CITY, THE UNDERWRITERS OR THE MUNICIPAL ADVISOR, MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM OR AG OR ITS MUNICIPAL BOND INSURANCE POLICY, AS SUCH INFORMATION HAS BEEN FURNISHED BY DTC AND AG, RESPECTIVELY.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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SCHEDULE

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The cover page hereof, this page, the schedule and appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

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

THE CITY..... The City of Garland (the “City”) is a political subdivision and home rule municipal corporation of the State of Texas (the “State”), located in Dallas, Collin and Rockwall Counties, Texas. The City covers approximately 57 square miles (see “INTRODUCTION”).

THE BONDS..... The \$97,925,000 City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, Series 2026 (the “Bonds”) are being issued as serial bonds maturing on March 1 in each of the years 2027 through 2047, inclusive, and as term bonds maturing on March 1 in the years 2051 and 2056 (see “THE BONDS - Description of the Bonds” and “THE BONDS – Mandatory Sinking Fund Redemption”).

PAYMENT OF INTEREST Interest on the Bonds accrues from the date of initial delivery to the Underwriters and is payable September 1, 2026 and each September 1 and March 1 thereafter until maturity or prior redemption (see “THE BONDS - Description of the Bonds” and “THE BONDS – Optional Redemption”).

AUTHORITY FOR ISSUANCE The Bonds are authorized and issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Chapter 1207 of the Texas Government Code, as amended, Chapter 1371 of the Texas Government Code, as amended, and an ordinance (the “Bond Ordinance”) adopted by the City Council of the City (the “City Council”) on December 2, 2025 in which the City Council delegated to certain officers of the City the authority to complete the sale of both the Bonds through the execution of a “Pricing Certificate.” The Pricing Certificate, which contained the final terms of sale of the Bonds, was executed on behalf of the City on January 7, 2026 (the Bond Ordinance and the Pricing Certificate are jointly referred to as the “Ordinance”) (see “THE BONDS - Authority for Issuance”).

SECURITY AND SOURCE OF

PAYMENT FOR THE BONDS..... The Bonds are special obligations of the City, payable, both as to principal and interest, together with the Bonds Similarly Secured and any Additional Bonds (each as defined in the Ordinance), solely from and secured by a first lien on and pledge of the Net Revenues of the City’s Electric Utility System (the “System” or “Electric System”). The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see “THE BONDS – Security and Source of Payment”).

OPTIONAL REDEMPTION The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2037, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”).

MANDATORY SINKING

FUND REDEMPTION In addition to the optional redemption provisions described above, the Bonds maturing on March 1 in the years 2051 and 2056 are subject to mandatory sinking fund redemption in part prior to maturity at a price of par plus accrued interest to the redemption dates as described under “THE BONDS – Mandatory Sinking Fund Redemption”.

TAX EXEMPTION..... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions on the date thereof, subject to the matters described under the caption “TAX MATTERS” herein, including the alternative minimum tax on certain corporations.

USE OF

PROCEEDS..... Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City’s outstanding Electric System revenue bonds (the “Refunded Bonds”) for debt service savings and a portion of the City’s outstanding Electric System revenue commercial paper notes (the “Refunded Notes”) described in Schedule I (collectively, the “Refunded Obligations”) and (ii) pay the costs of issuance associated with the sale of the Bonds (see “PLAN OF FINANCING,” “SCHEDULE I – Schedule of Refunded Obligations” and “DEBT INFORMATION – Variable Rate Programs”).

RATINGS..... The Bonds are rated "AA" (stable outlook) by S&P Global Ratings, a division of S&P Global Inc. ("S&P") by virtue of a municipal bond insurance policy to be issued by ASSURED GUARANTY INC. upon delivery of the Bonds to the Underwriters. The Bonds are rated "A1" (stable outlook) by Moody’s Investors Service ("Moody’s") and "AA-" (stable outlook) by Fitch

Ratings ("Fitch") without regard to credit enhancement (see "OTHER INFORMATION – Ratings", "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein).

BOOK-ENTRY-ONLY

SYSTEM..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

PAYMENT RECORD The City has never defaulted in the payment of its System revenue bonds.

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SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 30-Sep	Estimated City Population	Gross Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Net Available For Debt Service	Annual Debt Service Requirements ⁽³⁾	Coverage of Debt	Number of Meters
2020	242,914	\$ 302,113,164	\$ 187,399,678	\$ 114,713,486	\$ 33,891,711	3.38	72,295
2021	246,173	365,131,380	269,803,134	95,328,246	44,802,495	2.13	73,607
2022	247,590	390,668,371	276,158,778	114,509,593	54,334,144	2.11	74,180
2023	248,822	399,530,617	295,998,692	103,531,925	55,517,342	1.86	74,889
2024	250,099	406,283,137	254,436,794	151,846,343	58,955,643	2.58	76,337

(1) Includes Non-Operating Revenues as provided for in Table 6 herein; excludes transfers from Rate Mitigation Fund.

(2) Excludes Depreciation, Amortization of Other Assets and actuarial determined pension expense as Operating Expenses.

(3) Includes the debt service requirements of the Previously Issued Bonds.

For additional information regarding the City, please contact:

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Dylan Hendrick Mayor	6 Years ⁽¹⁾	May, 2027	Engineer
Jeff Bass District 1	5 Years	May, 2026	Business Owner
Kris Beard District 2	1 Year	May, 2026	Retired
Ed Moore Mayor Pro-Tem District 3	4 Years	May, 2027	Insurance
B. J. Williams District 4	5 Years	May, 2026	Retired
Margaret A. Lucht Deputy Mayor Pro-Tem District 5	3 Years	May, 2026	Human Resources Administrator
Carissa Dutton District 6	2 Years	May, 2027	Caretaker / Volunteering
Joe Thomas District 7	Newly Elected	May, 2027	Software Engineer
Chris Ott District 8	2 Years	May, 2027	Business Owner

(1) Includes prior services as a City Councilmember.

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>
Mike Betz	Interim City Manager	20 Years
Matt Watson	Assistant City Manager	18 Years
Andy Hesser	Assistant City Manager	6 Years
Crystal Owens	Assistant City Manager	3 Years
Phillip Urrutia	Assistant City Manager	2 Years
Allyson Bell Steadman	Chief Financial Officer / Finance Director	9 Years
Jennifer Stubbs	City Secretary	2 Years
Darrell Cline	General Manager and CEO - Garland Power & Light	14 Years

CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

Independent Auditors	Weaver & Tidwell Dallas, Texas
Bond Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Municipal Advisor.....	Hilltop Securities Inc. Dallas, Texas

OFFICIAL STATEMENT
RELATING TO
\$97,925,000
CITY OF GARLAND, TEXAS
ELECTRIC UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2026

INTRODUCTION

This Official Statement, including the Schedule and Appendices hereto, provides certain information regarding the issuance of \$97,925,000 City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, Series 2026 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (as defined below), except as otherwise indicated herein (see “APPENDIX C - SELECTED PROVISIONS OF THE ORDINANCE”).

The City of Garland, Texas (“City”) is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City was incorporated in 1891, and first adopted its Home Rule Charter in 1951. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and eight Councilmembers. The term of office is two years with the term of office of the Mayor and four of the Councilmembers expiring in odd-numbered years and the term of the other four Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water and sanitary sewer utilities, sanitation collection services, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 226,876, while the 2020 Census population was 246,018. The City’s estimated population for 2025 is 251,101. The City covers approximately 57 square miles.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s Municipal Advisor, Hilltop Securities Inc. (“HilltopSecurities”), Dallas, Texas.

PLAN OF FINANCING

PURPOSE OF THE BONDS. . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City’s outstanding Electric System revenue bonds (the “Refunded Bonds”) for debt service savings and a portion of the City’s outstanding Electric System revenue commercial paper notes (the “Refunded Notes”) described in Schedule I (collectively, the “Refunded Obligations”), and (ii) pay the costs of issuance associated with the sale of the Bonds. (See “SCHEDULE I – Schedule of Refunded Obligations” herein.)

REFUNDED NOTES. . . The Refunded Notes will mature and be paid on the date of issuance of the Bonds (the “Delivery Date”). The City’s Municipal Advisor or the Refunded Notes Paying Agent will execute a certificate verifying that the funds deposited with the Refunded Notes Paying Agent will be sufficient to pay, when due, the amount necessary to accomplish the discharge and final payment of the Refunded Notes on the Delivery Date. (See “DEBT INFORMATION – Variable Rate Programs”).

REFUNDED BONDS. . . The Refunded Bonds are being redeemed on the redemption date set forth in Schedule I hereto (the “Redemption Date”). The principal and interest due on the Refunded Bonds are to be paid on the Redemption Date from funds to be deposited pursuant to a certain escrow agreement (the “Escrow Agreement”) with Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas (the “Escrow Agent”). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters and other available funds of the City, if any, the City will deposit with the Escrow Agent the amount that will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on the Redemption Date. Prior to the Redemption Date, such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) and such funds may be either (i) held uninvested in the Escrow Fund, or (ii) used to purchase direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. Public Finance Partners LLC, will verify at the Delivery Date of the Bonds that the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the debt service on the Bonds (see “OTHER INFORMATION – Verification of Arithmetical and Mathematical Computations”).

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Bonds in accordance with the law. As a result of such defeasance the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from the Net Revenues of the System.

USE OF BOND PROCEEDS. . . Proceeds from the sale of the Bonds are expected to be expended as follows:

Sources of Funds	
Par Amount of the Bonds	\$ 97,925,000.00
Net Premium	8,205,093.45
Deposit from Prior Debt Service Fund	2,186,000.00
Total Sources of Funds	<u>\$ 108,316,093.45</u>
Uses of Funds	
Refunding Escrow Deposit for Refunded Bonds	\$ 26,813,418.42
Deposit with Refunded Notes Paying Agent	80,297,570.36
Underwriters' Discount	482,831.93
Costs of Issuance ⁽¹⁾	722,272.74
Total Uses of Funds	<u>\$ 108,316,093.45</u>

(1) Includes the Municipal Bond Insurance Policy Premium.

THE BONDS

DESCRIPTION OF THE BONDS. . . The Bonds are dated January 1, 2026, and will mature on March 1 in each of the years and in the amounts shown on page 2 hereof. Interest on the unpaid principal amounts will accrue from the date of initial delivery to the Underwriters and will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on March 1 and September 1 of each year until maturity or prior redemption, commencing September 1, 2026. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System” herein).

AUTHORITY FOR ISSUANCE. . . The Bonds are authorized and issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Chapter 1207 of the Texas Government Code, as amended, Chapter 1371 of the Texas Government Code, as amended, and an ordinance (the “Bond Ordinance”) adopted by the City Council of the City of Garland, Texas (the “City”) on December 2, 2025, in which the City Council delegated to certain officers of the City the authority to complete the sale of the Bonds through the execution of a “Pricing Certificate.” The Pricing Certificate, which contained the final terms of sale of the Bonds, was executed on behalf of the City on January 7, 2026 (the Bond Ordinance and the Pricing Certificate are jointly referred to as the “Ordinance”) (see “THE BONDS – Authority for Issuance”).

SECURITY AND SOURCE OF PAYMENT. . . The Bonds are special obligations of the City, payable, both as to principal and interest, together with the Bonds Similarly Secured and any Additional Bonds (each as defined in the Ordinance), solely from and secured by a first lien on and pledge of the Net Revenues of the City’s Electric Utility System (the “System” or “Electric System”) after payment of maintenance and operating expenses. Maintenance and operating expenses include contractual payments which under State law and their provisions are established as operating expenses. The City has reserved the right to issue additional obligations (the “Additional Bonds”) payable on a parity with the Bonds Similarly Secured from a first lien on and pledge of the Net Revenues (see “THE BONDS – Additional Bonds”). The Previously Issued Bonds (as defined in the Ordinance), the Bonds and the Additional Bonds are collectively referred to as the “Bonds Similarly Secured”. The City has covenanted in the Ordinance that it will not issue any additional obligations or evidences of indebtedness for any purpose possessing a lien on the Net Revenues of the System superior to that to be possessed by the Bonds Similarly Secured. The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see “THE BONDS – Security and Source of Payment”).

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After the issuance of the Bonds, the City will have the following Bonds Similarly Secured outstanding:

Dated Date	Amount Outstanding ⁽¹⁾	
	12/15/2025	Issue Description
November 15, 2016	\$1,615,000	Electric Utility System Revenue Refunding Bonds, New Series 2016A
May 15, 2018	\$25,555,000	Electric Utility System Revenue Refunding Bonds, New Series 2018
February 15, 2019	\$130,445,000	Electric Utility System Revenue Refunding Bonds, New Series 2019
December 1, 2019	\$88,675,000	Electric Utility System Revenue Refunding Bonds, New Series 2019A
June 1, 2020	\$31,370,000	Electric Utility System Revenue Refunding Bonds, New Series 2020
January 15, 2021	\$47,180,000	Electric Utility System Revenue Refunding Bonds, New Series 2021
August 1, 2021	\$50,300,000	Electric Utility System Revenue Refunding Bonds, Tax-Exempt New Series 2021A
August 1, 2021	\$147,330,000	Electric Utility System Revenue Refunding Bonds, Taxable New Series 2021B
August 1, 2023	\$71,445,000	Electric Utility System Revenue Refunding Bonds, New Series 2023
November 15, 2024	\$111,160,000	Electric Utility System Revenue Refunding Bonds, New Series 2024
January 1, 2026	\$97,925,000	Electric Utility System Revenue Refunding Bonds, Series 2026
	\$803,000,000	

(1) Excludes the Refunded Bonds.

The Bonds are not a charge upon any other income or revenues of the City and **shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City.** The Ordinance does not create a lien or mortgage on the System, except the Net Revenues, and any judgment against the City may not be enforced by levy and execution against any property owned by the City.

RESERVE FUND. . . As additional security for the Bonds and any other Bonds Similarly Secured and under certain conditions, a Reserve Fund for the Bonds Similarly Secured may be required to be maintained in an amount calculated pursuant to a formula set forth in the Ordinance. Any amounts required to be accumulated in the Reserve Fund will be provided in accordance with the provisions of the Ordinance. At the time of the issuance of the Bonds, the Reserve Fund is not required to be and will not be funded with proceeds from the Bonds or from any other revenues of the City (see “APPENDIX – C - SELECTED PROVISIONS OF THE ORDINANCE – Reserve Fund”).

PLEGGED REVENUES. . . The Net Revenues of the System with the exception of those in excess of the amounts required to establish and maintain the Reserve Fund and Bond Fund are irrevocably pledged for the payment of the Bonds Similarly Secured and interest thereon. The Bonds, together with the Bonds Similarly Secured and any Additional Bonds, if issued, are equally and ratably secured by a first lien on and pledge of the Net Revenues of the System (see “APPENDIX – C - SELECTED PROVISIONS OF THE ORDINANCE”).

RATES. . . . The City has covenanted in the Ordinance that it will at all times charge and collect rates for services rendered by the System sufficient to pay all operating, maintenance, depreciation, replacement and improvement expenses, any other charges of the System to maintain the Bond Fund, to maintain the Reserve Fund at the Required Reserve Amount and to pay all other outstanding indebtedness against the System as and when the same becomes due (see “APPENDIX – C - SELECTED PROVISIONS OF THE ORDINANCE” and “THE SYSTEM” – Rate Mitigation Fund”).

OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2037, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while they are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

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MANDATORY SINKING FUND REDEMPTION. . .The Bonds maturing on March 1 in the years 2051 and 2056 (the “Term Bonds”) are subject to mandatory sinking fund redemption on the dates and in the principal amounts shown below at the price of par plus accrued interest to the date of redemption:

<u>Term Bonds Due March 1, 2051</u>		<u>Term Bonds Due March 1, 2056</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2048	\$3,190,000	March 1, 2052	\$3,895,000
March 1, 2049	\$3,355,000	March 1, 2053	\$4,095,000
March 1, 2050	\$3,525,000	March 1, 2054	\$4,305,000
March 1, 2051 (maturity)	\$3,705,000	March 1, 2055	\$4,530,000
		March 1, 2056 (maturity)	\$4,760,000

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lots the numbers of the Term Bonds within the applicable stated maturity to be redeemed on the next following March 1 from moneys set aside for that purpose in the Bond Fund (as defined in the Ordinance). Any Term Bonds not selected for prior redemption shall be paid on the date of its stated maturity.

The principal amount of the Term Bonds required to be redeemed on any mandatory redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Bonds which, at 45 days prior to mandatory redemption date (1) shall have been purchased by the City and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION. . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar on the 45th day prior to such redemption date. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Bonds, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal plus interest to the due date thereof is provided by irrevocably depositing with the Paying Agent/Registrar or authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Government Obligations to mature as to principal and interest in such amounts and at such times to insure the availability of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Government Obligations. The Ordinance provides that "Government Obligations" means any securities and obligations now or hereafter authorized by State law that are eligible to defease or otherwise discharge obligations such as the Bonds. 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 of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. Upon such deposit as described above, such Bonds shall no longer be regarded to be Outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call

the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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 Bonds. 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 as Government Obligations or those for any other Government Obligation will be maintained at any particular rating category.

AMENDMENTS... The City, may, without the consent of or notice to any Holders of Bonds, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the Holders of any Bond, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the City may, with the written consent of the Holders of Bonds owning a majority in aggregate principal amount of the Bonds then Outstanding, amend, add to or rescind any of the provisions of the Ordinance; provided that, without the consent of all Holders of Outstanding Bonds affected thereby, no such amendment, addition or rescission shall (a) extend the time or times of payment of the principal of, premium, if any, and interest on such Bonds, reduce the principal amount thereof, the redemption price therefor or the rate of interest thereon or in any other way modify the terms of payment of the principal of, premium, if any, or interest on such Bonds, (b) give any preference to any Bond over any other Bond or (c) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition or rescission.

ADDITIONAL BONDS . . . The City may issue Additional Bonds payable from and secured by a first lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Outstanding Bonds Similarly Secured, subject, however, to complying with certain conditions in the Ordinance. See “APPENDIX – C - SELECTED PROVISIONS OF THE ORDINANCE” for terms and conditions to be satisfied for the issuance of Additional Bonds.

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

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

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

DTC, the world’s largest 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents.

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

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered (see "THE BONDS – Transfer, Exchange and Registration").

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

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

Effect of Termination of Book-Entry-Only System In the event that the Book-Entry-Only System is discontinued, printed Bonds will be issued to Participants or to the Beneficial Owners, as the case may be, and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR. . . The initial Paying Agent/Registrar for the Bonds is Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a commercial bank, trust company, financial institution or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or upon earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "THE BONDS - Book-Entry-Only System" herein. If the date for any payment on the Bonds shall be a Saturday, a Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of 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.

TRANSFER, EXCHANGE AND REGISTRATION. . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to the beneficial owners thereof and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar, and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, 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 Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 30 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT. . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the fifteenth day of the preceding month.

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

REGISTERED OWNERS' REMEDIES. . . The Ordinance provides that in the event the City (a) defaults in payments to be made to the Bond Fund and Reserve Fund as required by the Ordinance or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the Holder or Holders of any Bond shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition or obligation prescribed in the Ordinance. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. The enforcement of such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. There is no acceleration of maturity of the Bonds 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 interests 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 financed by, the registered owners. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) ("Wasson") that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. The Texas Supreme 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 the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims) it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. If sovereign immunity is determined by a court to exist, then, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by certain issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds,

the City has not waived sovereign immunity in the manner provided by Chapter 1371. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the pledged Net Revenues, such provision is subject to judicial construction. 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 holders of the Bonds 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 creditors' rights 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 opinions of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity. Bond Counsel has not been requested to, and has not, rendered any opinion as to the priority status of the pledge of the Net Revenues.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Inc. ("AG") will issue its Municipal Bond Insurance Policy (the "Policy") for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, Maryland, California, Connecticut or Florida insurance law.

Assured Guaranty Inc.

AG is a Maryland domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL") and together with its subsidiaries, "Assured Guaranty"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through ownership interests in Sound Point Capital Management, LP and certain of its investment management affiliates. Only AG is obligated to pay claims under the insurance policies AG has issued, and not AGL or any of its shareholders or other affiliates.

AG's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A1" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AG should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AG in its sole discretion. In addition, the rating agencies may at any time change AG's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AG. AG only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AG on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc.

On August 1, 2024, Assured Guaranty Municipal Corp., a New York domiciled financial guaranty insurance company and an affiliate of AG ("AGM"), merged with and into AG, with AG as the surviving company (such transaction, the "Merger"). Upon the Merger, all liabilities of AGM, including insurance policies issued or assumed by AGM, became obligations of AG.

Current Financial Strength Ratings

On August 4, 2025, KBRA announced that it had affirmed AG's insurance financial strength rating of "AA+" (stable outlook).

On June 30, 2025, S&P announced that it had affirmed AG's financial strength rating of "AA" (stable outlook).

On July 10, 2024, Moody's, following Assured Guaranty's announcement of the Merger, announced that it had affirmed AG's insurance financial strength rating of "A1" (stable outlook).

AG can give no assurance as to any further ratings action that S&P, Moody's and/or KBRA may take. For more information regarding AG's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2024.

Capitalization of AG

At September 30, 2025:

- The policyholders' surplus of AG was approximately \$3,268 million.
- The contingency reserve of AG was approximately \$1,481 million.
- The net unearned premium reserves and net deferred ceding commission income of AG and its subsidiaries (as described below) were approximately \$2,431 million. Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AG and (ii) the net unearned premium reserves and net deferred ceding commissions of AG's wholly owned subsidiary Assured Guaranty UK Limited ("AGUK"), and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus, contingency reserve, and net unearned premium reserves and net deferred ceding commission income of AG were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AG are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2024 (filed by AGL with the SEC on February 28, 2025);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2025 (filed by AGL with the SEC on May 9, 2025);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2025 (filed by AGL with the SEC on August 8, 2025); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2025 (filed by AGL with the SEC on November 7, 2025).

All information relating to AG included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Inc.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AG included herein under the caption "BOND INSURANCE – Assured Guaranty Inc." or included in a document incorporated by reference herein (collectively, the "AG Information") shall be modified or superseded to the extent that any subsequently included AG Information (either directly or through incorporation by reference) modifies or supersedes such previously included AG Information. Any AG Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AG makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading "BOND INSURANCE".

BOND INSURANCE RISK FACTORS

In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the City which is recovered by the City from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by AG at such time and in such amounts as would have been due absent such prepayment by the City (unless AG chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Bonds will not be subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE BONDS – Registered Owners' Remedies"). AG has reserved the right to direct the pursuit of available remedies, and, in addition, has reserved the right to consent to any remedies available to and requested by the Bondholders.

In the event AG is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds will be payable from the Net Revenues of the System, as described in "THE BONDS – Security and Source of Payment of the Bonds". In the event AG becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

The long-term ratings on the Bonds will be dependent in part on the financial strength of AG and its claims-paying ability. AG's financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of AG and of the ratings on the Bonds, whether or not subject to the Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) of the Bonds (see "OTHER INFORMATION – Rating").

The obligations of AG under the Policy are general obligations of AG and in an event of default by AG, the remedies available may be limited by applicable bankruptcy law. None of the City, the City's Municipal Advisor or the Underwriters have made independent investigation into the claims-paying ability of AG and no assurance or representation regarding the financial strength or projected financial strength of AG is given.

Moody's Investor Services, Inc., S&P and Fitch Ratings (collectively, the "Rating Agencies") have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Bonds and the claims-paying ability of AG, particularly over the life of the Bonds.

THE SYSTEM

THE ELECTRIC SYSTEM. . . The System was started in 1923. The System currently serves 76,337 meters (approximately 80% of the electric customers within the City; the remaining 20% are served by other retail providers). The System does not serve any retail customers outside of the City limits, but it does provide wholesale power to other cities and electric cooperatives (see "Wholesale Energy Customers"). The City is a member of the Electric Reliability Council of Texas ("ERCOT"), the regional reliability coordinating organization for electric power systems in Texas.

The City owns and operates electric generating stations designated as the Ray Olinger Power Plant (ERCOT capacity of 406MW) located at Lavon Lake, Spencer Power Plant (ERCOT capacity of 118MW) located in Denton, Texas, and the Lewisville Hydro Facility (ERCOT capacity of 1.8MW) located in Lewisville, Texas. All of the City owned and operated generating facilities use natural gas as the primary boiler fuel with the exception of the Lewisville Hydro Facility. See "THE SYSTEM – City Owned and Operated Generating Units".

In 1975, the City, together with the cities of Bryan, Denton and Greenville (together with the City, the "Member Cities") created the Texas Municipal Power Agency ("TMPA"). TMPA is a joint power agency without taxing power, and a separate municipal corporation and political subdivision of the State that operates in accordance with Chapter 163, Subchapter C-1, Texas Utilities Code, as amended. TMPA's power generation formerly consisted of the Gibbons Creek Steam Electric Station ("Gibbons Creek") that was located in Grimes County, Texas, which included a single net 470 megawatt ("MW") Wyoming Powder River Basin ("PRB") coal fueled steam electric plant. Effective October 1, 2018, none of the Member Cities, including the City, elected to extend their Power Sales Contract with TMPA, and therefore the Power Sales Contract was terminated. On June 6, 2019, the TMPA Board approved the cessation of production of power from Gibbons Creek. ERCOT was notified by TMPA that the generating facility would be formally retired from operation effective October 23, 2019. On February 10, 2021, the Gibbons Creek plant site was sold by TMPA and the Member Cities to the Gibbons Creek Environmental Redevelopment Group, LLC ("GCERG"). On December 22, 2022, TMPA sold its mining land. TMPA has retained ownership of its transmission system. See "THE SYSTEM – Texas Municipal Power Agency" and "THE SYSTEM – Joint Operations Agreement and TMPA Sale of Certain Facilities."

The City's Electric Transmission and Distribution Divisions are responsible for the construction, operation, maintenance, and repair of the transmission and distribution facilities of the System. Included are 34 substations, 311 linear miles of transmission line, 387 linear miles of overhead distribution lines and 632 linear miles of underground distribution lines.

POWER PURCHASE AGREEMENTS. . . The City has entered into several renewable resource power purchase agreements. As renewable energy prices have fallen, the City has periodically taken advantage of the price competitiveness of these products as well as enhanced the diversity of its energy portfolio. In addition, the City is selling a portion of the output of its renewable resources through power purchase agreements to other ERCOT municipal and electric cooperative utilities.

The City entered into a twenty (20) year fixed-price, energy power purchase agreement for Panhandle Wind with Spinning Spur Wind III, LLC. The facilities commenced operations on September 28, 2015. The City is purchasing 26% of the output from the 194MW facility for its retail use.

The City entered into a twenty-five (25) year fixed-price, energy power purchase agreement for Coastal Wind with Los Vientos Windpower V, LLC. The facilities commenced operations on December 23, 2015. The City is purchasing 45.46% of the output from the 110MW facility for its retail use.

The City entered into a twenty (20) year fixed-price, energy power purchase agreement for Coastal Wind with Albercas Wind Energy II, LLC. The facilities commenced operations on November 13, 2016. The City is purchasing 26.04% of the output from the 96MW facility for its retail use; the remaining percentage is sold by the City under separate energy power purchase agreements to: the city of Boerne; the city of Farmersville; Fayette Electric Cooperative; Kerrville Public Utility Board; South Texas Electric Cooperative; and the city of Seguin.

The City entered into a fourteen (14) year fixed-price, energy power purchase agreement for Panhandle Wind with Salt Fork Wind, LLC. The facilities commenced operations on December 1, 2016. The City is purchasing 23.33% of the output from the 150MW facility for its retail use; the remaining percentage is sold by the City under separate energy power purchase agreements to: Central Texas Electric Cooperative; Fayette Electric Cooperative; Kerrville Public Utility Board; South Texas Electric Cooperative; and the city of Weatherford.

The City entered into a fifteen (15) year fixed-price, energy power purchase agreement for West Texas Solar with BNB Lamesa Solar, LLC. The facilities commenced operations on April 27, 2017. The City is purchasing 50.98% of the output from the 102MW facility for its retail use; the remaining percentage is sold by the City under separate energy power purchase agreements to: the city of Boerne; the city of Farmersville; Fayette Electric Cooperative; Greenville Electric Utility System; South Texas Electric Cooperative; the city of Seguin; and the city of Weatherford.

In 2018, the City entered into an 8-year firm bilateral, fixed-price, energy power purchase agreement which commenced in January 2019 and ends in December 2026 for the City's retail load. The transaction consisted of 75 MW for weekday on-peak (5 x 16) and 50 MW for weekend and off-peak (2 x 16 and 7 x 8) through December 2020. After December 2020, the weekend volume (2 x 16) reduced to 25 MW.

The City entered into a fifteen (15) year fixed-price, energy power purchase agreement for West Texas Solar with Engie Long Draw, LLC. The facilities commenced commercial operations on December 11, 2020. The City is purchasing 11.11% of the output from the 225MW facility for its retail use.

The City entered into a fifteen (15) year fixed-price, energy power purchase agreement for West Texas Solar with Concho Bluff, LLC. The facilities commenced commercial operations on February 15, 2021. The City is purchasing 33.33% of the output from the 150MW facility for its retail use.

In March 2020, the City entered into a 6-year firm bilateral, fixed-price, energy power purchase agreement commencing in January 2027 and ending December 2032 for the City's retail load. The transaction consists of 75MW for weekday on-peak (5x16), 50MW for off-peak (7x8), and 25MW for weekend (2x16).

CITY OWNED AND OPERATED GENERATING UNITS. . . Shown below is certain information on the City owned and operated generating units:

<u>Station</u>	<u>Type</u>	<u>Unit Number</u>	<u>ERCOT Capacity (MW)</u>	<u>Year Placed In Service</u>
Ray Olinger ⁽¹⁾	Steam Turbine	1	78.0	1967
Ray Olinger	Steam Turbine	2	107.0	1971
Ray Olinger	Steam Turbine	3	146.0	1975
Ray Olinger	Combustion Turbine	4	75.0	2001
Spencer	Steam Turbine	4	57.0	1966
Spencer	Steam Turbine	5	61.0	1973
Lewisville	Hydro	1	<u>1.8</u>	1991
			525.8	

(1) Currently in mothball status as of April 2022.

The City’s current power supply additionally consists of a diverse mix of wind, solar, and bilateral agreements (See “THE SYSTEM – Purchase Power Agreements”). These agreements, coupled with the City’s owned-generation resources, provides the City with the flexibility to achieve lower-cost market purchases while mitigating its exposure to market price increases.

POWER INTERCHANGE. . . As a member of ERCOT, the City has access to the intrastate network of transmission. Costs of access to the transmission system are allocated to load serving entities based upon their load ratio share of statewide transmission costs of service. Revenues for operation of the transmission portion of the System within the statewide system are based upon transmission costs of service (“TCOS”) as filed with the Public Utility Commission of Texas (“PUC”).

TABLE 1 - ELECTRIC RATE SCHEDULES OF THE CITY (EXCLUDES RECOVERY ADJUSTMENT FACTOR) ⁽¹⁾

Residential Service Rate					
Customer Charge	\$	5.34		Per Month	
November/May		0.0528		Per kWh 0-600 kWh, \$0.037 All Over 600 kWh	
June/October		0.0561		Per kWh	
General Service - Small (0-20 kW Demand)					
Customer Charge	\$	11.55		<u>0 / 2,000</u>	<u>All over 2,000</u>
All months				\$0.0602 per kWh	\$0.0549 per kWh
General Service - Large (20 kW and Greater Demand)					
Energy:			Demand:		Demand:
			<u>November/April</u>		<u>May/October</u>
0-60,000 kWh	\$0.0276 Per kWh		First 200 kW	\$6.88 Per kW	0-200 kW \$8.53 Per kW
All over 60,000	\$0.0235 Per kWh		All over 200 kW	\$6.33 Per kW	All over 200 kW \$7.98 Per kW
Public Institutional Electric Service Rate			High Tension Service Rate Up to 5,000 kW		
Customer Charge		\$19.25	Energy		
November/April	\$0.0413 Per kWh		0-6,000,000	\$0.0056 Per kWh	
May/October	\$0.0520 Per kWh		Over 6,000,000	\$0.0033 Per kWh	
			Demand Charge	\$8.25 Per kW	

(1) The Recovery Adjustment Factor is a charge per kWh that allows the System to recover costs not recovered by base rates. The Managing Director of the System has the authority to set the Recovery Adjustment Factor on a monthly basis.

Transmission Voltage Service (up to 20 MW)

This rate is available to transmission service customers whose actual monthly measured demand did not exceed 20 MW during the preceding twelve consecutive months, or whose expected monthly measured demand will not exceed 20 MW over an extended period, as determined by the City in its sole discretion. Such customers receive service at standard voltage available from the City's transmission system at sixty thousand (60,000) volts or higher. This rate option is eligible for twelve- or twenty-four-month service terms. Customer’s rate and structure and terms and conditions shall be based on the customer’s load profile and characteristics, capability to implement service terms and conditions, and the term of service.

If the City is subject to regulatory fines or penalties because of a customer’s failure to meet sufficient static reactive power capability pursuant to certain ERCOT power factor requirements, the City will charge such customer for the fine or penalty, and may charge such customer for any changes that the City makes to the System to mitigate the effects of such customer’s non-compliance. In addition, the City shall charge each such customer a power factor adjustment for a customer’s failure to meet such power factor requirements.

Large Transmission Voltage Service (greater than 20 MW)

This rate is available to transmission service customers whose actual monthly measured demand was at least 20 MW for the previous twelve consecutive months, or whose expected monthly measured demand will be at least 20 MW over an extended period, as determined by the City in its sole discretion. Such customers receive service at standard voltage available from the City's transmission system at sixty thousand (60,000) volts or higher. Customer’s rate and structure and terms and conditions shall be

based on the customer’s load profile and characteristics, capability to implement service terms and conditions, and the term of service. This rate option is eligible for twelve-, twenty-four-, or thirty-six-month service terms.

If the City is subject to regulatory fines or penalties because of a customer’s failure to meet sufficient static reactive power capability pursuant to certain ERCOT power factor requirements, the City will charge such customer for the fine or penalty, and may charge such customer for any changes that the City makes to the System to mitigate the effects of such customer’s non-compliance. In addition, the City shall charge each such customer a power factor adjustment for a customer’s failure to meet such power factor requirements.

TABLE 2 - ENERGY SALES AND CUSTOMER INFORMATION OF THE CITY (FISCAL YEAR ENDED 9-30) ⁽¹⁾

Type of Customer	2024			2023		
	Energy Sales (kWh)	Revenues	Number of Meters	Energy Sales (kWh)	Revenues	Number of Meters
Residential	908,632,831	\$ 122,441,646	69,421	934,069,320	\$ 116,626,245	68,034
Commercial	809,954,276	100,347,981	6,908	813,430,192	91,538,004	6,847
Industrial	319,695,976	21,172,451	8	310,714,193	24,698,972	8
Total	<u>2,038,283,083</u>	<u>\$ 243,962,078</u>	<u>76,337</u>	<u>2,058,213,705</u>	<u>\$ 232,863,221</u>	<u>74,889</u>

Type of Customer	2022			2021		
	Energy Sales (kWh)	Revenues	Number of Meters	Energy Sales (kWh)	Revenues	Number of Meters
Residential	958,597,523	\$ 104,154,813	67,369	880,138,869	\$ 89,823,774	66,898
Commercial	819,984,642	81,000,837	6,803	769,991,929	71,715,761	6,700
Industrial	337,472,006	21,949,342	8	272,790,437	13,717,219	9
Total	<u>2,116,054,171</u>	<u>\$ 207,104,992</u>	<u>74,180</u>	<u>1,922,921,235</u>	<u>\$ 175,256,754</u>	<u>73,607</u>

Type of Customer	2020		
	Energy Sales (kWh)	Revenues	Number of Meters
Residential	926,411,586	\$ 94,723,109	65,672
Commercial	768,037,100	70,959,885	6,614
Industrial	263,262,876	11,621,136	9
Total	<u>1,957,711,562</u>	<u>\$ 177,304,130</u>	<u>72,295</u>

(1) Excludes wholesale energy customers.

TABLE 3 - ENERGY PRODUCTION OF THE CITY (FISCAL YEAR 9-30)

	2024	2023	2022	2021	2020
Owned Capacity (MW) ⁽¹⁾	526	526	526	526	523
Firm Purchase Capacity (MW) ⁽²⁾	249	109	109	95	75
Retail Wind / Solar PPAs (MW)	262	262	287	287	212
Retail Peak Demand (MW)	506	514	507	458	473
Wholesale Wind / Solar PPAs (MW)	236	236	236	236	236

(1) Includes the 78MW of capacity for Olinger Unit 1, which is currently in mothball status.

(2) Represent longer-term, firm, bilateral fixed-price energy power purchase agreements.

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WHOLESALE ENERGY CUSTOMERS . . . In addition to serving its retail load, the City provides wholesale power supply to wholesale customers in ERCOT. The City currently provides full load requirement services to the city of Farmersville and partial load requirement services to the city of College Station, the city of Weatherford, and Central Texas Electric Cooperative. In addition to the previously mentioned sales of renewable resources to wholesale customers under "THE SYSTEM – Power Purchase Agreements," the following provides the terms of the current contracts the City has with its wholesale customers.

Wholesale Customer	Term
Central Texas Electric Cooperative	thru Dec 2026
City of Weatherford	thru Dec 2026
City of College Station	thru Dec 2027
City of Farmersville	thru Dec 2027

The City provides qualified scheduling entity (“QSE”) services to its wholesale customers, which includes the submission of bids and offers into the ERCOT market on behalf of the customers, as well as the financial settlement with ERCOT. These services are tied to the term of the wholesale customer agreements. In addition, the City currently provides QSE services to two former wholesale customers, Greenville Electric Utility System (City of Greenville) and New Braunfels Utilities (City of New Braunfels). The City also provides QSE services for some of its renewable power purchase agreements and a solar farm for Kerrville Public Utility Board.

TEXAS MUNICIPAL POWER AGENCY . . . TMPA is governed by a Board of Directors made up of two representatives from each Member City and is empowered to plan, finance, acquire, construct, own, operate and maintain facilities to be used in the business of generation, transmission and sale of electric energy to each Member City. Each of the Member Cities entered into separate but identical Power Sales Contracts with TMPA (as amended, the “TMPA Agreement”). For more than 40 years, the TMPA Agreement governed the relationship between, and the rights and obligations of, TMPA and each of the Member Cities with respect to, among other items, generation, including Gibbons Creek, transmission and sale of electric energy to each Member City. On September 1, 2018 TMPA made the final debt service payment on TMPA’s generation debt which extinguished the Member City’s unconditional obligation with respect to such TMPA debt. The TMPA Agreement expired by its terms and none of the Member Cities elected to extend the TMPA Agreement beyond September 30, 2018.

On June 6, 2019, the TMPA Board approved the cessation of production of power from the Gibbons Creek Steam Electric Station. ERCOT was notified by TMPA that the generating facility would be formally retired from operation effective October 23, 2019. On February 10, 2021, the Gibbons Creek plant site was sold by TMPA and the Member Cities to GCERG; however, TMPA retained ownership of its transmission system and mine land. Under the asset purchase agreement with GCERG, GCERG is obligated to decommission and environmentally remediate the Gibbons Creek plant site, and to provide post-closure care for the length of time required by the relevant regulatory authorities. As of September 2025, GCERG has completed most of the physical decommissioning and remediating activities and is currently working with the Texas Commission on Environmental Quality (“TCEQ”) on closure approvals. See also “THE SYSTEM – Joint Operating Agreement and TMPA Sale of Certain Facilities.”

On July 15, 2021, the TMPA Board approved a resolution authorizing the sale of the mining land. On December 22, 2022, TMPA sold the mining land. TMPA will continue to conduct mine reclamation activities pursuant to a reclamation easement that will remain in effect until all bonded areas are released from bond. As of the end of September 2025, TMPA has obtained full bond release on approximately 8,782 acres (>99%) with 28 acres (<1%) still under bond.

TMPA’s Transmission Facilities. The TMPA-owned transmission system consists of 345-kV and 138-kV switchyard facilities and transmission line facilities in the vicinity of the Gibbons Creek Station, as well as additional 345-kV and 138-kV lines and substation facilities in Brazos, Collin, Dallas, Denton, Grimes, Hunt, Robertson and Rockwall counties of Texas. These facilities provide ties to the Member Cities, Oncor Electric Delivery Company, Centerpoint Energy Houston Electric, Sharyland Utilities, Cross Texas Transmission, and Brazos Electric Power Cooperative, Inc. at several points in the ERCOT system. TMPA’s outstanding long-term and short-term debt obligations are all associated with TMPA’s transmission facilities and are supported by TMPA’s transmission revenues.

In May 2008, TMPA executed a Transmission Operator Agreement with the City, as Transmission Operator, whereby the City performs the transmission operator functions associated with the TMPA Transmission System and shall discharge the duties imposed on transmission operators in ERCOT by applicable Federal and State laws and regulations. In March 2013, this agreement was replaced with a Transmission Operator, Maintenance, and Construction Services Agreement under which the City conducts the full suite of operation, maintenance, construction, metering and relay and compliance activities associated with all TMPA transmission assets. In April 2016, TMPA entered into a similar agreement with the City of Denton, assigning to Denton responsibility for certain assets in the Denton area.

JOINT OPERATING AGREEMENT AND TMPA SALE OF CERTAIN FACILITIES . . . TMPA and the Member Cities entered into a Joint Operating Agreement (“JOA”) effective September 1, 2016. The JOA represents the post-2018 plans for TMPA and the Member Cities and is intended to provide terms of agreement for (i) TMPA operations outside the scope of the TMPA Agreement, (ii)

matters relating to decommissioning of Gibbons Creek, (iii) disposition of TMPA assets, and (iv) matters relating to dissolution of TMPA, at such time as it may be dissolved. Among other matters, the JOA (i) allocates the costs of TMPA transmission operations to the Member Cities in accordance with Member City percentages as they existed at expiration of the TMPA Agreement, (ii) establishes formulas for determining each Member City's ownership interest in TMPA assets (such calculations generally being based on each City's proportional share of payments made to TMPA) and used to allocate TMPA assets or proceeds of the sale thereof to each Member City, and (iii) provides for the allocation among the Member Cities of TMPA transmission assets if a majority of the Member Cities authorize the transfer of ownership of the TMPA transmission assets. The JOA divides TMPA assets and operations into three business categories – generation, transmission, and mining – and establishes protocols for Member Cities to exit one or more business categories.

The JOA creates a reserve account to be held by an escrow agent for indemnification costs for environmental claims against Member Cities which is currently funded at \$5,000,000. Finally, the JOA requires Member City approval for a number of TMPA actions, including the: (i) sale of all or part of TMPA transmission assets to a third party, (ii) adoption of a budget or amended budget that exceeds 20% of the previous year's budget, (iii) issuance of debt (other than transmission debt), (iv) execution of a contract exceeding a term of two years, or a contract for more than \$10 million, and (v) sale of property having a value in excess of \$10 million (other than mining property).

The JOA was amended effective September 15, 2016 ("Amendment No. 1"), in large part to accommodate a proposed sale of certain assets of TMPA, including Gibbons Creek and a portion of the transmission facilities of TMPA. Amendment No. 1 was conditioned on the closing of that sale, but in May 2017 negotiations for that sale were finally discontinued and Amendment No. 1 became ineffective in accordance with its terms. A second amendment to the JOA ("Amendment No. 2") was negotiated and became effective on September 22, 2017. In addition to removing the terms of Amendment No. 1, Amendment No. 2 (i) clarified provisions related to mine reclamation bonds; (ii) provided for some sales of TMPA transmission assets (\$250,000 individual / \$500,000 total per year); and (iii) allowed for seasonal operations notification without enacting the 24-month termination provision. Effective September 17, 2019 the JOA was amended ("Amendment No. 3") to provide for the (i) clarification of entities entitled to vote on matters related to TMPA Generation Business subsequent to the expiration of the TMPA Power Sales Contract, (ii) exemption of financial commitments relating to mine reclamation bonding from certain Member Cities approvals and (iii) selling of TMPA mine tracts that are under mine reclamation bonding given that certain rights may be retained by TMPA to enable completion of the reclamation. The JOA placed certain restrictions on the sale of real property interests for mining assets; effective June 28, 2021, the JOA was amended ("Amendment No. 4") to remove these restrictions in recognition of TMPA's efforts to sale its mining land. The JOA consists of the original agreement dated September 1, 2016 as amended by Amendment No. 2, Amendment No. 3, and Amendment No. 4. The JOA shall remain in effect until the dissolution of TMPA or termination by the Member Cities.

On December 10, 2020, the TMPA Board authorized and approved the sale of 6,170 acres owned by TMPA in Grimes County, Texas, including the Gibbons Creek Reservoir and associated water rights and the Gibbons Creek Electric Station (collectively, the "Purchased Assets"), to GCERG under an Asset Purchase Agreement (the "Asset Purchase Agreement"). The sale was subsequently approved by all Member Cities. On February 10, 2021, TMPA and the Member Cities closed the sale of the Purchased Assets to GCERG.

Pursuant to the terms of the Asset Purchase Agreement, GCERG received the Purchased Assets from TMPA and GCERG (i) assumed the liabilities with respect to the Purchased Assets, including the decommissioning costs for Gibbons Creek and (ii) indemnifies TMPA, each of the Member Cities, and their respective council members, directors, commissioners, officers, agents, employees, advisors, Representatives, successors, and assigns from and against any Losses that arise out of or result from any and all (a) Environmental Liabilities, (b) Assumed Liabilities and (c) Taxes (and the nonpayment therefor) of GCERG or for which GCERG is responsible under the Asset Purchase Agreement. The defined terms used in this paragraph have the specific meanings provided in the Asset Purchase Agreement. At Closing, TMPA delivered payments (the "Payments") totaling \$35,130,000 plus 50% of the premium for the Regulatory Closure Bond to or for the benefit of GCERG, a portion of which will be held in escrow and released to GCERG as certain milestones are met. Each of the Member Cities contributed a portion of the Payments relative to such Member Cities participation in TMPA. The City's contribution was approximately \$17.2 million.

FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY . . . The electric utility industry in the State in general has been, and in the future may be, affected by a number of factors that could impact the financial condition and competitiveness of the System. Such factors include:

- prevailing governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission ("FERC"), the United States Environmental Protection Agency ("EPA"), the Texas Commission on Environmental Quality ("TCEQ"), the North American Electric Reliability Corporation ("NERC"), the PUC and ERCOT, with respect to:
 - wholesale market design, including allocation of transmission congestion costs;
 - transmission cost rate structure;
 - purchased power and recovery of investments;
 - acquisitions and disposal of assets and facilities;
 - operation and construction of facilities;
 - present or prospective wholesale and retail competition;

- changes in and compliance with environmental and safety laws and policies;
- developments in Federal law with respect to the ability of the City and TMPA to finance and operate facilities and make energy sales in a manner that permits them to finance facilities with, and honor existing covenants with respect to, tax-exempt debt; and
- reliability standards put forth by Electric Reliability Organizations under FERC authority;
- federal legislation to expand FERC authority to address cyber-security vulnerabilities in the electric utility industry;
- legislation passed by the Texas Legislature to restructure the electric utility industry in Texas (including any amendments that may be enacted to that legislation in future Texas legislative sessions) or require enhanced weatherization of the System's assets,
- increased costs of compliance and production resulting from possible Federal legislation to curb the generation of greenhouse gases, primarily carbon dioxide;
- competition from "self-generation" of electric energy by certain industrial and commercial customers;
- increased costs or decreased revenues resulting from conservation and demand-side management programs on the timing and use of electric energy;
- power costs and availability, including the continued development, and financial stability of owners of, merchant power plants in the State;
- regulatory and market uncertainty associated with operating in the ERCOT market which could impact the opportunities for constructing new dispatchable generation resources and the future reliability of the ERCOT market;
- weather conditions and other natural phenomena, and acts of sabotage, wars or terrorist activities;
- global pandemics, such as COVID-19;
- unanticipated population growth or decline, and changes in market demand and demographic patterns;
- changes in business strategy, development plans or vendor relationships;
- competition for retail and wholesale customers;
- access to adequate and reliable transmission facilities to meet changing demands;
- unanticipated changes in interest rates, commodity prices or rates of inflation;
- unanticipated changes in operating expenses and capital expenditures;
- commercial bank market and capital market conditions;
- competition for new energy development and other business opportunities;
- legal and administrative proceedings and settlements;
- inability of the various counterparties to meet their obligations with respect to the Electric System's power purchase arrangements;
- significant changes in the Electric System's relationship with its employees, including the availability of qualified personnel;
- significant changes in critical accounting policies material to the System;
- actions of rating agencies; and
- issues related to cyber and physical security.

The City cannot fully predict what effects such factors will have on the operations and financial condition of the Electric System, but the effects could be significant. The discussion of such factors herein does not purport to be comprehensive or definitive, and any or all of these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

TEXAS 2021 WINTER WEATHER EVENT

GENERAL...From February 14, 2021 through February 19, 2021, the State experienced a historically severe winter storm in terms of scope and duration statewide with record breaking below freezing temperatures over prolonged periods of time (the "Weather Event"). On February 12, 2021, in anticipation of the storm, the Governor of the State declared a state of disaster for all counties in the State. In response to that declaration, and on the same date, the Texas Railroad Commission issued an Emergency Order approving a utilities curtailment program relating to and specifying an essential prioritization of the transportation, delivery and/or sale of natural gas in the State. On February 19, 2021, the President of the United States also declared that a major disaster existed in the State.

As the Weather Event occurred, ERCOT implemented what were initially expected to be rolling blackouts to conserve electricity and address energy needs across the entirety of the State; however, due to the severity of the Weather Event and the corresponding increase in demand on the Texas electric transmission grid, combined with limited availability of generation, widespread and prolonged power outages began at approximately 1:00 a.m., Central Time, on Monday, February 15, 2021, and continued throughout the week. Ultimately, approximately 4,000,000 Texas residents were without power for significant stretches of the week.

During the Weather Event, ERCOT reported that it had lost 46,000 MW of generation, comprised of 28,000 MW of thermal generation and 18,000 MW of wind and solar. ERCOT also reported that approximately 185 generating units had been tripped offline for one reason or another related to the Weather Event. The extreme cold weather affected natural gas delivery to some gas-fired power plants, resulting in them operating at reduced capacities due to limited gas supply. Additionally, during the time of year in which the Weather Event occurred, various generating plants may have been offline for scheduled maintenance, in anticipation of energy loads needed during summer months. ERCOT mandated reductions in electric load across the State and prolonged power outages began in the early morning hours of Monday, February 15, 2021, and continued through February 17, 2021. On February 18, 2021, the cold weather began to moderate and, on February 19, 2021, ERCOT announced the existence of sufficient electric generation to allow a return to normal operating conditions.

In advance of and throughout the Weather Event, the Texas utilities market on both a statewide and local basis realized significant operational and financial disruption. Beginning February 12, 2021, and continuing over the next several days, the natural gas wholesale power markets experienced extreme price volatility. With multiple natural gas pipelines restricting gas flows, frozen wellheads experienced across the State, and weather-related gas processing plant outages, coupled with a significant increase in power demand, next day delivery natural gas spot prices at various delivery hubs skyrocketed from an average of less than \$3 per million British thermal unit ("MMBtu") to as high as \$500 per MMBtu. Additionally, the price per megawatt hour ("MWh") of electricity in the ERCOT electric market reached the market cap of \$9,000/MWh on February 14, 2021 and again on February 15, 2021 where it remained through until 9:00 a.m. on February 19, 2021, in contrast to settlements between February 1, 2021 and February 10, 2021 that averaged about \$30/MWh. During this time, ancillary service charges (which are separate from the \$9,000 per MWh market cap) reached a high of over \$25,000/MWh. See "REGULATORY MATTERS."

WEATHER EVENT'S DIRECT IMPACT TO SYSTEM...Although at the height of the load shedding ordered by ERCOT approximately 38% of the System's electric retail customers did not have power, consumption during the Weather Event was over 40% greater than historical average and the System set its all-time winter peak electric demand of 402MW on February 14, 2021, just prior to the ERCOT-ordered load shedding. Over the previous six (6) months of February, the System's cumulative natural gas consumption for its power plants was 35,129 MMBtu. For the Weather Event, the System's power plants consumed 231,531 MMBtu of natural gas.

Going into the Weather Event, the City had two generating units that were available for dispatch, Olinger Units 3 and 4. The City's remaining units were on outage for maintenance. It was expected that Olinger Unit 2 would be available for dispatch during the winter season, but in December 2020 a significant mechanical issue was discovered, which required the unit to go on an extended outage for maintenance. The City purchased additional bilateral energy from a third party in December 2020 for the winter to help offset the loss of Olinger Unit 2.

Following an extended freeze event in February 2011, the City implemented winter weatherization processes, which proved vital during the Weather Event. Both Olinger Units 3 and 4 operated throughout the Weather Event.

With extended periods of ERCOT energy prices at \$9,000/MWh and ancillary service charges at or above the \$9,000/MWh energy market cap, coupled with natural gas purchases at up to \$500/MMBtu, the City incurred substantial costs for the purchase and generation of electric power. These costs were exacerbated by the significant increase in electric consumption. The City incurred \$72.2 million in additional natural gas purchases for the Weather Event. This is over 40 times greater than the System's total natural gas purchases for FY 2020 of \$1.6 million and over times 20 greater than what the System budgeted for natural gas purchases for FY 2021. The City also incurred \$38.3 million of net unexpected ERCOT energy and ancillary expenses, as well as \$23.3 million in additional bilateral energy purchases from third parties during the Weather Event. In total, the overall net financial cost of the Weather Event to the System was approximately \$133.7 million.

Going into the Weather Event, the System's rate mitigation fund was \$205 million. The City applied the rate mitigation fund to pay the unexpected costs of the Weather Event. In addition, on February 15, 2021 the City began proactive communication with its

financial advisors to put in place additional liquidity and in March 2021 issued a \$150 million five-year taxable note. The City used the taxable note to replenish the rate mitigation fund to maintain its robust liquidity. As of September 30, 2025, the System had \$137.6 million (unaudited) in unrestricted cash and cash equivalents and investments and \$286.8 million (unaudited) in the rate mitigation fund. See also “FINANCIAL INFORMATION – Rate Mitigation Fund” and “DEBT INFORMATION – Variable Rate Programs”.

In September of 2021, the City refunded the \$150 million five-year taxable note into 30-year fixed rate debt with the proceeds of its Electric Utility System Revenue Refunding Bonds, Taxable New Series 2021B. The City also replaced its then existing \$80 million commercial paper program and replaced it with a \$150 million revolving note purchase agreement that allows for both tax-exempt and taxable uses, which provides additional flexibility to address future liquidity needs.

DEVELOPMENTS CONCERNING ERCOT MARKET PARTICIPANTS . . . The significant increase in ERCOT market prices for the extended period during the Weather Event resulted in ERCOT being initially short-paid approximately \$3 billion by some ERCOT market participants. Short payments occur when a market participant fails to make a complete payment to ERCOT. ERCOT is a membership-based nonprofit corporation that is structured as a revenue neutral entity (meaning that it has no independent revenue source and is a clearinghouse that passes on losses to its membership). To maintain its revenue neutrality, when ERCOT is short-paid by a market participant, other market participants that are due money from ERCOT when the short-pay occurs are correspondingly paid less by ERCOT than what their invoices reflect (i.e. they are "short-paid" by ERCOT). For the Weather Event, ERCOT used \$800 million of congestion revenue rights auction revenue funds to mitigate the \$3 billion in short-pays. ERCOT 'covered' the remaining \$2.2 billion by short-paying market participants due money from ERCOT. For the Weather Event, the City's was short-paid by ERCOT approximately \$4.2 million. As a result of the reorganization plan approved in November 2022 with respect to the Brazos Chapter 11 Bankruptcy Case (as defined below), the City made an election to receive approximately \$1.7 million of the remaining amount owed to be recovered over the next 12 years and has received \$1.4 million to date.

For market participants such as the City that were short-paid by ERCOT because of market participants that did not fully pay ERCOT, the ERCOT protocols provide for a process to recover these funds from market participants. This process is called "Default Uplift." As a result of the Brazos Chapter 11 Bankruptcy Case (as defined below) and the securitization financings resulting from House Bill 4492 approved by the State Legislature in 2021 ("HB 4992"), discussed in "State Response to Weather Event" below, the remaining Default Uplift has been drastically reduced within ERCOT and has limited the City's exposure to those costs.

Brazos Electric Power Cooperative, Inc. ("Brazos"), the largest power generation and transmission cooperative in Texas, and Rayburn Country Electric Cooperative, Inc. comprise \$2.5 billion, \$1.9 billion and \$600 million, respectively, of the \$3 billion that was short-paid to ERCOT. Brazos filed for Chapter 11 bankruptcy protection on March 1, 2021 (Case Number 21-30725 in the United States Bankruptcy Court for the Southern Districts of Texas, Houston Division) (the "Brazos Chapter 11 Bankruptcy Case"), citing "excessively high invoices" from ERCOT during the Weather Event. Approximately \$1.15 billion of ERCOT's claim in the Brazos Chapter 11 Bankruptcy Case was satisfied through securitized bonds issued by Brazos' down-stream membership electric cooperatives. The proceeds from securitized bonds received from Brazos were used to reduce ERCOT's short-payment liability to generators and reimburse the congestion revenue rights auction fund from which ERCOT borrowed during the Weather Event to make short-payments.

STATE RESPONSE TO WEATHER EVENT...As a result of the Weather Event, numerous changes have occurred at both the PUC and ERCOT, including the following:

- All three commissioners of the PUC resigned their positions. The PUC was expanded by the State Legislature to five commissioners.
- All out-of-state members of the board of directors of ERCOT (the "ERCOT Board") submitted a letter of resignation from the ERCOT Board; and thereafter, three other ERCOT Board members resigned.
- The ERCOT was reconstituted by eliminating the prior 16-member board, which represented different market segments. The new ERCOT Board membership consists of 11 members with the PUC Chair, the Public Counsel of the Office of Public Utility Counsel and the ERCOT chief executive officer acting as ex officio non-voting members, with the remaining 8 voting members appointed by a select committee.
- The ERCOT Board installed a new chief executive officer of ERCOT.

The State Legislature also addressed events from the Weather Event during the 87th State Legislature regular session which ended on May 31, 2021. Senate Bill 3 ("SB 3") was the comprehensive bill approved by the State Legislature and signed into law by the Governor on June 8, 2021 addressing the Weather Event. Among other items, SB 3 requires electric and other energy companies to implement a number of reforms, including engaging in winterization measures and implementing communication alerts. The City may be affected by a provision in the legislation that adds Section 38.075 to the Utilities Code. This new section (i) applies to municipally owned utilities that provide transmission service in the ERCOT power region, (ii) requires the PUC to adopt reliability standards to prepare for weather emergencies, (iii) requires ERCOT to inspect the covered entities for compliance, (iv) requires ERCOT to inform the PUC of violations, and (v) authorizes the PUC to impose an administrative penalty for each violation, not to exceed \$1 million for each day of noncompliance.

The PUC implemented weatherization regulations in two phases. The first phase required owners/operators to weatherize their transmission and generation facilities for winter operations to the standards established by PUC following the Weather Event and to address any failures experienced during such time. The second phase, which was approved in September 2022, addresses additional weatherization standards for both winter and summer seasons. The City has completed a number of weatherization projects at its electric generation plants and complied with all PUC regulations pertaining to weatherization requirements.

SB 3 requires that the Texas Railroad Commission (the "Railroad Commission") to adopt rules for designating certain natural gas facilities as critical customers or critical gas suppliers during energy emergencies. Only facilities that are prepared to operate during a weather emergency may be designated as a critical customer. The Railroad Commission must adopt rules to require any "gas supply chain facility" that is designated as critical to weatherize facilities and requiring a gas pipeline facility to weatherize during extreme weather conditions if that gas pipeline facility services a natural gas electric generation facility. Concerning the weatherization of critical gas pipeline and delivery facilities, the Railroad Commission also acted in two phases. In phase one, the Railroad Commission adopted a rule focused on the identification of critical gas facilities, as well as relatively small facilities that would be exempt from critical designation. Under the rule, pipelines that are directly serving a city gate (to supply gas distribution systems) and generation resources are not eligible for an exemption from critical designation. In April 2022, the Texas Electricity Supply Chain Security and Mapping Committee released its confidential map and public report on the State's electric utility supply chain. Following the release of the map, the Railroad Commission implemented phase two by adopting a new rule that applies to natural gas supply and gas pipeline facilities included on such map, all of which must be designated as "critical facilities" under the Railroad Commission's earlier rule. The new rule outlines weatherization and other standards applicable to these facilities to ensure operation during extreme weather, inspections, and penalties.

SB 3 also requires the PUC to establish an emergency pricing program for the wholesale electric market with the following requirements: (i) the emergency pricing program must take effect if the high system-wide offer cap has been in effect for twelve hours in a 24-hour period; (ii) the pricing program may not allow an emergency pricing program cap to exceed any non-emergency high system-wide offer cap; (iii) it shall establish an ancillary services cap to be in effect during the period an emergency pricing program is in effect; (iv) any wholesale pricing procedure that has a low system-wide offer cap may not allow the low system-wide offer cap to exceed the high system-wide offer cap; and (v) the emergency pricing program must allow generators to be reimbursed for reasonable, verifiable operating costs that exceed the emergency cap.

House Bill 4492 ("HB 4492") was approved by the State Legislature during the 87th State Legislature regular session and signed into law by the Governor on June 16, 2021. HB 4492, among other things, permits a loan of up to \$800 million to ERCOT from the State's Economic Stabilization (or "rainy day") Fund to pay for debts to ERCOT, secured by a non-bypassable charge to market participants, subject to true up, paid for a period not to exceed 30 years. ERCOT closed on the securitized loan and the proceeds from the securitization have been used by ERCOT to pay market participants that were short-paid for power purchases during the Weather Event with the remainder going to reimburse an ERCOT fund that was temporarily used to make the initial short-payments for power during the storm. Payment for the debt service of the securitized loan is being allocated to all market participants, including the City, based on their pro-rata share of market activity going forward.

Also pursuant to HB 4492, the PUC also authorized ERCOT's similar securitization bond financing for the \$2.1 billion Default Uplift amounts for 30 years by load serving entities participating in the financing, comprised of costs incurred for ancillary services in excess of \$9,000 and for costs of reliability deployment price adders.

House Bill 2586 ("HB 2586") was approved by the State Legislature during the 87th State Legislature regular session and signed into law on May 24, 2021 by the Governor. HB 2586 requires the PUC to conduct an annual audit of ERCOT that would be sent to the Legislature and posted online for public viewing.

On July 6, 2021, the Governor sent a letter to the PUC directing the PUC to immediately take the following actions: (i) streamline incentives within ERCOT to foster the development and maintenance of adequate and reliable sources of power; (ii) allocate reliability costs to generation resources that cannot guarantee their own availability; (iii) instruct ERCOT to establish a maintenance schedule for nonrenewable electricity generators; and (iv) order ERCOT to accelerate the development of transmission projects that increase connectivity between existing or new dispatchable generation plants and areas of need. The PUC has initiated several rulemaking proceedings to address market reforms in response to the directive.

In January 2023, the PUC voted unanimously to adopt a Performance Credit Mechanism (the "PCM") electric market design option and a set of guiding principles for implementation to strengthen reliability, accountability, and affordability of on-demand electric generation within ERCOT.

House Bill 1500 ("HB 1500") was approved by the State Legislature and signed into law by the Governor on June 9, 2023. HB 1500 initially focused on the continuation and functions of the Public Utility Commission of Texas and the Office of Public Utility Counsel, and the functions of the independent organization certified for the ERCOT power region. However, multiple amendments were added to the legislation, including, but not limited to: (1) guidelines and guardrails around the PCM, the PUC's proposal to entice the construction of new dispatchable generation in ERCOT; (2) establishing a cap on the amount of cost a transmission owner bears for interconnecting generation; (3) no verbal orders from the PUC to ERCOT, with exception for emergencies; (4) development of a two-hour-ramp/four-hour runtime ancillary service by December 1, 2024; (5) owners or operators of generation facilities with interconnection agreements signed after January 1, 2027 demonstrating that their portfolio of facilities can generate at or above

seasonal average generation capacity during time of highest reliability risk; and, (6) creating a Grid Reliability Legislative Oversight Committee. While the City does not anticipate any material adverse effect on its operations and finances as a result of the PCM, no assurance can be given regarding any such impact.

Senate Bill 2627 (“SB 2627”) was approved by the State Legislature and signed into law by the Governor on June 9, 2023. SB 2627 provides a program for low-interest loans and completion bonuses for new dispatchable generation or upgrades to existing generation facilities. Voters approved the amendment to the State Constitution in the November 7, 2023 state-wide election.

The legislation discussed above is not intended to be an exhaustive list of all legislation from the 87th and 88th State Legislatures.

Balancing the supply and demand, ERCOT determines the "locational marginal price" or "LMP" which is the cost of the last megawatt hour ("MWh") required to serve the requested aggregate demand. The LMP is, however, subject to certain maximum offer caps. On March 4, 2021, the ERCOT market transitioned the LMP cap from the High System-wide Market Cap (\$9,000/MWh) to the Low Systemwide Market Cap ("LCAP"). The LCAP is the greater of \$2,000/MWh or 50x the natural gas index price. In recognition of the extreme increase in natural gas prices during the Weather Event in Texas in February 2021, on June 24, 2021, the PUC approved an amendment eliminating the 50x the natural gas price index component of the LCAP and replaced it with a provision that ensures resource entities are able to recover their actual marginal costs when the LCAP is in effect. The LCAP remained in place through the end of 2021. On June 28, 2021, ERCOT approved Nodal Protocol Revision Request 1080 that limits ancillary services prices at the system-wide offer cap to acknowledge that ancillary services prices exceeded the system-wide offer cap during the Weather Event. See "REGULATORY MATTERS - Generation Capacity Adequacy." On April 29, 2022, the PUC adopted an order lowering the High System-wide Market Cap to \$5,000/MWh. The LMP is paid to all dispatched electric generators who bid up to that clearing price (without regard to a lesser price bid by a generator) which also corresponds to the necessary amount of electric generation to meet the requested demand. Every load serving entity pays the LMP for electric power requested, which may also include any nodal congestion costs related to such entity's offload "node." This price determination method is done on an ERCOT-wide basis in the real-time market where LMPs are aggregated to a fifteen-minute settlement period.

REGULATORY MATTERS

TEXAS DEREGULATION STRUCTURE, STATUS AND ISSUES . . . The following discussion, as well as the discussion set forth under “The New Nodal Design Rule”, is presented for the purpose of providing information concerning the current Texas legal and market structure. The Texas market is unique in many respects from deregulated markets in other parts of the United States, in part due to the isolation of the market in ERCOT, which is essentially a transmission grid and associated generation facilities with few interconnects to other transmission grids. While the City has not “opted in” to full retail competition, it does participate in the wholesale energy market through its use of power sale agreements.

The wholesale energy market in ERCOT was established by legislation enacted in the 1995 Texas Legislature, and has been significantly modified and developed through enactment of SB 7 and the commencement of retail electric choice in Texas on January 1, 2002. The discussion below describes some of the effects on the market and the challenges presented to the market as a whole. The continuing development of wholesale and retail competition in the ERCOT market will affect the planning, actions, options, cost structure and other essential factors of the Electric System.

The information in this section is derived from various PUC and ERCOT source materials, and in particular, portions of this section are excerpted from the PUC Reports to the Texas Legislature (the “PUC Legislative Reports”). The 2025 PUC Report is available in full on the PUC website at https://ftp.puc.texas.gov/public/puct-info/agency/resources/reports/leg/2025_Biennial_Agency_Report.pdf and previous biennial reports to the Texas Legislature are available in full on the PUC website at <http://www.puc.texas.gov/industry/electric/reports/scope/ScopeArchive.aspx>. Except for specific references to the City or as otherwise noted as being provided by another source or entity, all expressions of opinion, summaries of events and statistical information contained in such sections are from the PUC Legislative Reports. The City does not take responsibility for the content of the PUC Legislative Reports on either the PUC or ERCOT websites or in ERCOT reports. References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this official statement.

In general, the restructuring of the electric utility industry in accordance with SB 7 continues to evolve, and the City is observing and evaluating the changes in the developing energy market in the State. The elimination of the price to beat (“PTB”) rate on January 1, 2007 and the “go-live” implementation of the Nodal Market in ERCOT on December 1, 2010 were key dates in the evolution of the restructured market.

Since January 1, 2002 when consumer choice began in competitive areas of ERCOT, there has been continued development within ERCOT of a market-driven wholesale market in which energy is a commodity. It is apparent that traditional planning methods using known generation resources paired with known load has become less important as a planning approach in the market in general. As the competitive market matures in Texas, the market will almost certainly experience ebbs and flows in the construction of new generation and transmission facilities, and some of the existing generation will be displaced by newer resources, which may affect the market price of energy on both the retail and wholesale levels, as well as the demands on, and capacity of, the existing electric transmission system.

ERCOT . . . ERCOT is one of six Regional Reliability Councils in the NERC. The ERCOT bulk electric system is located entirely within the State of Texas and serves more than 27 million customers, representing approximately 90% of Texas' electrical load. The ERCOT service region covers more than 75%, or 200,000 square miles, of the State and contains over 54,100 miles of transmission lines and over 1,250 generation units. ERCOT also manages financial settlement for the competitive wholesale bulk-power market and administers retail switching for 8 million premises in competitive choice areas. The all-time peak demand in ERCOT occurred on August 10, 2023 when 85,508 MW of power was used. ERCOT is connected electrically to other reliability councils through two direct current lines, providing only limited import/export capability. Other electric reliability councils, including the Southwest Power Pool and the SERC Reliability Corporation, serve areas in the Texas panhandle, east Texas and west Texas.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an independent system operator ("ISO") in 1996. Under ERCOT's organizational structure, the ISO reports to the ERCOT Board of Directors. ISO responsibilities include security operations of the bulk system, facilitation and efficient use of the transmission system by all market participants, and coordination of regional transmission planning among transmission owning utilities and providers. Under Texas law, ERCOT is required to perform four primary functions: ensuring non-discriminatory access to the transmission and distribution systems for all electricity buyers and sellers; ensuring the reliability and adequacy of the regional electric network; ensuring that information related to customer retail choice is provided in a timely manner; and ensuring that electricity production and delivery are accurately accounted for among all regional generators and wholesale buyers and sellers. The PUC has primary jurisdiction over ERCOT. Legislation enacted in 2005 clarified that the PUC has complete authority to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure that ERCOT is accountable. ERCOT regulations require that each market participant, including municipally owned utilities ("MOUs"), either be, or engage, a QSE to submit schedules and ancillary services bids and settle payments with ERCOT.

In response to the Weather Event, the 87th Texas Legislature enacted reforms to the ERCOT Board of Directors to require that members live in the State, creates a board selection committee comprised of one member appointed by each of the Governor, Lieutenant Governor and the Speaker of the House of Representatives to select eight members of the Board with executive-level experience in certain professions, who do not have a fiduciary duty to or assets in the electricity market. See "TEXAS 2021 WINTER WEATHER EVENT."

Individual electric utilities own sections or components of the ERCOT transmission grid and are responsible for operating and maintaining their own transmission lines and equipment. The ISO coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. With the adoption of SB 7, investor owned utilities have "unbundled" their respective electric generation business, electric transmission and distribution business and retail electric business from one another.

TRE . . . With its delegated authority from the NERC, the Texas Regional Entity ("TRE") began operations in 2007 for the purpose of monitoring, reporting, and enforcing compliance with the NERC reliability standards in ERCOT.

Overview of the Senate Bill 7 Market Structure . . . SB 7 dramatically altered the production and sale of electricity to retail customers in the State. Prior to SB 7, all retail customers were served by integrated investor-owned electric utilities, electric cooperatives ("Electric Co-ops"), or MOUs. The PUC certificated the service areas of utilities, Electric Co-ops, and MOUs, where, for the most part, these entities were granted the exclusive right and obligation to serve customers in an area. Integrated utilities, MOUs, and Electric Co-ops built generation plants and constructed transmission and distribution facilities and performed retail functions such as billing and customer service to meet their obligations to serve. The PUC set electric rates, for those utilities over which it had rate-making authority, that gave those utilities the opportunity to earn a reasonable return on prudent investments and to recover reasonably incurred expenses, but that were also just and reasonable to retail customers. As described below, the implementation of the Nodal Design Rule dramatically altered the wholesale market dynamics in ERCOT.

The wholesale electric market was opened to competition as a result of the amendments to the Texas Public Utility Regulatory Act ("PURA") adopted by the Legislature in 1995. As a part of these amendments, independent power producers ("IPPs") were granted access to the transmission lines of utilities, Electric Co-ops, and MOUs in order for IPPs and power marketers to move power to wholesale customers.

As noted above, SB 7, adopted by the Legislature in 1999, established a framework to allow retail electric customers to select a provider of electricity other than the traditional utility beginning in January 1, 2002, unless the PUC delayed competition for a utility's service area. The governing boards of Electric Co-ops and MOUs were granted the authority to decide if and when to open their service areas to customer choice. The City has not adopted retail customer choice.

Although transmission and distribution facilities remain regulated by the PUC, the prices for the production and sale of electricity to both wholesale and retail customers are now predominantly dictated by market forces instead of regulatory rate-setting procedures. Customers with peak demand of one MW or less were provided access to the regulated PTB rate until January 1, 2007 (beginning January 1, 2005, affiliated retail energy providers ("REPs") were permitted to offer rates lower than the price to beat), and the PUC is required to designate "providers of last resort" ("POLRs") to ensure that all customers have access to electricity in the competitive market. The POLR for the City would be determined when and if the City ever elected to opt into a retail competition.

SB 7 established a framework for retail competition that is different from that adopted in other states. Formerly integrated investor-owned utilities were required to separate their business functions into three distinct companies: a power generation company (“PGC”), a transmission and distribution utility (“TDU”), and an REP. PGCs operate as wholesale providers of generation services, in the same manner as independent generators. REPs operate as retail providers of electricity and energy services, and are the entities that have the primary contact with retail customers in the new market. TDUs remain regulated by the PUC, and are required to provide non-discriminatory access to the transmission and distribution grid at rates and terms of access prescribed by the PUC.

In Texas, ERCOT performs functions in the retail market that are performed by the TDUs in other states that have introduced retail competition. Key elements in the design of the ERCOT retail market are the creation of a single, large retail market throughout the region and the use of a neutral third party to perform tasks related to the scheduling of power and settlement functions. ERCOT also serves as the registration agent for all retail transactions. All customer switch requests, move-in and move-out requests, and monthly electricity usage data flow through ERCOT.

REPs generally provide electricity to customers by purchasing wholesale electricity from generators located within the ERCOT region. REPs use a QSE to schedule power through ERCOT to meet their customers’ daily energy needs. All schedules and transactions within ERCOT “flow,” which means that schedules are not contingent upon a determination that there is adequate transmission capacity available to move power from the generation resource to the load. If all of the schedules submitted for a particular day or hour cannot be accommodated because of transmission constraints, ERCOT uses a market-based congestion management system to clear the congestion and maintain reliability. The costs associated with clearing the congestion are assigned to market participants under methods outlined in the protocols adopted by ERCOT (the “ERCOT Protocols” or the “Protocols”) and approved by the PUC. As described below under “Congestion Under Nodal Design” the Nodal Design Rule has altered the way in which some costs associated with clearing and congestion are processed.

Generation Capacity Adequacy. . . According to the ERCOT Long-Term Hourly Peak Demand and Energy Forecast April 2025 (the “ERCOT LTDEF”), the peak demand on the ERCOT system from 2014-2024 has increased at a rate of 3.1% per year. The current forecast for 2025 through 2031 indicates a 13.6% average annual increase in ERCOT’s peak demand.

Currently there are almost 21,600 MW of generation within ERCOT that is over 40 years in age. Generation maturity is important to ERCOT planners in determining available capacity, long-range reliability, and whether there will be enough new capacity to compensate for load growth requirements. Age is one indication of the efficiency and maintenance cost of a generating unit, which are major factors in the decommissioning of units. Most of the older capacity is located in and around the larger metropolitan areas of the state.

According to the January 2025 update to the PUC’s “New Electric Generating Plants in Texas Since 1995” report, companies in the electric business have made significant investments in ERCOT in recent years. Over 121,000 MW of new generating capacity has been added in ERCOT since 1995, and over 56,000 MW of new capacity has been announced but has not yet begun construction.

The chart below provides information on ERCOT projected summer reserve margin for the years 2026 through 2030, based on the ERCOT Report on the Capacity, Demand and Reserves in the ERCOT Region, 2026 – 2030 (the “ERCOT CDR Report”), dated May 16, 2025. ERCOT experiences peak demand during the summer; however, projected winter reserve margins are lower than the projected summer margins.

<u>Year</u>	<u>Summer Load Forecast (MW)</u>	<u>Total Resources Available (MW)</u>	<u>Reserve Margin</u>
2026	89,667	105,075	17.2%
2027	98,769	107,629	9.0%
2028	115,919	110,868	-4.4%
2029	122,950	110,475	-10.1%
2030	133,055	110,763	-16.8%

Source: ERCOT Report on the Capacity, Demand, and Reserves in the ERCOT Region, May 2025.

- (1) Summer Load Forecast is ERCOT's firm load forecast, not peak summer load.
- (2) Total Resources Available include installed capacity, capacity from private networks, peak average capacity (“PAC”) of wind generation, RMR units, non-synchronous ties, switchable units, available mothballed generation, planned thermal resources with signed interconnection agreement (“IA”) and air permits and water permits and PAC of planned wind units with signed IA. Total Resources Available excludes switchable units unavailable to ERCOT and retiring units.

As shown in the table above, ERCOT's reports indicates reserves above ERCOT's target reserve margin of 13.75%. It is possible that the PUC may make additional changes to the ERCOT market design at any time and the City can give no assurances as to when or what policy determinations the PUC may make that may affect investment in new generation resources in ERCOT. The City management does not expect that any such decision of the PUC will have a material adverse impact on the finances of the City.

Congestion Under Nodal Market Design . . . On April 5, 2006 the PUC issued an order accepting the ERCOT proposed draft protocols for implementing a nodal market design in Texas initially by January 1, 2009. The ERCOT Nodal Market had a “go live” date on December 1, 2010. In the nodal market, there is no intra-zonal congestion, with the result that all congestion is treated in a manner similar to current zonal (or inter-zonal) congestion with the exception of how the cost of congestion is determined and to

which party that cost is assigned. Under the nodal market design, all points of receipt or delivery into the ERCOT transmission system are assigned a value of energy at that unique point. The difference between the prices between any two points is considered the imputed cost of transmission between those two points, including any congestion costs.

ERCOT acts as a centralized dispatching agent, charging all loads, or users, for electricity based on calculated nodal prices and paying all providers, or generators, of energy based on the appropriate nodal price for the point where their energy is injected into the transmission system. Zones are still used in the nodal market design, but only for financial settlement purposes. Under the approved Texas version of the nodal market design, all loads, or users of energy within a designated zone, pay the same average price based on the weighted average price of all load nodes in that zone. The zones established in the nodal protocols approved by the PUC are basically the four existing zones plus three zones for three non-opt-in entities (“NOIEs”), specifically, the municipal utilities of San Antonio, Austin, and the Lower Colorado River Authority. The PUC’s order also initiated a proceeding to examine the issues of creating and changing load zones in a nodal market to ensure that any changes occur in a systematic procedural manner that do not adversely impact any parties. The PUC initiated Project No. 37052 to develop critical performance metrics and criteria for the ERCOT nodal market.

PUC Regulatory Activities

Wholesale Market Oversight . . . In September 2006, the PUC selected Potomac to serve as the independent market monitor (“IMM”) for ERCOT, a function that was legislated at the request of the PUC by the 2005 Texas Legislature. The IMM has the authority to conduct monitoring, analysis and reporting activities but has no enforcement authority. A PUC rule provides that the IMM shall report directly to the PUC any potential market manipulations, including market power abuse, and any violations of PUC rules or ERCOT Protocols.

The PUC rule establishes the IMM as an office independent from ERCOT, which is not subject to the supervision of ERCOT with respect to its monitoring and investigative activities. ERCOT funds the operations of the IMM, but the budget and expenditures of the IMM are subject to PUC supervision and oversight. The ethical standards governing the IMM director and staff are intended to prevent conflicts of interest between the IMM and a market participant or an affiliate of a market participant. The rule took effect in April 2006.

ERCOT Oversight by the PUC . . . Legislation enacted in 2005 clarified that the PUC has complete authority to oversee and investigate ERCOT’s finances, budget, and operations as necessary to ensure that ERCOT is accountable. See also, “TEXAS 2021 WINTER WEATHER EVENT” for a discussion regarding legislation affecting the PUC, resignation of PUC commissioners and appointment of new commissioners.

Federal Regulation of Electric Transmission Services

The Energy Policy Act of 1992. The Federal Energy Policy Act of 1992 (the “Energy Policy Act”) greatly expanded the authority of FERC to order utilities, including utilities within ERCOT, to provide transmission service for other utilities, qualifying facilities, and independent power producers. FERC also has authority to determine the prices that may be charged for transmission, but has generally deferred to the PUC electric transmission open access rules for access and pricing within ERCOT.

Retail Wheeling. The authority to order retail wheeling, which allows a retail customer to be located in one utility’s service area and to obtain power from another utility or non-utility source, is specifically excluded from the enhanced authority granted to FERC under the Energy Policy Act. However, while the States may have authority to determine whether retail wheeling will be permitted, FERC has determined that it has jurisdiction over the rates, terms and conditions of retail wheeling.

FERC Final Rules and Proposed Rulemakings in Federal Regulation of Electric Utilities. To establish foundations necessary to develop a competitive wholesale electricity market and effectuate the transmission access provisions of the Energy Policy Act, on April 24, 1996, FERC issued two final rules (“FERC Final Rules”) on non-discriminatory open access transmission services by public utilities and stranded cost recovery. The first of the FERC Final Rules, Order No. 888, requires all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce to (i) file open-access, non-discriminatory transmission tariffs containing, at a minimum, the non-price terms and conditions set forth in the order and (ii) functionally unbundle wholesale power services by (1) applying unified transmission tariffs system to all customers, (2) providing separate rate systems for wholesale generation, transmission and ancillary services and (3) relying on the same electronic information dissemination network that its transmission customers rely on in selling and purchasing energy. The second of the FERC Final Rules, Order No. 889, requires all public utilities to establish or participate in an Open Access Same-Time Information System (OASIS) that meets certain specifications, and comply with standards of conduct designed to prevent employees of a public utility (or any employees of its affiliates) engaged in wholesale power marketing functions from obtaining preferential access to pertinent transmission system information.

FERC stated that its overall objective is to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. FERC also indicated that it intends to apply the principles set forth in the FERC Rules to the maximum extent to municipal and other non-FERC regulated utilities, both in deciding cases brought under the Federal Power Act and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

Although the FERC Rules do not directly regulate municipally-owned and other non-FERC-regulated utilities, the FERC Rules have a significant impact on such utilities' operations. The FERC Rules have significantly changed the competitive climate in which the non-FERC regulated utilities operate, giving their customers much greater access to alternative sources of electric transmission services. The rules require them to provide open access transmission service conforming to the requirements for investor owned utilities whenever they are properly requested to do so under the Energy Policy Act or as a condition of taking transmission service from an investor owned utility. In certain circumstances, the non-FERC-regulated utilities are required to pay compensation to their present suppliers of wholesale power and energy for stranded costs that may arise when the non-FERC-regulated utilities exercise their option to switch to an alternative supplier of electricity.

Over the past several years, various efforts have been made to provide some interstate connections with the ERCOT transmission grid. In May 2014, FERC issued its Final Order Directing Interconnection and Transmission Service in Docket No. TX11-1-001 directing the City to interconnect the Southern Spirit Transmission project formerly known as the Southern Cross Transmission Project. The Southern Spirit Transmission project is a high voltage, direct current transmission line that will provide bi-directional

transmission capacity of approximately 2000 MW between ERCOT and the SERC Reliability Corporation. The Order stipulates that the interconnection will not result in ERCOT utilities becoming subject to the jurisdiction of FERC. The facilities necessary for the interconnection will be conveyed to the City for \$1 and the City will be reimbursed for the operation, maintenance, and repair of the facilities. In September 2016, the PUC approved the certificate of convenience and necessity for the interconnection.

Energy Policy Act of 2005. The U.S. Congress amended the Federal Power Act in 2005 to authorize FERC to approve transmission reliability standards developed by NERC. Once approved, the transmission reliability standards are applicable to transmission systems in all states, excepting Alaska and Hawaii. The reliability standards are applicable to transmission operators in ERCOT, including MOU's.

Proposed Federal Legislation

Many bills have been introduced in the United States Congress to deregulate the electric utility industry on the Federal or state level. Many of the bills provide for open competition in the furnishing of electricity to all retail customers (*i.e.*, retail wheeling). In addition, various bills have been introduced that would impact the issuance of tax-exempt bonds for electric transmission and generation facilities. No prediction can be made as to whether these bills or any future proposed Federal bills will become law or, if they become law, what their final form or effect would be.

Environmental Regulation

Electric utilities, in general, are subject to numerous environmental statutes, regulations, and other rules administered at the federal, state, and local level. These environmental rules are subject to change and tend to increase and become more stringent over time. Consequently, the City cannot predict whether the System Units with the current operations practices and control technology in place, will always be in compliance with present or future regulations or will always be able to obtain all required environmental licenses and permits. Regulations that may affect System Units are discussed below.

On March 12, 2025, the EPA Administrator announced 31 significant actions marking a pivotal day of deregulation in U.S. history. Out of the 31 actions, there are four that have the potential to affect the System Units. The EPA has the authority to reconsider their regulations but must do so through a rulemaking process that provides notice and the opportunity for the public to comment, which is expected to include the need to consider any new scientific and technical evidence that may have been developed since the prior rulemaking. Thus, this reconsideration alone will not have an immediate impact.

1. Reconsideration of regulations on power plants (Clean Power Plan 2.0)
 - The Clean Power Plan (CPP) / Affordable Clean Energy (ACE) Rule / Clean Power Plan 2.0 all had the intent to regulate emissions of carbon dioxide (CO₂), and their potential to affect climate change, from fossil fuel fired electric generating units. The first CPP was struck down by the Supreme Court in 2022. The ACE Rule was vacated by the D.C. Circuit Court of Appeals in January 2021, which ruled the EPA had misinterpreted its authority under the federal Clean Air Act (CAA). Concerns have been raised that the last administration's replacement rule is similarly overreaching and threatens affordable, reliable electricity generation in the U.S.
 - In his announcement, the EPA Administrator stated the agency will reconsider the Biden-Harris Administration's regulations on power plants, known as Clean Power Plan 2.0. In 2024, the Biden Administration issued its own rule that critics argue is another attempt to pursue the unlawful fuel-shifting objectives of the Clean Power Plan. It is unclear at this time what impact this will have on the System Units.
2. Reconsideration of mandatory Greenhouse Gas Reporting Program that imposed significant costs on the American energy supply (GHG Reporting Program)
 - On September 12, 2025, EPA proposed to permanently remove program obligations for 46 source categories of the Greenhouse Gas Reporting Program (GHGRP). Under the proposal, facilities, suppliers, and underground injection sites under these 46 source categories would no longer report to

EPA after reporting year 2024. The System Units fall under two of the 46 source categories. The impact seems to be minimal at this time for the System Units.

3. Reconsideration of Effluent Limitation Guideline for the Steam Electric Power Generating Industry to ensure low-cost electricity while protecting water resources (Steam Electric ELG)
 - In May 2024, EPA published a final rule to "strengthen" the wastewater discharge standards that apply to coal-fired and other steam-electric power plants. EPA explained that better performing treatment technologies continued to develop following the issuance of the 2020 Rule, and there was more information about their performance.
 - On March 12, 2025, EPA announced its plans to reconsider the 2024 Rule, as part of the second Trump Administration's announcement of deregulatory actions to "power the great American comeback." The announcement to reconsider the 2024 Rule similarly prompted both congressional and stakeholder support and opposition. EPA's proposed rule seeks to extend the deadline for existing steam electric power plants to assess potential compliance pathways for their continued operations by six years, from December 31, 2025, to December 31, 2031. While this action covers steam electric power plants, this does not seem to have an impact on the System Units at this time.
4. Ending so-called "Good Neighbor Plan" which the Biden-Harris Administration used to expand federal rules to more states and sectors beyond the program's traditional focus and led to the rejection of nearly all State Implementation Plans
 - On March 30, 2023, the EPA announced the final Good Neighbor Plan (GNP), a rule that will significantly cut smog-forming nitrogen oxide pollution from power plants and other industrial facilities in 23 states. The GNP ensures that 23 states meet the CAA's "Good Neighbor" requirements by reducing pollution that significantly contributes to problems attaining and maintaining EPA's health-based air quality standard for ground-level ozone (or "smog"), known as the 2015 Ozone National Ambient Air Quality Standards (NAAQS), in downwind states.
 - The announcement regarding the end of the GNP represents a recommitment to enhancing cooperative federalism and collaboration with states on State Implementation Plans (SIPs), which were largely dismissed by the Biden-Harris Administration. It is unclear at this time what impact this will have on the System Units.

National Ambient Air Quality Standards (NAAQS). The EPA has established national ambient air quality standards for six regulated pollutants: ozone, lead, carbon monoxide, sulfur dioxide, nitrogen dioxide, and particulate matter. When a pollutant concentration in an area exceeds a standard, the area is classified as nonattainment for that pollutant. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and attain compliance with the appropriate standard. The State Implementation Plan (SIP) entails enforceable control measures and time frames.

For ozone non-attainment SIPs, emission reductions are generally targeted at nitrogen oxide and volatile organic compound emission sources because it is believed that the chemical reaction between these compounds in the presence of sunlight leads to ozone depletion. EPA has an obligation to revisit the NAAQS every five years, and that process has resulted in the tightening of the ozone standard. In response, states must develop new SIPs designed to ensure that nonattainment areas will continue to make progress toward attainment of those more stringent standards. EPA lowered the ozone standard in 2008. On November 7, 2022, the EPA rule reclassifying the DFW area to severe nonattainment went into effect. Consideration for adoption was presented to the TCEQ Commission on April 24, 2024, and was approved.

On October 22, 2025, the Commission adopted the TCEQ Section 185 Penalty Fee program specific to the 2008 eight-hour ozone National Ambient Air Quality Standard or NAAQS. The DFW and Houston-Galveston-Brazoria (HGB) severe ozone nonattainment areas will only be subject to the CAA Section 185 fee if they fail to attain the 2008 eight-hour ozone NAAQS by July 20, 2027, attainment date. If one or both areas fail to attain by July 20, 2027, the rule will be applicable upon the effective date of EPA's failure to attain notice in the Federal Register. This would potentially affect the System Units.

Included in the rulemaking adoption, a major stationary source is assessed the Section 185 fee annually on emissions of NOX, VOC, or both pollutants as reported in the annual emissions inventory for the applicable attainment year, that exceeds 80% of the source's baseline amount. The fee calculation for annual fee assessment reflects the CAA, §185-required penalty of \$5,000 per ton as adjusted annually by the Consumer Price Index (CPI).

Rules for the Regulation of "Acid Rain" (Sulfur Dioxide and Nitrogen Oxide) Emissions. Sulfur dioxide ("SO₂") and nitrogen oxide ("NO_x") emissions were identified in the 1960s as the main cause of acid rain and a variety of rules have been introduced to regulate them. The CAA, originating in 1967 with the Air Quality Act, has imposed increasingly stringent controls on air emissions from industrial facilities. Significant changes to the CAA were made with the 1990 Amendments.

In March 2005, EPA issued the Clean Air Interstate Rule ("CAIR") to provide more stringent standards for SO₂ and NO_x from power plants. CAIR was vacated by the U.S. Court of Appeals for the Washington D.C. (the "D.C. Circuit") Circuit on July 11, 2008 but was reinstated as an interim measure by the same court on December 28, 2008 while the EPA worked on a replacement rule, the Cross-State Air Pollution Rule (CSAPR).

In 2011, EPA published the new replacement rule, CSAPR. CSAPR included cap-and-trade programs for the annual SO₂ and annual NO_x emissions. These programs went into effect on January 1, 2012. However, on August 21, 2012, the D.C. Circuit vacated CSAPR and remanded rulemaking to EPA. In the meantime, CAIR was reinstated until October 23, 2014 when the D.C. Circuit Court of Appeals lifted the stay on CSAPR. These states were to become known as “Group 1” states. Currently, there is only one state that is classified as a Group 1 state, Georgia.

In 2015, the D.C. Circuit Court decided that CSAPR emissions budgets for 9 of the 21 states were invalid and remanded the rule to EPA for reconsideration (“CSAPR Update”). These states (Alabama, Arkansas, Iowa, Kansas, Mississippi, Missouri, Oklahoma, Texas, and Wisconsin) for which the CSAPR Update was previously found to be only a partial remedy, did not significantly contribute to nonattainment or maintenance problems for the 2008 ozone NAAQS in downwind states. On October 26, 2016, EPA published a final CSAPR rule that retains only the NO_x ozone season (May through September) program. This became effective in 2017. These 9 states were to become known as “Group 2” states.

On March 15, 2021, the EPA finalized the Revised Cross-State Air Pollution Rule Update (“Revised CSAPR Update”) to resolve states’ outstanding interstate pollution transport obligations for the 2008 ozone NAAQS. “Group 3” was created from the remaining 12 states (Illinois, Indiana, Kentucky, Louisiana, Maryland, Michigan, New Jersey, New York, Ohio, Pennsylvania, Virginia and West Virginia).

EPA’s CSAPR Update would considerably restrict NO_x emissions from coal-fired and natural gas-fired electric generating units in Texas, primarily via a more restrictive NO_x allowance program. However, on May 1, 2023, the U.S. 5th Circuit Court of Appeals issued a stay on EPA’s disapproval of the Texas State Implementation Plan (“SIP”). Without a final effective SIP disapproval, EPA cannot impose the CSAPR Update in Texas. Therefore, while the stay is pending, the City will continue to operate under the less stringent CSAPR regime that has existed since 2017. It is expected that the U.S. 5th Circuit Court of Appeals will decide the merits of the case in 2024.

While the 4th, 5th, 6th and 8th Circuit Courts of Appeal granted motions to stay the EPA’s disapproval for the 12 states, the 6th, 7th and 10th Circuit Courts of Appeal had granted EPA’s motions to transfer the challenges before them to the D.C. Circuit Court of Appeals for consolidation and consideration. Petitioners of the FIP asked the U.S. Supreme Court (“SCOTUS”), via emergency or “shadow” docket, to stay the implementation of the FIP.

On June 27, 2024, SCOTUS, granted a request for a stay of the EPA’s imposition of its FIP against more than 20 states that failed to meet their “good neighbor” obligations to decrease ozone-causing NO_x emissions under the CAA before any lower court had a chance to consider the merits of the many challenges to the rule.

The Revised CSAPR Update morphed into the GNP and one action of the EPA announcement on March 12, 2025. See item 4 above for further information on the announcement.

New Source Review (“NSR”). The federal CAA, the Texas Clean Air Act (“TCAA”), and the agency rules implementing these statutes regulate air emissions from power plants through several different programs. For example, both the CAA and TCAA contain new source review requirements that require pre-construction permits authorizing the discharge of air emissions from new or modified facilities. In 1999, EPA initiated a major enforcement initiative targeting older coal-fired electric generation plants and has asserted that many of these plants underwent major modifications in the past without appropriate permit authorization under the NSR rules. One of the goals of this enforcement initiative is to force these older coal plants to go through the air permitting process and then install significant upgrades to their air emission controls consistent with current permitting criteria.

There has been considerable controversy over what kinds of activities or changes represent a facility modification that requires a permit amendment as distinguished from activities that are considered routine maintenance. Several federal appellate courts, including SCOTUS, have recently addressed aspects of this controversy and EPA also sought to clarify certain aspects of the NSR applicability rules. On December 7, 2017, EPA issued a guidance document on NSR applicability and how to calculate emission increases for purposes of determining if an activity required a permit amendment; on November 6, 2019 EPA updated its NSR Policy and Guidance Document Index; and on December 3, 2019 EPA announced several actions to improve and clarify NSR permitting requirements. Up to this point, the System Units have not been subject to investigation for NSR compliance.

Thermal Discharges – 316(a) Rule. Olinger Plant thermal discharge limits are regulated under Section 316(a) of the Clean Water Act for water returning to Lavon Lake. In 2010, EPA began issuing interim objections to draft Texas Pollutant Discharge Elimination System (“TPDES” or wastewater) permits with temperature limits that exceeded the receiving water segment criteria. At that time, the TCEQ began negotiations with EPA to develop a strategy to address thermal discharges into surface waters in Texas. The TCEQ and EPA agreed that TCEQ would develop screening procedures to develop thermal limits in TPDES permits as needed to comply with state water quality standards or as approved under Section 316(a) of the Clean Water Act. On February 10, 2020, the Olinger Plant received the renewal of the TPDES permit that included a section regarding thermal discharge of the plant cooling water. The permit does not have any future requirements for the thermal discharge and the discharge limits have been set at acceptable levels. Spencer Plant utilizes a closed-loop cooling system and does not discharge back to a body of water.

Cooling Water Intakes – 316(b) Rule. Power plant cooling water intake structures are regulated under Section 316(b) of the Clean Water Act. On August 15, 2014 EPA published a final rule on power plant cooling water intakes (known as the Clean Water Act Section 316(b) Rule). This rule is also being implemented by the state through the TPDES permitting program. Permit-specific provisions are applied at the time of permit renewal.

In March 2008 the Olinger Plant completed and submitted an Impingement Mortality Characterization Study. The report concluded that annual fish impingement is exceptionally low at the Olinger Plant due to seasonal operation. Nevertheless, the City is not in a position to assess what, if any, impact these studies may have on future wastewater permit requirements or the possibility of new environmental control costs being imposed on the Olinger Plant. On February 10, 2020, the Olinger Plant received the renewal of the TPDES permit that included a section on Cooling Water Intake Structure Requirements. Monitoring and record-keeping requirements were added to the permit. Spencer Plant utilizes a closed-loop cooling system and does not discharge back to a body of water.

Ecological Risks. The System Units produce industrial solids. These facilities are generally responsible for the liabilities associated with proper waste disposal and any related site contamination based upon improper management of these wastes. Hazardous substances at the System Units could expose the City to potential liabilities associated with the cleanup of contaminated soil and/or groundwater under federal or state “Superfund” statutes.

As a result of the sale of Gibbons Creek on February 10, 2021, the City is no longer exposed to future environmental regulations related to Gibbons Creek. See “THE SYSTEM – Texas Municipal Power Agency.”

TMPA Mine Closure and Related Remediation Obligations. The Gibbons Creek Lignite Mine, which was the original source of fuel for the Gibbons Creek Steam Electric Station, was closed in 1996. The reclamation of the mine site and the release of reclamation obligations has been ongoing activities since that time. Currently, field reclamation activities are essentially complete and TMPA is in the process of finalizing for bond release with the Railroad Commission of Texas, the main regulatory authority.

TMPA originally had approximately 8,810 acres under mine reclamation bond. As of September 2025, TMPA has obtained full bond release on approximately 8,782 acres (>99%), with 28 acres (<1%) still under bond.

On December 22, 2022, TMPA sold the mining land.

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DEBT INFORMATION

TABLE 4 – ELECTRIC SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Bonds Similarly Secured Debt Service ⁽¹⁾			The Bonds			Total Electric Utility Syst. Revenue Debt Service ⁽²⁾	% of Principal Retired
	Principal	Interest	Total D/S	Principal	Interest	Total D/S		
	2026	\$ 30,545,000	\$ 28,487,184	\$ 59,032,184	\$ -	\$ 2,883,347	\$ 2,883,347	\$ 61,915,531
2027	30,255,000	27,115,729	57,370,729	2,660,000	4,829,750	7,489,750	64,860,479	
2028	31,435,000	25,714,824	57,149,824	2,800,000	4,693,250	7,493,250	64,643,074	
2029	31,910,000	24,269,169	56,179,169	2,945,000	4,549,625	7,494,625	63,673,794	
2030	33,410,000	22,771,890	56,181,890	3,090,000	4,398,750	7,488,750	63,670,640	21.05%
2031	22,180,000	21,521,374	43,701,374	3,255,000	4,240,125	7,495,125	51,196,499	
2032	22,640,000	20,549,753	43,189,753	3,425,000	4,073,125	7,498,125	50,687,878	
2033	23,635,000	19,550,417	43,185,417	3,590,000	3,897,750	7,487,750	50,673,167	
2034	24,655,000	18,523,609	43,178,609	3,780,000	3,713,500	7,493,500	50,672,109	
2035	19,270,000	17,625,968	36,895,968	3,970,000	3,519,750	7,489,750	44,385,718	37.29%
2036	20,055,000	16,839,714	36,894,714	4,175,000	3,316,125	7,491,125	44,385,839	
2037	20,880,000	16,018,203	36,898,203	4,390,000	3,102,000	7,492,000	44,390,203	
2038	21,705,000	15,187,466	36,892,466	1,935,000	2,943,875	4,878,875	41,771,341	
2039	22,540,000	14,348,459	36,888,459	2,035,000	2,844,625	4,879,625	41,768,084	
2040	23,435,000	13,455,733	36,890,733	2,140,000	2,740,250	4,880,250	41,770,983	52.65%
2041	24,390,000	12,489,190	36,879,190	2,250,000	2,630,500	4,880,500	41,759,690	
2042	25,425,000	11,462,556	36,887,556	2,365,000	2,515,125	4,880,125	41,767,681	
2043	26,500,000	10,383,237	36,883,237	2,485,000	2,393,875	4,878,875	41,762,112	
2044	27,635,000	9,258,198	36,893,198	2,610,000	2,266,500	4,876,500	41,769,698	
2045	28,755,000	8,136,005	36,891,005	2,745,000	2,132,625	4,877,625	41,768,630	70.72%
2046	29,890,000	7,003,998	36,893,998	2,885,000	1,991,875	4,876,875	41,770,873	
2047	31,080,000	5,813,025	36,893,025	3,035,000	1,843,875	4,878,875	41,771,900	
2048	32,320,000	4,573,398	36,893,398	3,190,000	1,688,250	4,878,250	41,771,648	
2049	31,865,000	3,324,384	35,189,384	3,355,000	1,524,625	4,879,625	40,069,009	
2050	24,160,000	2,245,142	26,405,142	3,525,000	1,352,625	4,877,625	31,282,767	91.31%
2051	20,900,000	1,398,351	22,298,351	3,705,000	1,171,875	4,876,875	27,175,226	
2052	7,735,000	847,013	8,582,013	3,895,000	981,875	4,876,875	13,458,888	
2053	8,075,000	505,644	8,580,644	4,095,000	782,125	4,877,125	13,457,769	
2054	3,815,000	250,219	4,065,219	4,305,000	572,125	4,877,125	8,942,344	
2055	3,980,000	84,575	4,064,575	4,530,000	351,250	4,881,250	8,945,825	99.41%
2056	-	-	-	4,760,000	119,000	4,879,000	4,879,000	100.00%
	<u>\$ 705,075,000</u>	<u>\$ 379,754,424</u>	<u>\$ 1,084,829,424</u>	<u>\$ 97,925,000</u>	<u>\$ 80,063,972</u>	<u>\$ 177,988,972</u>	<u>\$ 1,262,818,396</u>	

(1) Excludes the Refunded Bonds.

(2) Excludes any Supported Notes or Direct Purchaser Notes issued pursuant to the 2021 Note Program. See “DEBT INFORMATION – Variable Rate Programs” for a discussion of any Supported Notes or Direct Purchase Notes pursuant to the 2021 Note Program which are subordinate to the City’s outstanding Bonds Similarly Secured (including the Bonds) and any Additional Bonds.

TABLE 5 - AUTHORIZED BUT UNISSUED REVENUE BONDS

The City has no authorized but unissued System revenue bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL SYSTEM REVENUE BONDS. . . . The City may issue additional System Revenue Bonds within the next 12 months.

CAPITAL IMPROVEMENT PROGRAM. . . . The City Council annually adopts a Capital Improvement Program (the “CIP”) that consists of projects that involve the construction of infrastructure and major facilities and the acquisition of large equipment. The CIP, which is adopted on a calendar-year basis, details expected resources and planned expenditures over a five-year period, lists projects for each capital improvement fund and provides descriptions of projects and funding sources. The CIP budget differs from the City’s operational budget because of its “multi-year” focus, which means that a project can span more than one fiscal year. In approving the CIP, the City Council actually appropriates the funds for the plan year, while approving, in concept, the plan for future years. The CIP is developed for planning purposes and may identify projects that will be deferred or omitted entirely in future years; only projects for the current fiscal year are included in the City’s adopted budget. In addition, as conditions change, new projects may be added that were not identified in the prior year programs.

For 2025, the CIP included approximately \$213.8 million in total budgeted expenditures for System capital projects. The total CIP for the five-year period of 2025-2029 includes approximately \$554.6 million of anticipated capital improvement projects. The City Council adopted CIP document is available on the City website at: <http://www.garlandtx.gov>.

VARIABLE RATE PROGRAMS. . . . Pursuant to an ordinance adopted by the City Council in 2021, the City established a \$150 million commercial paper note program (the “2021 Note Program”) for System capital improvements. On August 19, 2025, the City extended the term of the 2021 Note Program to August 28, 2030. A portion of the proceeds of the Bonds will be used to refund some of the outstanding notes (the Refunded Notes). The 2021 Note Program permits the City to issue up to \$150 million of commercial paper notes in the form of tax-exempt or taxable “Supported Notes,” the payment of which are supported by a credit facility, and “Direct Purchase Notes” that may be privately placed in the form of revolving notes having a maturity of not more than 364 days. Direct Purchase Notes would be sold on a taxable or tax-exempt basis pursuant to a Note Purchase Agreement. The City entered into a Note Purchase Agreement having a four-year term with Wells Fargo Bank, National Association prior to September 1, 2021 (as amended, the “2021 Note Purchase Agreement”). On August 29, 2025, the City and Wells Fargo Municipal Capital Strategies, LLC (as successor to Wells Fargo Bank, National Association) entered into a First Amendment to Note Purchase Agreement pursuant to which the term of the 2021 Note Purchase Agreement was extended to August 28, 2030. The City expects to fund “Eligible Projects” of the System (as defined in Chapter 1371) under the 2021 Note Purchase Agreement during its term but has the option of issuing Supported Notes during that time, as well. The commercial paper notes issued under the 2021 Note Program are subordinate to the Bonds Similarly Secured (including the Bonds) and any Additional Bonds with respect to the pledge of the Net Revenues and other security that secures such obligations.

PENSION FUND

Plan Description

The City participates as one of 921 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, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report that can be obtained at www.tmr.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 benefit 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 Member contributions and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credit for service since the plan began are 200% of the employee’s accumulated contributions. In addition, the City granted another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee’s accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee’s salary had always been the average of his/her salary in the last three years that are one year

before the effective date. At retirement, the benefit is calculated as if the sum of the employee’s accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. A summary of the plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required to vesting	5
Service retirement eligibility	age 60 with five or more years of service or with 20 years of service regardless of age

At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,799
Inactive employees entitled to but not yet receiving benefits	1,019
Active employees	<u>2,124</u>
	4,942

Contributions

The contribution rate for employees in TMRS are either 5%, 6%, or 7% of Member’s total compensation, and the city matching percentages are either 100%, 150%, or 200%, 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 experience over time.

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.14% and 10.83% in calendar years 2023 and 2024, respectively. The City’s contributions to TMRS for fiscal year 2024, were \$21,773,233, and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2023, 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 Total Pension Liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with 100% of the Public Safety table used for males and 100% of 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are 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 the most recent Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over a four-year period from December 31, 2018 to December 31, 2022. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The postretirement mortality assumption for Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 thru 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. The target allocation and best estimates of the expected return for each major asset class in fiscal year 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	6.70%
Core Fixed Income	6.0%	4.70%
Non-Core Fixed Income	20.0%	8.00%
Other Public and Private Markets	12.0%	8.00%
Real Estate	12.0%	7.60%
Hedge Funds	5.0%	6.40%
Private Equity	10.0%	11.60%
Total	100.0%	

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 benefits payments to current active and inactive Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2022	\$ 1,164,492,863	\$ 1,072,746,591	\$ 91,746,272
Changes for the year:			
Service cost	28,035,696	-	\$ 28,035,696
Interest (on the total pension liability)	77,329,845	-	77,329,845
Difference between expected and actual experience	(3,175,432)	-	(3,175,432)
Changes of assumptions	(5,182,162)	-	(5,182,162)
Benefit payments, including refunds of employee contributions	(65,766,769)	(65,766,769)	-
Contributions - employer	-	19,450,670	(19,450,670)
Contributions - employee	-	12,572,061	(12,572,061)
Net investment income	-	123,942,041	(123,942,041)
Administrative expense	-	(789,866)	789,866
Other	-	(5,521)	5,521
Net changes	31,241,178	89,402,616	(58,161,438)
Balance at 12/31/2023	\$ 1,195,734,041	\$ 1,162,149,207	\$ 33,584,834

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

The following presents the net pension liability (asset) of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 173,323,788	\$ 33,584,834	\$ (84,163,322)

Pensions Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to Pensions

For the year ended September 30, 2024, the City recognized pension expense of \$12,743,703.

At September 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference between expected and actual economic experience	\$ 1,270,898	\$ (4,915,805)
Difference in assumption changes	0	(3,982,590.00)
Difference between projected and actual investment earnings on pension plan investments	30,327,997	-
Employer contributions subsequent to the measurement date	<u>15,682,530</u>	<u>-</u>
	\$ 47,281,425	\$ (8,898,395)

Deferred outflows of resources of \$15,682,530 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, 2025. Other amounts reported as deferred outflows and inflows or resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended	
<u>September 30,</u>	
2025	\$ 6,123,631
2026	6,690,904
2027	20,811,371
2028	<u>(10,925,406)</u>
Total	<u>\$ 22,700,500</u>

GENERAL OBLIGATION PENSION BONDS . . .The City issued its \$130,850,000 General Obligation Pension Bonds, Taxable Series 2025 (the “GO Pension Bonds”) on September 17, 2025 to pay a portion of the City’s unfunded, accrued liability to the TMRS. The City and its covered employees make deposits into the pension plan (the “Plan”) each month towards the employees’ benefits earned during the current year (the "Normal Cost") as well as a portion of the unfunded, accrued liability (the "TMRS Unfunded Liability"). The TMRS Unfunded Liability is the difference between the Plan’s assets and the benefits accrued (for past service) for current and future retirees. TMRS calculates the TMRS Unfunded Liability in two parts: 1) the Prior Service Cost component for the upcoming service year, and 2) the unfunded actuarially accrued liability ("TMRS UAAL") for the following service year (2026) and beyond as calculated by the TMRS December 31, 2024 actuarial study (the "TMRS Actuarial Study"). The City is currently amortizing the TMRS Unfunded Liability over a 20-year period. As of December 31, 2024, the Plan is approximately 87.7% funded with a TMRS UAAL of \$170,575,663 which includes total estimated Prior Service Cost payments of \$18,907,321 for the period of October 2025 through December 2026 using the Plan assumptions. A portion of the TMRS UAAL in the amount of \$111,092,679 was deposited directly with TMRS upon delivery of the GO Pension Bonds. The total Prior Service Cost payments for the period October 2025 through December 2026 to be paid in monthly installments during that period were deposited into an escrow account with Zions Bancorporation, National Association, Amegy Bank Division (the "Escrow Agent") from which monies will be drawn monthly and transferred to TMRS. See "PENSION FUND" and Appendix B – "Excerpts From the Financial Statements – Note F" for Plan details and assumptions. Plan earnings performance, changes in benefits, and many other factors will impact the Plan’s overall funded level in future years and the City may owe additional payments relating to the portion of the TMRS Unfunded Liability being funded with a portion of the proceeds of the Bonds or may become overfunded in the future. The GO Pension Bonds are payable from a direct and continuing annual ad valorem tax levied upon all taxable property within the City, within the limits prescribed by law. **The GO Pension Bonds are not payable from or secured by the Net Revenues of the System.**

OTHER POST EMPLOYMENT BENEFITS. . . In addition to providing benefits through the TMRS, the City has opted to provide eligible retired employees with the following post-employment benefits:

Plan Description

The City makes available health care benefits to all employees who work for the City of Garland a minimum of five years, meet the Texas Municipal Retirement System (TMRS) criteria listed on page 76, and elect coverage at the time of retirement and maintain continuous, uninterrupted coverage. Benefit provisions are established by management and funding is approved by City Council annually, during the budget process.

In 2008, the City established an irrevocable trust fund in an effort to begin funding the actuarial determined OPEB unfunded liability and to ensure that funding is available in the future for retiree medical benefits. In 2024, the City Council approved a transfer of \$1,760,000 to the trust, and a long-term funding strategy was implemented to increase the annual contribution to this trust with a goal of fully funding the annual OPEB obligation after ten years.

The OPEB trust investments are held in the Public Agencies Retirement Services (PARS) Post-retirement Health Care Plan Trust by its trustee, US Bank. US Bank has delegated investment management responsibilities to HighMark Capital Management, Inc. (Investment Manager), a SEC- registered investment advisor. The Trust investment guideline mandates a diversified portfolio designed to generate long-term returns that, when combined with contributions, will result in sufficient assets to pay future obligation associated with the retiree health plan.

Benefits Provided

The City of Garland provides insurance to eligible pre-65 retirees, their spouses and dependents through the City’s self-insured group health plan. Post-65 retirees are offered a fully insured Medicare Supplement Plan through Hartford, who assumes all claims risk liability on this group of retirees. The City makes contributions towards retiree health care benefits. However, the City reduces its liability and risk by capping the annual increase to the City contribution to a maximum of 3% per year. For FY2024, the monthly City contribution per participant for the retiree group as a whole was \$532.37.

As of December 31, 2023 biennial actuarial valuation, the Plan’s membership consisted of the following:

<u>Number of plan members</u>	<u>Medical</u>
Retirees and dependents currently receiving benefits	1025
Inactive members entitled to benefits, but not yet receiving them	-
Active members	<u>1,983</u>
Total	<u>3,008</u>

Contributions and Funding Policy

The City has the authority to establish and amend the Plan contributions. The City makes an annual contribution to the Trust fund; the funding is established and approved by City Council as part of the City budget process. For the year ended September 30, 2024, the City’s average contribution rate was 3.12 percent of the covered-employee payroll. Monthly retiree premiums are utilized to fund current medical claims and are based on the benefit election of the Plan member.

Net OPEB Liability

The City’s net OPEB liability was measured as of December 31, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

Actuarial Valuation Date	12/31/2023
Actuarial Cost Method	Entry Age Normal
Asset valuation method	Fair value
Inflation	2.50%
Projected salary increase	3.00%
Discount rate	4.70%
Healthcare cost trend rates	All years capped at 3.0%
Mortality	Non Annuitants - Sex distinct PUB 2010 generally employee headcount weighted mortality table with mortality improvement scale MP-2021. Annuitants - Sex distinct PUB 2010 retiree headcount weighted mortality table with mortality improvement scales MP-2021.

Rate of Return

The long-term expected rate of return on OPEB plan investments will be managed on a total return basis which takes into consideration both investment income and capital appreciation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Geometric)
Large Cap	26.40%	7.00%
Mid Cap	4.80%	7.60%
Small Cap	5.90%	7.20%
International	9.20%	7.80%
Emerging Markets	2.40%	8.80%
Real Estate	2.40%	7.50%
Intermediate Term Bond	45.60%	3.90%
Government Bonds	0.00%	3.90%
Mortgage Backed Securities	0.00%	6.50%
Cash	3.30%	2.90%
Total	100.00%	

The long-term expected rate of return is 6.75%. The expected return is determined through a combination of historical rates of return, valuation projections, and economic expectations.

Discount rate

The discount rate used to measure the Total OPEB Liability was 4.7%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the OPEB plan's Fiduciary Net Position was projected to be available to make all projected future benefits payments to current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The discount rate for the 12/31/2023 measurement was 4.7% which caused an actuarial gain. The discount rate for the 12/31/2022 measurement was 4.15%. The discount rate incorporates a blend of the expected rate of return and the yield of a set of 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of December 31, 2023, the measurement date (6.75% and 4.00%, respectively).

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at 12/31/2022	\$ 97,371,656	\$ 12,419,395	\$ 84,952,261
Changes for the year:			
Service cost	2,080,963	-	2,080,963
Interest (on the total OPEB liability)	5,260,690	-	5,260,690
Difference between expected and actual experience	816,935	-	816,935
Changes of assumptions	30,319,531	-	30,319,531
Benefit payments, including refunds of employee contributions	(7,259,006)	(7,259,006)	-
Contributions - employer	-	10,694,006	(10,694,006)
Net investment income	-	2,059,481	(2,059,481)
Administrative expense	-	(71,154)	71,154
Net changes	31,219,113	5,423,327	25,795,786
Balance at 12/31/2023	\$ 128,590,769	\$ 17,842,722	\$ 110,748,047

Plan fiduciary net position as a percentage of the total OPEB liability is 13.88%.

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

The following presents the net OPEB liability of the City, calculated using the discount rate of 5.49%, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.49%) or 1-percentage-point higher (6.49%) than the current rate:

	Current Single	
1% Decrease	Rate Assumption	1% Increase
3.70%	4.70%	5.70%
\$ 129,846,804	\$ 110,748,047	\$ 95,331,951

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.7%, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.7%) or 1-percentage-point higher (5.7%) than the current rate:

	Current Single	
1% Decrease	Rate Assumption	1% Increase
2.00%	3.00%	4.00%
\$ 93,317,848	\$ 110,748,047	\$ 132,541,582

OPEB Plan Fiduciary Net Position

The Plan is a single-employer plan and does not issue a publicly available financial report.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended September 30, 2024, the City recognized an OPEB expense of \$15,503,911.

At September 30, 2024, 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
Differences between expected and actual economic experience	\$ 2,022,746	\$ -
Difference in assumption changes	28,787,606	(2,739,062)
Difference between projected and actual investment earnings on pension plan investments	744,577	-
Employer contributions subsequent to the measurement date	1,966,121	-
	<u>\$ 33,521,050</u>	<u>\$(2,739,062)</u>

Deferred outflows of resources of \$1,966,121 related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows, or resources related to pensions will be recognized in OPEB expense as follows:

Year ended September 30,	
2025	\$ 7,133,607
2026	6,847,534
2027	4,677,432
2028	4,967,882
2029	5,189,412
Total	<u>\$ 28,815,867</u>

SUPPLEMENTAL DEATH BENEFITS FUND (SDBF)

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members and retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (pay as you go plan). The retiree portion of the SDBF is considered to be a single-employer, defined benefit OPEB plan.

Detail information about the SDBF OPEB plan is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmrs.com.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employee’s entire careers. The SDBF contribution rate for retirees is .16%.

As of December 31, 2023, membership in the plan consisted of the following:

Inactive employees currently receiving benefits	1,357
Inactive members entitled to benefits, but not yet receiving them	255
Active members	<u>2,124</u>
Total	<u><u>3,736</u></u>

The City’s OPEB liability is measured as of December 31, 2023, and the total OPEB liability was determined by an actuarial valuation as of December 31, 2023.

Actuarial Assumptions

Inflation	2.50%
Salary increases	3.6% to 11.85% including inflation
Discount rate*	3.77%
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 Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by Scale MP-2021 (with immediate convergence).
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 rates 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 of Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

*The discount rate was based on Fidelity Index’s "20-Year Municipal GO AA index" rate as of December 31, 2023.

Changes in Total OPEB Liability

Beginning at December 31, 2022	\$ 7,436,562
Service Cost	233,483
Interest on the total OPEB liability	300,454
Differences between expected and actual experience	586
Change in assumptions	379,624
Benefit payments	<u>(269,401)</u>
Net change in total OPEB liability	<u>644,746</u>
Ending at December 31, 2023	<u><u>\$ 8,081,308</u></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 3.77%, as well as what the City's Total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.77%) or 1-percentage-point higher (4.77%) than the current rate:

1% Decrease	Current Discount Rate Assumption	1% Increase
<u>2.77%</u>	<u>3.77%</u>	<u>4.77%</u>
\$ 9,499,939	\$ 8,081,308	\$6,951,895

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended September 30, 2024, the City recognized an OPEB expense of \$285,568.

At September 30, 2024, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,838	\$ (376,612)
Difference in assumptions changes	1,119,902	(2,232,488)
Employer contributions subsequent to the measurement date	<u>225,243</u>	<u>-</u>
	\$ 1,363,983	\$(2,609,100)

Deferred outflows of resources of \$225,243 related to OPEB resulting from retiree contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows or resources related to pensions will be recognized in OPEB expense as follows:

Fiscal Year Ended <u>September 30,</u>	
2025	(271,167)
2026	(311,365)
2027	(493,762)
2028	(438,986)
Therafter	<u>44,920</u>
Total	<u><u>\$ (1,470,360)</u></u>

SELF INSURANCE

Self-insurance for general and auto liability exposure and workers' compensation is maintained in the Self-Insurance Fund of the Internal Service Fund. A private insurance company administers workers' compensation claims and losses for the City. Self-insurance premiums of \$11,941,732 were collected from funds that participate in these. Claims settlement and loss expenses are

accrued in the Self-Insurance Fund for the estimated settlement value of claims reported and incurred but not reported arising from incidents during the period. A liability, insurance claims payable, has been established. The reported liability includes actuarially determined present value projected losses for general, auto, and workers' compensation exposure. In determining projected losses, coverages with material incurred losses were compared to expected industry loss levels for prior periods. Based on this comparison, an experience modifier was selected and applied to current indicated industry premiums per exposure unit to obtain expected losses as of September 30, 2024, at the selected per occurrence limits. Based on a current independent actuarial analysis completed in December 2024 claims payable as of September 30, 2024 was estimated at \$5,644,644.

Long-Term Disability (LTD) claims are paid from the LTD Insurance Fund, which is funded with City and employee contributions. A private company administers the long-term disability claims and losses for the City. Based on a current independent actuarial analysis, an actuarially determined liability of \$3,228,223 has been established for projected future claims.

Group medical benefits are paid from the Group Health Fund, which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At September 30, 2024, a short-term liability of \$2,214,914 was recognized for open claims and claims incurred but not reported. The claims incurred but not reported are calculated based on a monthly average for claims paid during the current fiscal year.

There were no significant reductions in insurance coverage in the current year from coverage in the prior year, nor have there been any settlements that have exceeded insurance coverage for each of the past three fiscal years.

Changes in the self-insurance, long-term disability and group health insurance claims payable in fiscal years 2023 and 2024 were:

Internal Service Fund	Beginning of Fiscal Year Liability	Current Year Claims	Changes in Estimates	Claim Payments	Balance at Fiscal Year End	Current Portion
Self-Insurance – 2023	\$5,654,887	\$ 632,433	\$ -	\$ 632,433	\$5,654,887	\$2,774,500
Self-Insurance – 2024	5,654,887	821,073	(10,243)	821,073	5,644,644	2,409,814
Long-Term Disability – 2023	3,677,127	449,507	-	449,507	3,677,127	490,000
Long-Term Disability – 2024	3,677,127	355,052	(448,904)	355,052	3,228,223	315,204
Group Health – 2023	2,683,918	30,024,903	(888,808)	30,024,903	1,795,110	1,795,110
Group Health – 2024	1,795,110	33,422,227	419,804	33,422,227	2,214,914	2,214,914

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FINANCIAL INFORMATION

TABLE 6 - CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended September 30,				
	2024	2023	2022	2021	2020
<u>Operating Revenues</u>					
Charges for Services	\$ 375,502,169	\$ 369,778,809	\$ 347,199,616	\$ 356,541,531	\$ 284,768,630
Other ⁽¹⁾	8,233,705	10,384,202	9,705,700	8,931,246	13,650,941
Total Operating Revenues	<u>\$ 383,735,874</u>	<u>\$ 380,163,011</u>	<u>\$ 356,905,316</u>	<u>\$ 365,472,777</u>	<u>\$ 298,419,571</u>
<u>Operating Expenses:</u>					
Salaries and Benefits ⁽²⁾	\$ 27,578,345	\$ 26,766,268	\$ 25,796,672	\$ 25,073,447	\$ 24,643,697
TMPA Decommission / Demand Charges	484,751	1,946,097	1,339,554	2,616,548	3,400,194
Energy and Fuel Purchases	178,517,561	223,709,334	211,141,569	205,247,395	126,604,267
Maintenance Repairs and Supplies	23,883,374	20,191,819	16,209,513	14,819,308	14,374,647
Insurance and Other Expenses	5,691,823	5,848,951	4,312,302	6,458,221	3,921,446
Claims ⁽³⁾	358,571	358,571	358,571	475,937	358,571
General and Administrative	17,922,369	17,177,652	17,000,597	15,229,644	14,096,856
Total	<u>\$ 254,436,794</u>	<u>\$ 295,998,692</u>	<u>\$ 276,158,778</u>	<u>\$ 269,920,500</u>	<u>\$ 187,399,678</u>
<u>Non Operating Revenues</u>					
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Gain (loss) on Derivative Investment	69,430	-	-	-	-
Other ⁽⁴⁾	313,833	2,969,148	33,536,657	(574,591)	(2,080,543)
Investment Income	22,164,000	16,398,458	226,398	233,194	5,774,136
Total Non Operating Revenues	<u>\$ 22,547,263</u>	<u>\$ 19,367,606</u>	<u>\$ 33,763,055</u>	<u>\$ (341,397)</u>	<u>\$ 3,693,593</u>
Net Available for Debt Service	\$ 151,846,343	\$ 103,531,925	\$ 114,509,593	\$ 95,210,880	\$ 114,713,486
Debt Service Requirements	\$ 58,955,643	\$ 55,517,342	\$ 54,334,144	\$ 44,802,495	\$ 33,891,711
Debt Service Coverage ⁽⁵⁾	2.58x	1.86x	2.11x	2.13x	3.38x
Electric Meters	76,337	74,889	74,180	73,607	72,295

(1) Includes disbursements from TMPA.

(2) Excludes actuarial determined pension expense.

(3) Excludes other Post Employment Benefits (OPEB) expense.

(4) Includes a \$469,148 and \$33,356,656 refund from TMPA for FYE 2023 and FYE 2022, respectively.

(5) Excludes transfers from Rate Mitigation Fund, Depreciation, and Amortization of Other Assets.

RATE MITIGATION FUND. . . The City maintains, by charter, a rate mitigation fund that can only be used to reduce debt obligations of the City incurred in connection with providing electric energy to the City or to mitigate the City's future electric utility rate requirements. Going into the Weather Event, the balance of the System's rate mitigation fund was \$205 million. The City applied the rate mitigation fund to pay the unexpected costs of the Weather Event. In addition, on February 15, 2021 the City began proactive communication with its financial advisors to put in place additional liquidity if needed, and by March 12, 2021 closed on a \$150 million five-year taxable note. The City used the taxable note to replenish the rate mitigation fund to maintain its robust liquidity. As of September 30, 2025, the System has \$286.8 million (unaudited) in the rate mitigation fund.

For fiscal year ending September 30, 2020, the City budgeted \$15,250,000 to be transferred to the System's operating fund from the rate mitigation fund; however, due to better than budgeted performance, no monies were transferred from the rate mitigation fund into the System's operating fund. For fiscal year 2021, the City budgeted \$12,300,000 to be transferred to the System's operating fund from the rate mitigation fund, however, due to the financial effects of the Weather Event, additional funds were transferred from the rate mitigation fund to the operating fund. For fiscal year 2022, the City budgeted \$8,750,000 to be transferred to the System's operating fund from the rate mitigation fund. The actual amount of the transfer was \$20,000,000 because of the sudden and unanticipated increase in the cost of natural gas. For fiscal year 2023, the City budgeted \$14,250,000 to be transferred to the System's operating fund from the rate mitigation fund. For the fiscal years 2024, 2025 and 2026, the City did not budget any funds to be transferred to the System's operating fund from the rate mitigation fund.

HEDGING ACTIVITIES . . . In an effort to mitigate the financial and market risk associated with the purchase of natural gas, energy, and congestion price volatility, the City has established a Risk Management Program. This program was authorized by the City Council and is led by the Risk Oversight Committee. Under this program, the City enters into forward contracts for natural gas and energy for the purpose of reducing exposure to natural gas and energy price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. The City typically settles these contracts by delivery of certain commodities. The City has collateral posting requirements for its forward contract counterparties and performs mark-to-market analysis of its forward contract positions. As of September 30, 2025, the City holds \$52.5 million (unaudited) in counterparty collateral.

TABLE 7 - COVERAGE AND FUND BALANCES

All System REVENUE Debt Average Annual Principal and Interest Requirements, 2026-2056 ⁽¹⁾⁽²⁾	\$ 40,736,077
Coverage of Average Annual Requirements by Audited 2024 Net Available for Debt Service	3.73x
All System REVENUE Debt Maximum Annual Principal and Interest Requirements, 2027 ⁽¹⁾⁽²⁾	\$ 64,860,479
Coverage of Maximum Requirements by Audited 2024 Net Available for Debt Service	2.34x
Bonds Similarly Secured Outstanding as of 12/15/2025 ⁽²⁾	\$ 705,075,000
The Bonds	97,925,000
Electric Utility System Commercial Paper Notes, Series A Outstanding as of 12/15/2025 ⁽³⁾	24,980,000
TOTAL Projected Electric Utility System Revenue Debt	<u>\$ 827,980,000</u>
Debt Service Reserve Fund Balance, 12/15/2025 ⁽⁴⁾	\$ -

- (1) Excludes the Refunded Notes. See “DEBT INFORMATION – Variable Rate Programs” for a discussion of any Supported Notes or Direct Purchase Notes under the 2021 Note Program which are subordinate to the City's outstanding Bonds Similarly Secured (including the Bonds) and any Additional Bonds.
- (2) Excludes the Refunded Bonds.
- (3) Excludes the Refunded Notes. The 2021 Note Program permits the City to issue up to \$150 million of commercial paper notes as Supported Notes or Direct Purchase Notes under the 2021 Note Program which will be subordinate to the Bonds Similarly Secured (including the Bonds) and any Additional Bonds. A portion of the proceeds of the Bonds will be used to refund the Refunded Notes. See “DEBT INFORMATION – Variable Rate Programs.”
- (4) The City is not required to have a reserve fund for the Bonds Similarly Secured (including the Bonds) unless the revenue debt coverage dips below 1.50x. The City may fund such reserve fund with a surety bond.

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TABLE 8 - VALUE OF THE SYSTEM

	For Fiscal Year Ended September 30,				
	2024	2023	2022	2021	2020
Electric System	\$ 1,052,090,984	\$ 1,009,519,512	\$ 946,538,384	\$ 909,971,502	\$ 854,864,557
Land	32,027,819	31,501,038	30,686,148	30,519,110	30,286,192
Total Value	\$ 1,084,118,803	\$ 1,041,020,550	\$ 977,224,532	\$ 940,490,612	\$ 885,150,749
Less: Accumulated Depreciation	313,748,987	293,966,862	273,544,387	257,961,680	241,799,814
	\$ 770,369,816	\$ 747,053,688	\$ 703,680,145	\$ 682,528,932	\$ 643,350,935
Plus: Construction in Progress	57,148,425	34,394,842	42,307,344	33,489,342	35,235,204
Net Property, Plant and Equipment	\$ 827,518,241	\$ 781,448,530	\$ 745,987,489	\$ 716,018,274	\$ 678,586,139

TABLE 9 - CITY'S EQUITY IN SYSTEM

	For Fiscal Year Ended September 30,				
	2024	2023	2022	2021	2020
Net Property, Plant and Equipment	\$ 827,518,241	\$ 781,448,530	\$ 745,987,489	\$ 716,018,274	\$ 678,586,139
Cash and Investments	400,075,575	376,524,062	389,158,898	332,677,734	267,564,547
Other Assets	266,744,796	263,968,606	275,475,648	275,431,535	187,131,501
Total Assets	\$ 1,494,338,612	\$ 1,421,941,198	\$ 1,410,622,035	\$ 1,324,127,543	\$ 1,133,282,187
Revenue Bonds Payable	\$ 703,750,182	\$ 778,215,604	\$ 738,938,763	\$ 772,676,030	\$ 530,711,992
General Obligation Bonds Payable	-	-	-	-	1,239,558
Certificates of Obligation Payable	-	-	-	-	-
Variable Notes	91,400,000	31,400,000	60,000,000	25,000,000	67,735,000
Other Liabilities	134,407,015	116,223,749	96,018,058	60,700,633	90,927,876
Total Liabilities	\$ 929,557,197	\$ 925,839,353	\$ 894,956,821	\$ 858,376,663	\$ 690,614,426
City's Equity in System	\$ 564,781,415	\$ 496,101,845	\$ 515,665,214	\$ 465,750,880	\$ 442,667,761
Percent Equity in System	37.79%	34.89%	36.56%	35.17%	39.06%

FINANCIAL POLICIES

Basis of Accounting . . . All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used by all governmental fund types and agency funds.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into investments in capital assets, net of related debt, and registered and unrestricted net assets. Proprietary fund-type operating statements represent increases and decreases in net total assets. Proprietary fund types are accounted for using the accrual basis of accounting.

General Fund Balance . . . It is the City's policy to maintain a balance which is greater than 30 days of adjusted working capital, less debt service, in immediately accessible cash and investments. If the fund balance is drawn down in any one year, the fund balance will be restored in the following year.

Use of Bond Proceeds . . . It is the City's policy that debt will only be issued to finance or refinance long-term capital projects, that debt will not be issued to fund current expenditures, and that debt will not be issued with a maturity longer than the estimated life of the project.

Budgetary Procedures . . . It is the City's policy that a multi-year financial forecast shall be prepared annually, to be issued as a planning tool in developing the following year's operating budget. The budget is developed by the City staff and presented to the City Council for consideration.

INVESTMENTS

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

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

As an entity that qualifies as an “issuer” under Chapter 1371, the City is also authorized to purchase, sell, and invest its funds in corporate bonds. Texas law defines “corporate bonds” as senior secured debt obligations issued by a domestic business entity and rated not lower than “AA-” or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the City. The City may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by the City must be sold if they are at any time downgraded below “AA-” (or the equivalent thereof) or, with respect to a corporate bond rated “AA-” (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible issuer such as the City must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Official Statement, the City has taken no such steps with respect to investment in corporate bonds.

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

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

ADDITIONAL PROVISIONS . . . Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (6) provide specific investment training for the City’s designated Investment Officer; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City’s monthly average fund balance, excluding bond proceeds and reserves and other funds

held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 10 - CURRENT INVESTMENTS

As of November 30, 2025, the following percentages of the City’s investable funds were invested in the following categories of investments.

Type of Investments	Book Value	
	Amount	Percent
US Treasury Coupon Securities	\$ 331,218,362	31.36%
Investment Pool Accounts	723,458,932	68.51%
Certificates of Deposit	1,336,592	0.13%
	<u>\$ 1,056,013,886</u>	<u>100.00%</u>

TAX MATTERS

OPINION . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the City, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity Bonds”, the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “APPENDIX D - FORM OF BOND COUNSEL'S OPINION.”

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, and (b) covenants of the City contained in the documents authorizing the Bonds relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure of the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is rendered in reliance upon the compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

A ruling was not sought from the Internal Revenue Service (the “IRS”) by the City with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

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

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

Interest on the Bonds may be includable in certain corporation's "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

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

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

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

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances,

and in respect of foreign investors, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

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

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS. . . The City will provide annually to the MSRB (1) within six months after the end of each fiscal year ending in or after 2025, financial information and operating data with respect to the City of the general type of information contained in Tables 1 through 10 and (2) within twelve months after the end of each fiscal year ending in or after 2025, audited financial statements of the City. Any financial statements so provided shall be prepared in accordance with the accounting principles described in Appendix B, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation. If audited financial statements are not available within 12 months after the end of any fiscal year, the City will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, the City must provide updated information included in the above-referenced tables by March 31 in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data.

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 Bonds 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 Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, 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 trustee or the change of name of a trustee, if material, (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the City, any of which reflect financial difficulties. 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".

For these purposes, any event described in (12) above 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.

For the purposes of any event described in (15) and (16) above, the term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt

obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

AVAILABILITY OF INFORMATION. . . In connection with its continuing disclosure agreement entered into with respect to the Bonds, the City will file all required information and documentation 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 at www.emma.msrb.org.

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 Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although the registered and beneficial owners of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

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

COMPLIANCE WITH PRIOR UNDERTAKINGS. . . During the last five years the City believes it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The Bonds are rated "AA" (stable outlook) by S&P Global Ratings, a division of S&P Global Inc. ("S&P") by virtue of a municipal bond insurance policy to be issued by AG upon delivery of the Bonds to the Underwriters. The Bonds are rated "A1" (stable outlook), by Moody's Investors Service ("Moody's") and "AA-" (stable outlook) by Fitch Ratings ("Fitch") without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such revision or withdrawal of such ratings, or either of them, may have an effect on the market price of the Bonds. See also "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" for a description of the current state of the financial guaranty insurance industry and information regarding downgrading and negative changes to the ratings outlook of multiple financial guaranty insurers.

LITIGATION

There are currently no lawsuits, claims or other legal matters which would, in the opinion of the City Attorney and City Staff, have a material adverse financial impact upon the City or its operations. No litigation, administrative action, or proceeding seeks to restrain, enjoin, the issuance or delivery of the Bonds, or contests or questions the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed, delivered or the validity of the Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act Chapter 1201 of the Texas Government Code, as amended provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8 of the Texas Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, trustees, or for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in obligations such as the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256 of the Texas Government Code, as amended, requires that the Bonds be assigned a rating of not less than “A” or its equivalent as to investment quality by a nationally recognized rating agency; this requirement does not apply, however, to the purchase of obligations such as the Bonds for interest and sinking funds of such entities. See “OTHER INFORMATION – Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL OPINIONS

The City will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein. Though it represents the Municipal Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions “PLAN OF FINANCING” (exclusive of the subcaption “Use of Bond Proceeds”), “THE BONDS” (exclusive of the second and third paragraphs under the subcaption “Security and Source of Payment” and the subcaptions “Book-Entry-Only System” and “Registered Owners’ Remedies”), “TAX MATTERS”, “CONTINUING DISCLOSURE OF INFORMATION” (exclusive of the subcaption “Compliance with Prior Undertakings”), the subcaptions “Legal Opinions” (except for the last two sentences of the first paragraph thereof) “Registration and Qualification of Bonds for Sale” and “Legal Investments and Eligibility to Secure Public Funds in Texas” under the caption “OTHER INFORMATION” and “APPENDIX C – SELECTED PROVISIONS OF THE ORDINANCE” and in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The City expects to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from proceeds of the Bonds. Certain matters relating to the Bonds will be passed upon for the Underwriters by Bracewell LLP, Dallas, Texas, Counsel to the Underwriters, whose fee is contingent upon the sale and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that 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.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

MUNICIPAL ADVISOR

HilltopSecurities is employed as Municipal Advisor to the City in connection with the issuance of the Bonds. The Municipal Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. HilltopSecurities, in its capacity as Municipal Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Municipal Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Municipal Advisor has reviewed the information in this Official Statement in accordance with, and as part of, 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 Municipal Advisor does not guarantee the accuracy or completeness of such information.

CYBERSECURITY RISK MANAGEMENT

The City uses numerous methods to guard against cyber-attacks, such as proactive protection of assets and active monitoring and investigation of suspicious activity. In addition, the City provides annually required, as well as periodic, training on cyber security related issues for employees of the System. The City implemented a System-wide cyber security policy which not only engages periodic social engineering exercises to increase awareness of possible cyber risks, but also provides for employee accountability measures. The City has two positions solely dedicated to overseeing the cyber security efforts for the System.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

Public Finance Partners LLC will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds and (b) mathematical computations of yield. Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Public Finance Partners LLC has relied on any information provided to it by the City's retained advisors, consultants or legal counsel.

UNDERWRITING FOR THE BONDS

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at a price of \$105,647,261.52 (representing the par amount of the Bonds, plus a premium of \$8,205,093.45, less an underwriting discount of \$482,831.93). The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriters and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the City. The Underwriters and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the City.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group ("WFBNA"), the senior Underwriter of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

A portion of the proceeds of the Bonds will be used to make a payment in connection with an extension of credit made to the City by Wells Fargo Bank, National Association.

BofA Securities, Inc., an underwriter of the Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

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

The Ordinance authorized the Pricing Officer to approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriters.

/s/ DARRELL CLINE
Pricing Officer
City of Garland, Texas

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

The Refunded Bonds

Electric Utility System Revenue Refunding Bonds, New Series 2016B

Original Dated Date	Original Maturity Date	Interest Rates	Amount	Redemption Date
11/15/2016	3/1/2026	5.000%	\$ 1,645,000	Escrowed to Maturity
	3/1/2027	5.000%	1,730,000	3/1/2026
	3/1/2028	5.000%	1,820,000	3/1/2026
	3/1/2029	5.000%	1,915,000	3/1/2026
	3/1/2030	5.000%	2,010,000	3/1/2026
	3/1/2031	5.000%	2,115,000	3/1/2026
	3/1/2032	5.000%	2,225,000	3/1/2026
	3/1/2033	5.000%	2,335,000	3/1/2026
	3/1/2034	5.000%	2,455,000	3/1/2026
	3/1/2035	4.000%	2,570,000	3/1/2026
	3/1/2036 ⁽¹⁾	4.000%	2,675,000	3/1/2026
	3/1/2037 ⁽¹⁾	4.000%	2,785,000	3/1/2026
			<u>\$ 26,280,000</u>	

(1) 2037 Term Bond with mandatory redemption in 2036.

The Refunded Notes

City of Garland Electric Utility System Commercial Paper Notes, Series A currently maturing on January 29, 2026 in the principal amount of \$79,815,000 to be redeemed on January 29, 2026.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION AND SIZE

The City of Garland (the "City") is located northeast of Dallas and is one of the largest communities in the Dallas/Fort Worth metroplex. As the 13th largest city in Texas, Garland covers 57 square miles and is served by three major freeways: Interstate 635, Interstate 30, and State Highway 190 (President George Bush Turnpike).

The City is well balanced between residential, commercial and industrial development. The population increased 122%, from 81,437 in 1970 to 180,650 according to the 1990 Census, making Garland the second largest City in Dallas County. The 2020 Census population of the City was 246,132. The 2025 estimated population of the City is 251,101.

Garland is served directly by two railroads, with reciprocal switching agreements with other railroads in the area and is also served by a national bus line and has park-and-ride bus service to downtown Dallas via Dallas Area Rapid Transit. Commercial air service is afforded by the convenient location of the Dallas-Fort Worth International Airport, Dallas' Love Field and the Garland Heliplex which opened in November of 1989.

Interstate 635 is an eight-lane expressway that encircles the outer limits of Dallas, passing through the southwest section of Garland. The President George Bush Turnpike connects the southeastern area of Garland along the Interstate 30 corridor with the northwestern area of Garland. Interstate 30 travels from Garland's eastern boundary at Lake Ray Hubbard along the southern portion of the city. These highways provide convenient automotive access to the Dallas-Fort Worth metropolitan area.

INDUSTRY AND BUSINESS

Garland is known for its economic and industrial base, which consists of more than 5,000 businesses including approximately 300 manufacturing companies. The City has been noted as a manufacturing community since the 1940s, and numerous Fortune 500 corporations along with many others have selected Garland as home base for their strategic operations. The following is a partial list of companies that maintain operations in Garland:

Arrow Fabrication Tubing	General Dynamics Corp.	Packaging Corp. of America
Batory Foods	Kirchhoff Automotive	Plastipak Packaging
Cosmax NBT	Kraft Heinz Food Co.	Quest USA
Daisy Brands, Inc.	Mapei Corporation	Resistol Hats
Ecolab, Inc.	NTT Data Center	Sherwin-Williams Company
Epiroc Drilling Solutions	O'Neal Flat Rolled Metals	US Food Services

Scout Cold Logistics, a provider of temperature-controlled infrastructure and cold storage solutions, is redeveloping a 1.09 million-square-foot facility at McCree Road in Southeast Garland. The \$41.8 million project involves demolishing a 1970s-built dry storage facility and constructing a state-of-the-art, 132,300 square-foot warehouse into advanced cold storage through an adaptive reuse project, adding over 250,000 square feet of class-A cold storage space. The redevelopment project aims to bolster the fresh food supply chain in the DFW metroplex and the southwestern United States.

Garland's industrial vacancy rate is currently 3.5% and continues to remain competitive after nearly three years of low vacancies. This trend has persisted while sustaining roughly 10% year-over-year rent growth for 2023 in industrial properties. Several infill and redevelopment projects are underway in Garland, with announcements expected in the coming months. The DFW industrial market continues to be competitive, and Garland continues to lead in industrial redevelopment.

In response to the rapidly increasing data traffic demands, and its central location, the DFW market is emerging as one of the largest data center markets in the nation. This growth has spurred ongoing discussions about the future of data center development in Garland. Many existing facilities have expanded; NTT Data has plans for 3 additional expansions, Digital Realty has begun construction of a 173,000 square foot building, and Stream Data Center completed a 276,742 square foot expansion. These expansions demonstrate Garland's importance in the emerging data center market. The area along the President George Bush Turnpike has continued to experience significant commercial development, with numerous new retail and multifamily developments recently completed.

In response to the ongoing demand for urban infill, the City of Garland has been actively working to bring mixed-use development projects aimed at revitalizing key areas across the city. One of these efforts is the Urban Village of Rosehill, a project located along the I-30 corridor. The first phase of this development will introduce 22,000 square feet of restaurants, retail, office space, a fitness center, a clubhouse, and 196 multi-family units. The second and third phases will further increase density by adding 58 townhomes and 104 additional multi-family units.

In May 2025, Garland residents approved a bond package that allocates \$75 million for economic development to promote and support investment and revitalization across the city. This funding will enabled the City to acquire and assemble larger

parcels for significant reinvestment. Maximizing the impact of these funds, the City completed an Economic Development Strategic Plan with the assistance of Ninigret Partners. It included a comprehensive analysis of the strengths, weaknesses, opportunities, and challenges facing Garland’s economy and outlined future goals.

To supplement the recent redevelopment of the City’s downtown, the Economic Development Department has participated in several exciting projects. One such project is the redevelopment of 500 Main St. Garland, which saw the renovation/retrofit of a prior historic furniture store into a new restaurant. These efforts have led to two new businesses taking residence in the place of the prior furniture store, both of which have attracted additional foot traffic to the Downtown square. Further retail and residential redevelopment in the downtown area are underway and will be announced in the coming months.

Additionally, in 2023, the City of Garland completed a Streetscape Masterplan for the new Valoris Healthpark surrounding the Garland VA Medical Center. That Streetscape Masterplan has since been adopted and the City has expanded TIF 3 to include the medical district. Collaborating with studio Outside, city staff engaged multiple stakeholders, including private property owners, the VA, and DART, to develop the initial masterplan. The masterplan includes a proposed wellness park and community hospital for the area. Further enhancing the district, muralist Haylee Ryan was commissioned to create a mural on 601 Clara Barton as part of a partnership with local property owners in an effort to beautify and revitalize the district. The City is searching for a developer/operator for the community hospital and medical district.

Approximately 3.0% of Garland is made up of undeveloped greenspace. As a response to the increasingly built-out nature of the City, the City of Garland is committed to redevelopment, adaptive reuse projects, and building infrastructure to support urban infill and densification. Key initiatives include the development and implementation of a façade improvement program and the Economic Development Incentive programs. The Economic Development Department continues to work with developers and employers to bring high-quality development and opportunities for the City’s residents.

EDUCATION

Most of the City, as well as Rowlett and Sachse, is served by the Garland Independent School District. Small portions of the City lie within the Dallas, Mesquite and Richardson school districts. Garland Independent School District presently has 71 schools with approximately 52,571 students.

Higher educational facilities in the area include Amberton University (formerly Abilene Christian University-Dallas in Garland), Collin County Community College, Eastfield College and Richland College, branches of the Dallas County Community College, Texas A&M Commerce, University of North Texas, Southern Methodist University, Texas Christian University, Texas Wesleyan College, Texas Woman's University, the University of Texas at Arlington, and the University of Texas at Dallas.

FINANCIAL INSTITUTIONS

Several national banks operate full-service banking centers and provide branches within various retail stores and shops throughout the City. Numerous savings and loan associations and credit unions are also located in the City.

RECREATION FACILITIES

The Parks and Recreation Department operates 68 parks, with a total of approximately 2,698 acres. Facilities provided include ball fields, swimming pools, golf facilities, recreation buildings and a tennis center, as well as playgrounds and picnic areas. Lake Lavon, 18 miles northeast of the City, has excellent facilities for fishing, swimming, boating and picnicking. Lake Ray Hubbard, formed by Forney Dam on the East Fork of the Trinity River, provides additional swimming, boating and fishing facilities. A part of the shoreline lies within the City limits of the City and offers areas for lakeside recreational and residential development.

CITY OF GARLAND MISCELLANEOUS STATISTICS

Fiscal Year		Assessed Valuation	Gas Customers	Electric Customers ⁽²⁾	Water Customers
Ended 9/30	Population ⁽¹⁾				
2020	242,914	\$ 16,331,624,830	44,786	89,358	70,066
2021	246,173	16,086,220,876	45,304	92,512	70,165
2022	247,590	17,995,346,670	45,566	93,085	70,806
2023	248,822	20,805,425,256	45,899	93,811	72,012
2024	250,099	23,597,976,987	45,886	94,749	72,578

(1) Source: City’s 2024 -2025 Annual Budget.
(2) Includes both ONCOR and the City’s System.

EMPLOYMENT STATISTICS

	August	City of Garland (Average Annual)				
	2025	2024	2023	2022	2021	2020
Civilian Labor Force	134,527	132,718	133,751	130,057	125,213	120,865
Total Employed	128,747	127,653	128,914	125,478	118,842	111,865
Total Unemployed	5,780	5,065	4,837	4,579	6,371	9,000
Unemployment Rate	4.3%	3.8%	3.6%	3.5%	5.1%	7.4%

	August	Dallas County (Average Annual)				
	2025	2024	2023	2022	2021	2020
Civilian Labor Force	1,452,078	1,433,463	1,461,604	1,420,674	1,372,277	1,322,606
Total Employed	1,386,777	1,375,000	1,405,512	1,368,043	1,295,698	1,219,627
Total Unemployed	65,301	58,463	56,092	52,631	76,579	102,979
Unemployment Rate	4.5%	4.1%	3.8%	3.7%	5.6%	7.8%

Source: Texas Workforce Commission, Labor Market Information.

BUILDING PERMITS (FISCAL YEAR BASIS)

Year Ended 9/30	Single Family Residential Amount	Multi-Family Residential Amount	Industrial and Commercial Amount	Other Amount	Grand Total
2020	\$ 78,796,840	\$ -	\$ 5,173,828	\$ 31,762,387	\$ 115,733,055
2021	110,519,484	-	4,729,519	53,045,393	168,294,396
2022	77,273,773	40,000,000	27,050	39,460,317	156,761,140
2023	42,455,984	37,500,000	1,074,244	38,501,851	119,532,079
2024	27,430,241	-	9,247,703	41,648,170	78,326,114

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APPENDIX B

EXCERPTS FROM THE FINANCIAL STATEMENTS

CITY OF GARLAND, TEXAS

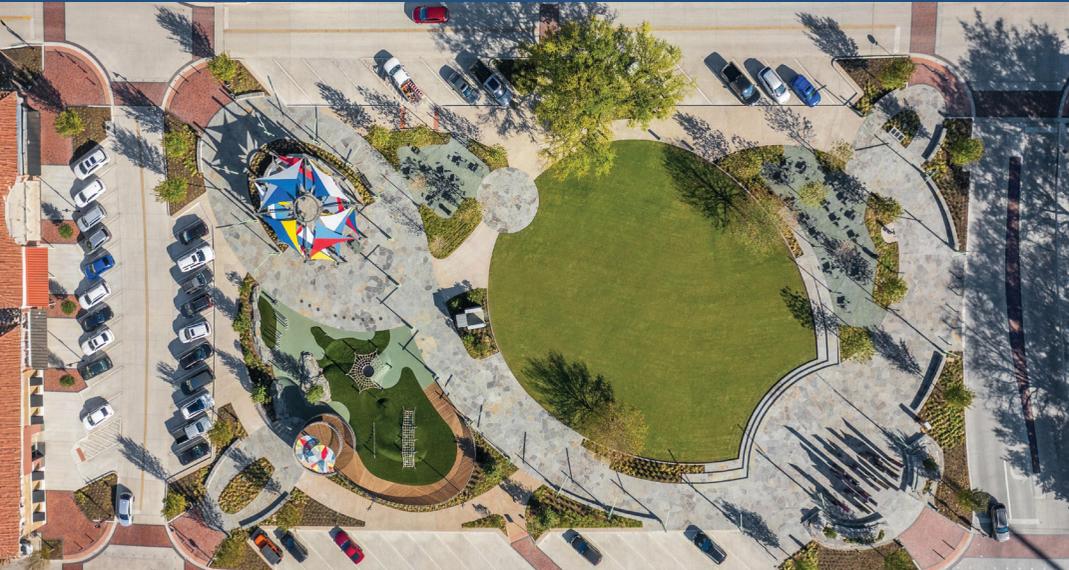
For the Year Ended September 30, 2024

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City of Garland Annual Comprehensive Financial Report

for the year ended
September 30, 2024



CITY OF GARLAND, TEXAS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2024

CITY COUNCIL

Scott LeMay, Mayor
Jeff Bass, District 1
Kris Beard, District 2
Ed Moore, Mayor Pro Tem, District 3
B. J. Williams, District 4
Margaret Lucht, Deputy Mayor Pro Tem, District 5
Carissa Dutton, District 6
Dylan Hedrick, District 7
Chris Ott, District 8

CITY MANAGER

Judson Rex

MANAGING DIRECTOR, FINANCIAL SERVICES

Matt Watson

Prepared by

Financial Services Department

**CITY OF GARLAND, TEXAS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024**

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March 12, 2025

Citizens of the City of Garland
Garland, Texas

Dear Citizens:

The Annual Comprehensive Financial Report (ACFR) of the City of Garland, Texas (the City), for the year ended September 30, 2024 is hereby submitted. The report is published to provide detailed information concerning the financial condition of the City to our citizens and the financial community, as well as other interested parties. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the City, on a government-wide and fund basis. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Governmental Accounting Standards Board requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately after the independent auditors' report.

GENERAL INFORMATION – CITY OF GARLAND

The City of Garland is located northeast of Dallas and is one of the largest communities in the Dallas/Fort Worth Metroplex. As the 13th largest city in Texas, Garland covers 57 square miles and is bordered by three major freeways: Interstate 635, Interstate 30, and State Highway 190 (President George Bush Turnpike).

The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's home rule Charter. The City was incorporated in 1891 and first adopted its Home Rule Charter in 1951. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and eight Council members. The City Manager is the chief administrative officer for the City.

The financial reporting entity (the government) includes all the funds of the primary government (i.e., the City of Garland as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The government provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and infrastructure; recreational activities and cultural events; electric, water, and wastewater utility services; golf course facilities; stormwater facilities; and sanitation collection services.

Discretely presented component units are legally separate entities and not part of the primary government's operations. Accordingly, the Garland Housing Finance Corporation, the Garland Economic Development Authority, and the Garland Health Facilities Development Corporation are not included in the primary government. In accordance with GASB Statement No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34", the City determined that the Garland Health Facilities Development Corporation and the Garland Economic Development Authority, which were discretely presented as component units in the City's financial statements in prior years, are no longer necessary to be reported within the City's financial statements and have been excluded from the City's FY2024 Annual Comprehensive Financial Report. The Garland Independent School District is excluded from this report because it is a separate governmental entity with a separately elected board of trustees.

The Garland Foundation for Development (GFFD) was organized to promote economic development and other activities within the Garland Community. The City Council serves as the board members for GFFD, and the City Manager is the Executive Director. GFFD is reported as a blended component unit of the non-major governmental fund.

The Garland Public Facility Corporation (GPFC) was created as a public facility corporation for the purpose of assisting the City in financing, refinancing, or providing public facilities. The Mayor and City Council serve as the board members of the GPFC. GPFC is reported as a blended component unit of the non-major governmental funds.

DEMOGRAPHICS

Garland's population totaled 246,132 in the 2020 census count, with current estimates placing the population at approximately 250,099. Garland has an estimated 87,698 housing units and an employment base of approximately 130,476. Garland is diverse in ethnicity and education. Most recent estimates place the city's population at 44.0% white, 15.6% African American, 0.7% American Indian or Alaska Native, 10.9% Asian, 7.0% Some Other Race, and 20.7% two or more races. An estimated 44.5% is Hispanic/Latino (of any race). More than 78.6% of the city's adult population is educated above the high school level or higher, with more than 24.1% of the population possessing a bachelor's degree or higher. Per the Garland Economic Development Office, the 2024 estimated average household income in Garland was \$89,165. Per the Dallas Central Appraisal District, the average market value for detached single-family residences in Garland for 2024 is \$322,000.

LOCAL ECONOMY AND DEVELOPMENT

Garland is known for its economic and industrial base, which consists of more than 5,000 businesses, including approximately 300 manufacturing companies. The City has been recognized as a manufacturing community since the 1940s, and numerous Fortune 500 corporations, along with many others, have selected Garland as a home base for their strategic operations. The following is a partial list of companies that maintain operations in Garland:

<i>Arrow Fabrication Tubing</i>	<i>General Dynamics Corp.</i>	<i>Plastipak Packaging</i>
<i>Batory Foods</i>	<i>Kirchhoff Automotive</i>	<i>Quest USA</i>
<i>Cosmax NBT</i>	<i>Kraft Heinz Food Co.</i>	<i>Resistol Hats</i>
<i>Daisy Brands, Inc.</i>	<i>Mapei Corporation</i>	<i>Sherwin-Williams</i>
<i>Ecolab, Inc.</i>	<i>NTT Data Center</i>	<i>US Food Services</i>
<i>Epiroc Drilling Solutions</i>	<i>Packaging Corp. of America</i>	<i>XPO Logistics</i>

Scout Cold Logistics, a provider of temperature-controlled infrastructure and cold storage solutions, is redeveloping a 1.09 million-square-foot facility at McCree Road in Southeast Garland. The \$41.8 million project involves demolishing a 1970s-build dry storage facility and constructing a state-of-the-art, 132,000 square-foot warehouse into advanced cold storage through an adaptive reuse project, adding over 250,000 square feet of class-A cold storage space. The redevelopment project aims to bolster the fresh food supply chain in the DFW metroplex and the southwestern United States.

Garland's industrial vacancy rate is currently 3.5% and continues to remain competitive after nearly three years of low vacancies. This trend has persisted while sustaining roughly 10% year-over-year rent growth for 2023 in

industrial properties. Several infill and redevelopment projects are underway in Garland, with announcements expected in the coming months. The DFW industrial market continues to be competitive, and Garland continues to lead in industrial redevelopment.

In response to the rapidly increasing data traffic demands, and its central location, the DFW market is emerging as one of the largest data center markets in the nation. This growth has spurred ongoing discussions about the future of data center development in Garland. Many existing facilities have expanded; NTT Data has plans for 3 additional expansions, Digital Realty has begun construction of a 173,000 square foot building, and Stream Data Center completed a 276,742 square foot expansion. These expansions demonstrate Garland's Importance in the emerging data center market. The area along the President George Bush Turnpike has continued to experience significant commercial development, with numerous new retail and multifamily developments recently completed.

In response to the ongoing demand for urban infill, the City of Garland has been actively working to bring mixed-use development projects aimed at revitalizing key areas across the city. One of these efforts is the Urban Village of Rosehill, a project located along the I-30 corridor. The first phase of this development will introduce 22,000 square feet of restaurants, retail, office space, a fitness center, a clubhouse, and 196 multi-family units. The second and third phases will further increase density by adding 58 townhomes and 104 additional multi-family units.

In May 2019, Garland citizens approved a bond package that allocates \$46.0 million for economic development to promote and support investment and revitalization across the city. This funding has enabled City to acquire and assemble larger parcels for significant reinvestment. Maximizing the impact of these funds, the City completed an Economic Development Strategic Plan with the help of Ninigret Partners. It included a comprehensive analysis of the strengths, weaknesses, opportunities, and challenges facing Garland's economy and outlined future goals.

To supplement the recent redevelopment of the City's downtown, the Economic Development Department has participated in several exciting projects. One such project is the redevelopment of 500 Main St. Garland, which saw the renovation/retrofit of a prior historic furniture store into a new restaurant. These efforts have led to two new businesses taking residence in the place of the prior furniture store, both of which have attracted additional foot traffic to the Downtown square. Further retail and residential redevelopment in the downtown area are underway and will be announced in the coming months.

Additionally, in 2023, the City completed a Streetscape Masterplan for the newly formed Valoris Healthpark surrounding the Garland VA Medical Center. That Streetscape Masterplan has since been adopted and the City has expanded TIF 3 to include the medical district. Collaborating with studio Outside, city staff engaged multiple stakeholders, including private property owners, the VA, and DART, to develop the initial masterplan. The masterplan

includes a proposed wellness park and community hospital for the area. Further enhancing the district, muralist Haylee Ryan was commissioned to create a mural on 601 Clara Barton as part of a partnership with local property owners in an effort to beautify and revitalize the district. The City is searching for a developer/operator for the community hospital and medical district.

Approximately 3.0% of Garland is made up of undeveloped greenspace. As a response to the increasingly built-out nature of the City, the City of Garland is committed to redevelopment, adaptive reuse projects, and building infrastructure to support urban infill and densification. Key initiatives include the development and implementation of a façade improvement program and the Economic Development Incentive programs. The Economic Development Department continues to work with developers and employers to bring high-quality development and opportunities for the City's residents.

ECONOMIC CONDITIONS AND OUTLOOK

Garland's property tax base reached \$26.8 billion in 2024, an increase of \$2.7 billion (11.2%) from last year's valuation. New construction accounts for 1.2% of the increase in property values, while existing properties contributed 10.0%. Senate Bill (SB)2, which limits growth in property tax revenues, has reduced the Operating & Maintenance portion of the Tax Rate by 2.37 cents per \$100 of valuation ((7.5%), resulting in foregone revenue of \$6.3 million for FY 2024-25 and \$27.5 million of foregone revenue since SB2 went into effect. Property tax revenue in the General Fund is projected to increase \$1.5 million.

While the General Fund's revenue growth is impressive, inflation has continued to put pressure on almost every category of City expenditures. The job market remains highly competitive. Increased service calls bring a need for additional staffing in Fire. In addition, the successful completion of bond projects comes with the need for expanded operating and maintenance expenses. Finally, given the current economic uncertainty, prudent levels of reserves are needed to ensure financial stability should challenges materialize.

The priorities include:

- Ensure any new facilities resulting from past bond programs are adequately staffed and funded to operate at expected service levels.
- Maintain competitive position with compensation and merit increases.
- Enhance infrastructure and maintenance funding to be able to adequately respond to the results of the street and alley condition assessment and other long-term maintenance initiatives.
- Maintain high levels of reserves to respond to anticipated and unforeseen financial challenges.

FINANCIAL INFORMATION

Accounting and Budgetary Controls

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the liability is incurred. Proprietary operations are maintained on a full accrual basis.

Budgetary control is maintained at the fund level, and encumbrances are entered at the time a purchase order is issued. Outstanding encumbrance's lapse at fiscal year-end and the subsequent year's budget is amended to reflect these outstanding encumbrances. Unspent and unencumbered appropriations lapse at the end of the fiscal year.

The budgetary process begins each year with the preparation of both current and proposed year revenue estimates by the City's revenue managers and the Budget Director. Expenditure budgets are then developed using a *target budgeting* approach. Departments base their initial budget submission on their allocated share of the projected resources, but they can make requests for additional items which the City Manager or City Council may choose to fund. This target budget methodology results in a balanced budget presented to Council. The Proposed Budget is reviewed extensively by the City Council, and the process includes a Charter-mandated public hearing and work sessions that are open to the public. The City Charter requires adoption of the City budget by no later than September 20th. Activities of the general, debt service, community development block grant, housing assistance, neighborhood services, police training, hotel/motel, narcotic seizure, Treasury Department Grants, TIF, and internal service funds are included in the annual appropriated budget.

While the budget is developed and controlled at the departmental level, appropriations are set at the fund level. An ordinance establishes the budget for operating expenses, debt services payments, and interfund transfers, while a separate ordinance establishes the property tax rate.

Changes to approved expenditures are incorporated into the current year budget throughout the year in the form of budget amendments approved by Council. These amendments, as well as updated revenues and other revised expenses, become part of the Revised Budget that is presented to Council concurrent with the Proposed Budget.

During the course of the fiscal year, each department director monitors expenditure controls with overall review exercised by the Budget Director and the City Manager. Monthly expenditure reports are distributed based on the automated accounting system that provide year-to-date expenditure totals for each line item compared to the amount expended at that point in time in the prior year.

Constant review and oversight of revenue and expenditure trends is maintained with specific responsibility assigned to department directors, revenue managers, and the Budget Director. Recommendations for corrective action are made to the City Manager (and to the City Council, if appropriate) as needed to ensure the integrity of the Adopted Budget.

Management of the City is responsible for establishing and maintaining an internal control system designed to ensure that the City's assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and the evaluation of costs and benefits requires estimates and judgments by management.

As a recipient of Federal and State financial awards, the City is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations relating to these programs. Internal controls are subject to periodic evaluation by management, the City's Internal Audit Department, and independent auditors.

As part of the City's single audit, the independent auditors make tests to determine the adequacy of the internal controls, including that portion related to Federal financial awards programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the single audit are published in a separate report to management.

Long-Term Financial Planning

In order to remain financially strong and provide a framework for prudent financial management, the following financial controls are maintained annually:

- A multi-year financial forecast is prepared, projecting revenues and expenditures for all major operating funds.

- A multi-year debt service forecast is prepared to project the impact of future debt service payments on the tax rate.
- Rates, fees, and charges for services are reviewed and adjusted as necessary to respond to changing financial circumstances.
- Insurance coverages are examined to ensure that policy limits are adequate and in compliance with revenue bond covenants.
- Debt is not used to fund current expenditures.
- Bonds are sold to finance long-term capital projects.
- Total tax-supported debt is maintained so as not to exceed five percent (5%) of the total assessed valuation of taxable property.
- An ending “fund balance” of 30 days of budget-based operating expenditures in the General Fund is maintained as a minimum.
- An ending “fund balance” of 45 days of budget-based operating expenditures is maintained in the Enterprise Funds as a minimum.
- Internal service funds are maintained to be fully self-supporting to the extent that any retained earnings deficit is recovered in the subsequent fiscal year through increased charges to benefiting departments.

OTHER INFORMATION

Independent Audit

According to Article IV, Section 7, of the City Charter, an annual audit to be performed by independent, certified public accountants, is required to be made of the financial records of the City. Weaver and Tidwell, LLP was selected in July 2019 by the City Council to perform the annual audits. In addition to meeting the requirements set forth in the Charter, the audit was also designed to meet the requirements of the Federal Single Audit Act of 1996 and related Uniform Guidance. The independent auditor’s report on the basic financial statements is included in the financial section of this report. The independent auditor’s report related specifically to the single audit will be issued in a separate document.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Garland for its Annual Comprehensive Financial Report for the Fiscal Year ended September 30, 2023. The Certificate of Achievement is a prestigious national award

that recognizes conformance with the highest standards for preparation of state and local government financial reports.

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

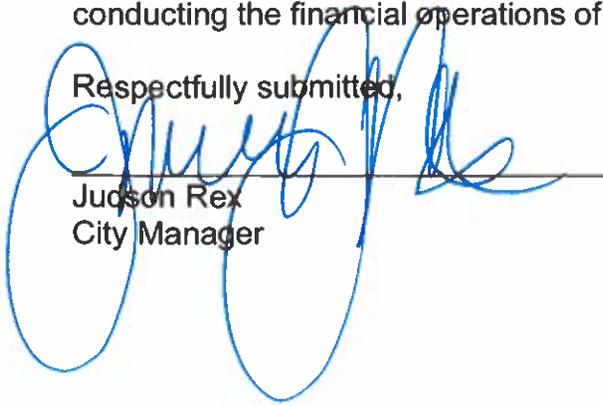
A Certificate of Achievement is valid for a one-year period. The City of Garland has received a Certificate of Achievement for the last forty-two consecutive years. We believe that our current report continues to conform to the Certificate of Achievement Program requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this Annual Comprehensive Financial Report was accomplished with the professional and dedicated efforts of the staff of the Financial Services Department. Appreciation is also extended to those individuals in other departments who contributed, directly or indirectly, to the development of this report.

In closing, we also want to thank the Mayor and the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

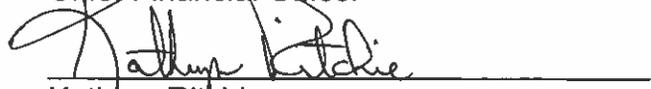
Respectfully submitted,



Judson Rex
City Manager



Matt Watson
Chief Financial Officer



Kathryn Ritchie
Finance Administrator



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Garland
Texas**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

September 30, 2023

Christopher P. Morill

Executive Director/CEO



GARLAND

Effective Feb. 17, 2025

CITIZENS OF GARLAND

CITY COUNCIL

Natalie Banuelos
Municipal Court Judge

John Sholden
Municipal Court Judge

Jed Johnson
City Auditor

Brian England
City Attorney

Judson Rex City Manager

Darrell Cline
Managing Director

Kristen Smith
Managing Director

Kevin Bullard
Chief Leadership Officer

Jeff Bryan
Police Chief

Mark Lee
Fire Chief

Matt Watson
Chief Financial Officer

Garland Power & Light

- CityCare Clinic
- Fair Housing & Human Rights
- Human Resources
- Risk Management

Assistant to City Manager

Police

Fire

- Financial Services
- Budget & Research

City Marshals

Andy Hesser Assistant City Manager

Mitch Bates Deputy City Manager & Chief Operating Officer

Crystal Owens Assistant City Manager

Phillip Urrutia Assistant City Manager

Economic Development

D'Lee Williams
Managing Director

Parks & Recreation

Al Raymond
Managing Director

- Building Inspection
- Code Compliance
- Planning & Development

Becky King
Managing Director

- Library
- Neighborhood Vitality
- Community Development
- Housing Agency

Mistie Gardner
Managing Director

- Strategic Initiatives
- Emergency Management
- Environmental Health
- Environmental Compliance

Mike Betz
Managing Director

Information Technology

Tiffany Veno
Chief Communications Officer

- Public & Media Relations
- Cultural Arts
- Special Events, CVB, & Downtown Development

Ariel Traub
Managing Director

Legislative & Public Affairs

- Engineering & Stormwater
- Project Management Office
- Streets
- Transportation

Mike Brinkmann
Managing Director

- Wastewater
- Water

- Animal Services
- Landfill
- Sanitation
- Real Estate Management Office

Kevin Slay
Managing Director

- Facilities Management
- Fleet Services
- Procurement
- City Secretary
- Customer Service
- Firewheel Golf
- Municipal Court
- Tax



GARLAND

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Independent Auditor's Report

To the Honorable Mayor, Members of the City Council and City Manager
City of Garland, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Garland (City), as of and for the year ended September 30, 2024, 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 accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2024, 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.

We did not audit the financial statements of Garland Housing Finance Corporation (GHFC), the discretely presented component unit of the City of Garland as of and for the year ended December 31, 2023. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the GHFC is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities 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 GAAS 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS 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.

The Honorable Mayor, Members of the City Council and City Manager
City of Garland, Texas

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 and the Required Supplementary Information, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 fund financial statements and schedules, as listed in the table of contents, 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 GAAS. In our opinion, the accompanying other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Honorable Mayor, Members of the City Council and City Manager
City of Garland, Texas

Other Information Included in the Annual Comprehensive Financial Report (ACFR)

Management is responsible for the other information included in the ACFR. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2025 on our consideration of the City's 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
March 12, 2025



GARLAND

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City of Garland, Texas
Management's Discussion and Analysis
(Unaudited)

As management of the City of Garland, we offer readers of the City of Garland's financial statements this narrative overview and analysis of the financial activities of the City of Garland for the fiscal year ended September 30, 2024. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- The assets and deferred outflows of the City of Garland (the City) exceeded its liabilities and deferred inflows at the close of the fiscal year by \$1,566,504,413. Ending net position for governmental activities amount to \$580,573,119 and the ending net position for the business type activities amount to \$985,931,294.
- Net position for the governmental activities increased \$88,337,315 and the net position for the business type activities increased \$87,462,663 for a total increase in the City's net position of \$175,799,978. Contributing factors related to the increase in governmental activities and in business type activities are discussed in the governmental activities and business type activities sections of this overview and analysis.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$289,545,895. Of the combined ending fund balances, \$70,588 is nonspendable, \$191,828,625 is restricted, \$34,840,200 is committed, \$26,956,995 is assigned, and \$35,849,487 is unassigned.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

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

The statement of net position presents information on all the City's assets, deferred inflows/outflows, and liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, landfill, economic development, and culture and recreation. The business-type activities of the City include electric, water, sewer, golf, heliport, storm water, parks performance, and sanitation operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate non-profit corporation for which the City is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 28-29 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into two categories: governmental funds and proprietary funds. The City also maintains a fiduciary trust fund for the other post-employment benefits (OPEB).

Governmental funds

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

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

The City maintains seventeen individual governmental funds. The General Fund, the Debt Service Fund, and the Capital Projects Fund, are considered to be major funds. Major funds are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided as required supplementary information for the General Fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 30-33 of this report.

Proprietary funds

The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, golf, heliport, storm water management, parks performance, and sanitation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for group health, self-insurance, long-term disability insurance, fleet, vehicle replacement, information technology, facilities management, warehouse, and customer service operations. The internal service funds are allocated between the governmental and business-type activities based on the level of support each internal service provides to a governmental and business-type activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The electric, water, and sewer operations are considered to be major funds of the City. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major enterprise funds can be found on pages 123-127 and for the internal service funds on pages 129-131.

The proprietary fund financial statements can be found on pages 34-38 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 39-40 of this report.

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. The notes to the financial statements can be found on pages 41-100 of this report.

Other information

Required supplementary information concerning the General Fund schedule of revenues, expenditures, and changes in fund balances – budget and actual for the year ended September 30, 2024, the net pension liability schedules, and the City's Net Other Postemployment Benefits (OPEB) liability schedules, are presented on pages 101-107 of this report.

Government-wide Financial Analysis

Total assets and deferred outflows at fiscal year-end amount to \$3,730,972,154. Current and other assets comprise 35.10% and capital assets comprise 62.62% of the total assets and deferred outflows. Total assets and deferred outflows increased \$282,125,386 during the fiscal year.

Total liabilities and deferred inflows at the end of the fiscal year amount to \$2,164,467,741. Long-term liabilities comprise 82.18% and other liabilities comprise 17.01% of the total liabilities and deferred inflows. Total liabilities and deferred inflows increased \$106,325,408 during the fiscal year.

As mentioned earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows (net position) by \$1,566,504,413 for the fiscal year ended September 30, 2024. The largest portion of the City's net position, \$1,001,943,558, represents 63.69% of the total net assets and reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and systems) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position, \$287,455,388, represents 18.35% of the total net position and represents resources that are subject to external restrictions on how they may be used. These restrictions are detailed in revenue bond debt covenants, the City of Garland Charter, grant contracts, and state law. The remaining balance of unrestricted net position, \$277,105,467, represents 17.69% of total net position and may be used to meet the City's ongoing obligations to citizens and creditors.

A comparative schedule of condensed government-wide net position is presented on the following page.

City of Garland, Texas
Management's Discussion and Analysis (continued)
September 30, 2024

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Current and other assets	\$ 499,817,226	\$ 430,938,894	\$ 809,849,436	\$ 753,129,175	\$ 1,309,666,662	\$ 1,184,068,069
Capital assets	892,418,869	793,135,509	1,443,861,824	1,355,961,868	2,336,280,693	2,149,097,377
Total assets	1,392,236,095	1,224,074,403	2,253,711,260	2,109,091,043	3,645,947,355	3,333,165,446
Total deferred outflows of resources	60,275,651	80,714,043	24,749,148	34,967,279	85,024,799	115,681,322
Long-term liabilities						
Outstanding	631,060,490	554,195,933	1,147,715,294	1,087,710,842	1,778,775,784	1,641,906,775
Other liabilities	228,325,138	247,614,335	139,776,139	154,062,144	368,101,277	401,676,479
Total liabilities	859,385,628	801,810,268	1,287,491,433	1,241,772,986	2,146,877,061	2,043,583,254
Total deferred inflows of resources	12,552,999	10,742,374	5,037,681	3,816,705	17,590,680	14,559,079
Net position:						
Net investment in capital assets	474,829,891	373,586,337	527,113,667	511,315,161	1,001,943,558	884,901,498
Restricted for:						
Debt Service	121,668	3,136,171	357	64,359	122,025	3,200,530
Construction	2,621,210	2,206,940	-	-	2,621,210	2,206,940
Rate Mitigation	-	-	268,194,215	246,654,025	268,194,215	246,654,025
Housing Assistance	3,927,274	3,247,532	-	-	3,927,274	3,247,532
Other Grant Programs	12,590,664	8,358,340	-	-	12,590,664	8,358,340
Unrestricted	86,482,412	101,700,484	190,623,055	140,435,086	277,105,467	242,135,570
Total net position	\$ 580,573,119	\$ 492,235,804	\$ 985,931,294	\$ 898,468,631	\$ 1,566,504,413	\$ 1,390,704,435

City of Garland, Texas
Management's Discussion and Analysis (continued)
September 30, 2024

The total net position increased \$175,799,978 in the 2024 fiscal year. Governmental activities increased \$88,337,315 while the business-type activities increased this total by \$87,462,663. These increases are discussed in the governmental activities section and the business-type activities section of this overview and analysis.

	Statement of Activities					
	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Revenues:						
Program revenues:						
Charges for services	\$ 68,857,491	\$ 69,692,834	\$ 568,446,009	\$ 553,780,873	\$ 637,303,500	\$ 623,473,707
Operating grants and contributions	42,287,915	25,848,787	-	-	42,287,915	25,848,787
Capital grants and contributions	2,939,342	17,344,305	2,532,668	4,899,114	5,472,010	22,243,419
General Revenues:						
Property taxes	163,692,333	154,112,428	-	-	163,692,333	154,112,428
Sales taxes	46,641,936	49,075,997	-	-	46,641,936	49,075,997
Other taxes	10,493,735	9,997,449	-	-	10,493,735	9,997,449
Unrestricted interest earnings	24,094,214	16,984,456	26,353,206	19,474,298	50,447,420	36,458,754
Miscellaneous	278,672	184,500	8,881,085	13,952,448	9,159,757	14,136,948
Total Revenues	<u>359,285,638</u>	<u>343,240,756</u>	<u>606,212,968</u>	<u>592,106,733</u>	<u>965,498,606</u>	<u>935,347,489</u>
Expenses:						
General government	50,111,754	50,061,998	-	-	50,111,754	50,061,998
Public safety	148,261,922	142,070,923	-	-	148,261,922	142,070,923
Public works	57,527,838	39,720,966	-	-	57,527,838	39,720,966
Culture and recreation	33,563,418	33,478,258	-	-	33,563,418	33,478,258
Public health	7,444,788	7,090,684	-	-	7,444,788	7,090,684
Interest and fiscal charges	15,973,660	11,559,848	-	-	15,973,660	11,559,848
Electric	-	-	317,003,646	357,738,976	317,003,646	357,738,976
Water	-	-	74,763,157	72,222,503	74,763,157	72,222,503
Sewer	-	-	47,214,598	44,238,025	47,214,598	44,238,025
Golf	-	-	5,773,993	5,157,683	5,773,993	5,157,683
Heliport	-	-	7,406	33,170	7,406	33,170
Storm Water Management	-	-	5,265,438	5,109,577	5,265,438	5,109,577
Parks Performance	-	-	1,428,053	1,212,489	1,428,053	1,212,489
Sanitation	-	-	25,358,957	24,347,584	25,358,957	24,347,584
Total expenses	<u>312,883,380</u>	<u>283,982,677</u>	<u>476,815,248</u>	<u>510,060,007</u>	<u>789,698,628</u>	<u>794,042,684</u>
Change in net position before transfers	46,402,258	59,258,079	129,397,720	82,046,726	175,799,978	141,304,805
Transfers	41,935,057	41,845,175	(41,935,057)	(41,845,175)	-	-
Increase (decrease) in net position	88,337,315	101,103,254	87,462,663	40,201,551	175,799,978	141,304,805
Net position - beginning	492,235,804	391,132,550	898,468,631	858,267,080	1,390,704,435	1,249,399,630
Net position - ending	<u>\$580,573,119</u>	<u>\$ 492,235,804</u>	<u>\$ 985,931,294</u>	<u>\$ 898,468,631</u>	<u>\$1,566,504,413</u>	<u>\$ 1,390,704,435</u>

Governmental activities

Governmental activities increased the City's net position by \$88,337,315 in fiscal year 2024. Key factors that contributed to this improvement are discussed below.

Revenues by Source – Governmental Activities

Revenues by Source

	2024		2023		Amount Change	Percentage Change
	Amount	Percentage	Amount	Percentage		
Charges for services	\$ 68,857,491	19.17%	\$ 69,692,834	20.30%	\$ (835,343)	-1.20%
Operating grants and contributions	42,287,915	11.77%	25,848,787	7.53%	16,439,128	63.60%
Capital grants and contributions	2,939,342	0.82%	17,344,305	5.05%	(14,404,963)	-85.05%
Property taxes	163,692,333	45.56%	154,112,428	44.90%	9,579,905	6.22%
Sales taxes	46,641,936	12.98%	49,075,997	14.30%	(2,434,061)	-4.96%
Other taxes	10,493,735	2.92%	9,997,449	2.91%	496,286	4.96%
Unrestricted interest earnings	24,094,214	6.71%	16,984,456	4.95%	7,109,758	41.86%
Miscellaneous	278,672	0.08%	184,500	0.05%	94,172	51.04%
Total Revenues	<u>\$359,285,638</u>		<u>\$343,240,756</u>		<u>\$16,044,882</u>	

Key changes in revenue by source included the following:

Operating grants and contributions revenue increased \$16,439,128 and Capital grants and contributions decreased \$14,404,963. This change can be attributed to American Rescue Plan Act (ARPA) public sector staffing reimbursements.

Property tax revenue increased \$9,579,905 due to growth in the tax base of over \$2.7 billion (11.2%) from last year's valuation, an increase contributed to residential cap loss. New construction also contributed to the tax base increase.

The reduction in sales tax is associated with a one-time increase in sales tax collection experienced in 2023 totaling \$2,062,123 that was associated with server purchases made by data center facilities within Garland.

Unrestricted interest earnings increased \$7,109,758 in FY24 due to higher portfolio returns directly associated with the Federal Reserve's monetary policy.

Expenses by Source - Governmental Activities

	Expenses by Source		
	2024	2023	Change
General government	\$ 50,111,754	\$ 50,061,998	\$ 49,756
Public safety	148,261,922	142,070,923	6,190,999
Public works	57,527,838	39,720,966	17,806,872
Culture and recreation	33,563,418	33,478,258	85,160
Public health	7,444,788	7,090,684	354,104
Interest and fiscal charges	15,973,660	11,559,848	4,413,812
Total Expense	<u>\$ 312,883,380</u>	<u>\$ 283,982,677</u>	<u>\$ 28,900,703</u>

Public Safety expense increased \$6,190,999 due to pension liability expenses and increases in direct expenses related to the Police and Fire departments for increases in personnel costs to assist the City to better compete in an extremely tight labor market and additional positions to maintain needed to operate additional equipment systems necessary for safety of the public.

Public Works expenses increased \$17,806,872 in FY2024 due to a one-time reduction in Landfill Postclosure expenses experienced in FY23 related to an adjustment to the long-term landfill post-closure projections. This is a non-cash adjusting entry to properly reflect the on-going cost associated with landfill post-closure.

Interest and fiscal charge expenses increased \$4,413,812 due to debt service interest expense.

Business-type Activities

Business-type activities increased the City's net position by \$87,462,663. Key factors that contributed to the change are discussed below.

- The electric utility incurred a net income of \$60,770,196. The net income for the electric utility increased \$44,697,081 from the prior fiscal year as a result of the following:
 - Decrease in fuel and energy purchases.
 - Increase in operating revenue.
 - Increase in earnings from investments.
- The water utility incurred a net income of \$13,969,101. The net income for the water utility increased \$3,125,570, from the prior fiscal year as a result of the following:
 - Increase in charges for services related to an average monthly rate increase of 4.7% for residential customers, as well as adjustments to commercial accounts.
 - Decrease in developer contributions.
 - Reduction in transfers to debt service reserve funds.
- The wastewater utility incurred a net income of \$5,612,879. The net income for the wastewater utility increased \$1,543,764, from the prior fiscal year as a result of the following:
 - Increase in charges for services related to an average monthly rate increase of 2.9% for residential customers, as well as adjustments to commercial accounts.
 - Reduction in transfers to debt service reserve funds.
- The combined net income for non-major enterprise funds (golf, heliport, storm water management, parks performance, and sanitation) amounted to \$3,539,170.
 - Increase in the stormwater management fund related to a rate increase for both residential and commercial customers. This funding continues to support contracted litter crews to help address widespread litter issues, focusing on right-of-way and major thoroughfares.
 - Increase in the Firewheel golf fund related to a transfer of funds utilized for irrigation upgrades on the old course.

City of Garland, Texas
Management's Discussion and Analysis (continued)
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Revenues by Source – Business-type Activities

	Charges for Services			Capital Grants and Contributions		
	2024	2023	Change	2024	2023	Change
Electric	\$ 375,502,169	\$ 369,778,809	\$ 5,723,360	\$ 9,240	\$ 620,993	\$ (611,753)
Water	94,120,371	91,487,025	2,633,346	1,720,630	2,887,285	(1,166,655)
Wastewater	58,429,973	55,275,930	3,154,043	721,081	1,390,836	(669,755)
Non-major Enterprise	40,393,496	37,239,109	3,154,387	81,717	-	81,717
Total	\$ 568,446,009	\$ 553,780,873	\$ 14,665,136	\$ 2,532,668	\$ 4,899,114	\$ (2,367,446)

	Miscellaneous		
	2024	2023	Change
Electric	\$ 8,547,538	\$13,353,350	\$ (4,805,812)
Water	130,046	471,599	(341,553)
Wastewater	89,303	93,298	(3,995)
Non-major Enterprise	114,198	34,201	79,997
Total	\$ 8,881,085	\$13,952,448	\$ (5,071,363)

Expenses by Source – Business-type Activities

	<u>2024</u>	<u>2023</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Electric	\$317,003,646	\$ 357,738,976	\$ (40,735,330)	-11.39%
Water	74,763,157	72,222,503	2,540,654	3.52%
Wastewater	47,214,598	44,238,025	2,976,573	6.73%
Non-Major	<u>37,833,847</u>	<u>35,860,503</u>	<u>1,973,344</u>	5.50%
	<u>\$476,815,248</u>	<u>\$ 510,060,007</u>	<u>\$ (33,244,759)</u>	-6.52%

Fiduciary funds

In the 2009 fiscal year, the City established an Other Post Employment Benefit Trust Fund which allows the City to capture long-term returns to make progress towards reducing the unfunded liability of post-employment health care. A \$1,760,000 contribution in excess of the pay-as-you-go costs was made to the trust fund during the 2024. The City will make future contributions to the trust fund as economic conditions permit to lower the OPEB unfunded actuarial accrued liability and to ensure that funding is available for future retiree medical benefits.

Capital Asset and Debt Administration

Capital Assets

At the end of the 2024 fiscal year, the City had \$2,336,280,693 invested in a broad range of capital assets including police and fire equipment, buildings, park facilities, roads, bridges, an electric system, a water system, and a sewer system. This amount represents a net increase of \$187,183,316 or 8.71% increase from the prior fiscal year. Key elements of this change are as follows:

	Capital Assets at Fiscal Year-end (Net of Accumulated Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Land	\$ 140,424,231	\$ 130,229,867	\$ 47,630,191	\$ 47,103,410	\$ 188,054,422	\$ 177,333,277
Construction in Progress	280,281,016	197,718,814	81,428,955	61,113,193	361,709,971	258,832,007
Building, Improvements, equipment and systems	471,713,622	465,186,828	1,314,802,678	1,247,745,265	1,786,516,300	1,712,932,093
Total capital assets	<u>\$ 892,418,869</u>	<u>\$ 793,135,509</u>	<u>\$1,443,861,824</u>	<u>\$1,355,961,868</u>	<u>\$2,336,280,693</u>	<u>\$2,149,097,377</u>

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Major capital asset additions for the current fiscal year included (amounts rounded to the nearest thousand):

Description	Amount (000's)
Citywide Street Improvements	\$ 20,136
Relocate mains prior to paving	10,305
Distribution lines up to 14'	8,154
Rehab collection mains unimproved rights of way	7,645
Rowlett Creek WWTP replacement mods	5,960
Rowlett Creek WWTP process improvements	5,412
Vehicles purchased through Equipment Replacement Fund	5,184
Pump station emergency generators	4,965
Relocate mains prior to install	4,937
Transmission mains	4,345
530 Clara Barton	3,907
Interceptor mains	3,901
Collection mains	3,836
EWS vehicle replacements	3,651
Duck Creek process filter UV	3,126
Infiltration correction - various	2,884
Transmission mains over 16"	2,385
Water meter replacement	2,378
Duck Creek interceptor rehab	2,315
Rowlett Creek interceptor rehab	2,139
519 State Street	1,962
2200 McCree Road	1,944
Distribution lines	1,763
Relocated water mains	1,541
Water tower corrosion abatement	1,494

City of Garland, Texas
Management's Discussion and Analysis (continued)
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A few of the Capital Improvement Program projects under construction at the end of the current fiscal year included (amounts rounded to the nearest thousand):

<u>Description</u>	<u>Amount (000's)</u>
Holford Recreation and Neighborhood Aquatic Center	\$ 30,639
Girvin Switch Station	13,728
Relocate Fire Station No. 6	11,089
Rick Oden Park improvements	10,258
Downtown square design	9,813
Modernization/upgrade to Central Library	9,759
Hollabaugh Recreation Center	9,301
Naaman School Road-Brand to SH 78	8,822
Field Operations Center - Water	8,164
Ben Davis flood mitigation	7,765
Downtown infrastructure	7,678
Field Operations Center - Wastewater	7,518
Holford Road segment A	7,484
Downtown streetscapes and redevelopment	6,876
Relocate/expand West Garland Library	6,841
Street Department facility renovation	6,258
Tuckerville Sports field development	5,979
Brand to College transmission upgrade	5,864
HR/Payroll implementation	5,450
Oakland substation upgrade	4,732
Granger Recreation Center and Annex Renovation	3,365
Shiloh Road – Kingsley to Miller	3,256
Motorola radio subscriber replacement	3,190
Surf and Swim Regional Aquatics facility	2,951

Additional information on the City's capital assets can be found in note IV.C on pages 61-63 of this report.

City of Garland, Texas
Management's Discussion and Analysis (continued)
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Debt

Debt issues outstanding for the fiscal years 2024 and 2023 were as follows:

	Governmental Activities		Business-type Activities		Total		
	2024	2023	2024	2023	2024	2023	Change
Long-Term:							
General obligation bonds	\$ 317,520,000	\$ 237,740,000	\$ 15,000	\$ 15,000	\$ 317,535,000	\$ 237,755,000	\$ 79,780,000
Certificates of obligation	161,255,000	141,480,000	15,215,000	12,085,000	176,470,000	153,565,000	22,905,000
Utility system revenue bonds	-	-	956,915,000	968,515,000	956,915,000	968,515,000	(11,600,000)
Commercial paper	-	-	126,400,000	41,400,000	126,400,000	41,400,000	85,000,000
Total Long-Term	<u>478,775,000</u>	<u>379,220,000</u>	<u>1,098,545,000</u>	<u>1,022,015,000</u>	<u>1,577,320,000</u>	<u>1,401,235,000</u>	<u>176,085,000</u>
Short-Term:							
Commercial Paper	-	30,000,000	-	-	-	30,000,000	(30,000,000)
Tax Note	45,750,000	40,255,000	-	-	45,750,000	40,255,000	5,495,000
Total Short-Term	<u>45,750,000</u>	<u>70,255,000</u>	<u>-</u>	<u>-</u>	<u>45,750,000</u>	<u>70,255,000</u>	<u>(24,505,000)</u>
Total outstanding debt	<u>\$ 524,525,000</u>	<u>\$ 449,475,000</u>	<u>\$ 1,098,545,000</u>	<u>\$ 1,022,015,000</u>	<u>\$ 1,623,070,000</u>	<u>\$ 1,471,490,000</u>	<u>\$ 151,580,000</u>

City of Garland, Texas
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During the fiscal year, the City issued the following debt:

Issue	Principal	Bond Ratings	
		Standard & Poor's	Fitch IBCA
Long-term			
Certificates of Obligation Bonds, Series 2024	\$ 40,595,000	AA+	AAA
General Obligation Refunding Bonds, Series 2024	91,705,000	AA+	AAA
General Obligation Bonds, Taxable Series 2024	10,105,000	AA+	AAA
Water and Sewer System Revenue Refunding Bonds, New Series 2024	46,370,000	AA-	AA
Short-term			
Tax Anticipation Note, Series 2024	45,750,000		
Total debt financing	<u>\$234,525,000</u>		

The proceeds of the Certificates of Obligation Bonds, Series 2024 will be used for the following:

- Constructing, equipping, and improving various facilities in the City,
- Acquiring equipment and vehicles for public safety, streets and traffic control, facilities management, drainage, stormwater management, and parks and recreation departments and programs,
- Equipping additions, extensions, renovations, and improvements for the City's sanitation department, including the landfill and transfer station and the acquisition of land and interest in land,
- Improving and equipping existing municipal buildings, including HVAC replacement, upgrade, roof replacement and safety upgrades.

The proceeds of the General Obligation Refunding Bonds, Series 2024 were used to takeout \$50,000,000 of commercial paper debt, Series 2021 which was utilized to fund the 2004 and 2019 bond programs and issue \$50,000,000 of general obligation debt for the 2019 bond programs. It should be noted that the commercial paper, Series 2021 was discontinued in May, 2024, in order to record debt service savings associated with higher short term interest rates.

The proceeds of the General Obligation Bonds, Taxable Series 2024 were used to promote economic development throughout the City, through planning, designing, constructing, improving, extending and expanding public street, utility, and other infrastructure facilities, including the acquisition of land therefor, and through the City's programs for economic development, including the acquisition of improved and unimproved properties.

The proceeds of the Water and Sewer System Revenue Refunding Bonds, New Series 2024 were used to refund \$10,335,000 of Water & Sewer Revenue Bonds, Series 2014 at the call date and takeout \$40,000,000 of commercial paper debt, Series 2015.

In fiscal year 2010, the City along with other TMPA member cities elected to issue bonds based on the percentage of their annual net energy load and placed the proceeds with TMPA. Since the proceeds from the issuance of this debt will benefit the City over future years the City has elected to record an other asset and a corresponding bonds payable liability, reoffering premium, interest and sinking fund deposit, underwriters discount and issuance cost to record this transaction. The other asset of \$138,252,850 is being amortized using a straight-line method over a period of 20 years based on the life of the economic benefit that the City is receiving from this transaction. During the current fiscal year, the City amortized \$6,912,642 of the asset resulting in a fiscal year-end balance in other assets of \$38,019,534. In February, 2021, the state of Texas experienced an unprecedented weather event causing power outages across the state. As a result, energy and natural gas prices increased dramatically from February 11 to February 24, 2021. The City recorded a Winter Storm Uri regulatory asset of \$137,343,717 which will be amortized over thirty years. In FY2023, the value of this Regulatory Asset was increased by \$906,004. This adjustment reflects the recognition of ERCOT short payments that are not expected to be recovered. At September 30, 2024 the regulatory asset had a balance of \$122,162,708. Further information related to the other assets are available on pages 90-92.

Additional information on the City's debt can be found in note IV.E of this report.

The City's Funds

At the close of the City's fiscal year, the governmental funds of the City reported a combined fund balance of \$289,545,895, an increase of \$91,272,114 from the prior fiscal year.

The General Fund ended the fiscal year with a fund balance of \$69,728,500 which was an increase of \$5,977,927 from the prior fiscal year. The increase in the general fund can be attributed to increases in property tax and sales tax collection. The Debt Service fund ended the fiscal year with a fund balance of \$3,562,813 which is a decrease of \$1,835,404. The decrease can be attributed to the issuance of a \$45,750,000 tax note to improve residential and arterial streets.. The Capital Projects Funds ended the fiscal year with a fund balance of \$178,726,982 which is an increase of \$83,062,109 from the prior fiscal year related to funding of the ongoing capital projects of the City. Other Nonmajor Governmental funds ended the fiscal year with a fund balance of \$37,527,600 which was in increase of \$4,067,482.

General Fund Budgetary Highlights

During the fiscal year ended September 30, 2024, the City Council amended the budget for the General Fund on multiple occasions. The amendments were comprised of supplemental appropriations and adjusted budgets. Appropriations are adjusted annually for open purchase orders and various grant awards. Budgets are reviewed and adjusted during the fiscal year to address changing operational and/or economic situations. These amendments amounted to increased appropriations of \$18,082,994.

Economic Factors and Next Year's Budgets and Rates

The City's unemployment rate at September 30, 2024 was 3.7% and the State of Texas unemployment rate was 4.2%. The City's estimated population of 250,099 (as estimated at January 1, 2024, by the City's Planning department) remained virtually unchanged from the prior year.

The budget priorities for FY2023-24 were primarily focused on rapidly rising inflation which has put considerable pressure on almost every category of City expenditures. The job market remains highly competitive. Increased service calls bring a need for additional staffing in Fire. In addition, the successful completion of bond project comes with the need for expanded operating and maintenance budgets. And finally, given the current economic uncertainty, prudent levels of service are needed to ensure financial stability should challenges materialize.

These priorities include:

- Focus on Public Safety:
 - Increase Fire Department staffing levels; maintain competitive pay.
 - Adjust Police Officer pay plan to increase attractiveness in an extremely competitive market
- Increase personnel and operational funding as a result of Bond Programs
- Strengthen Citywide staffing from lean years to improve programs and services
- Maintain compensation/merit increases to stay competitive
- Continue funding master plans to provide direction on strategic priorities
- Maintain high levels of reserves to respond to unforeseen financial challenges

To address these priorities, the FY 2023-24 Adopted Budget includes 3.0% compensation/merit increases for General Schedule and Civil Service employees. The budget also includes a market adjustment for Civil Service employees, so that the average market plus merit increase for Fire Civil Service is 4.0% and for the Police Civil Service is 10.3%. Additionally, the General Fund includes \$150,000 for market studies/adjustments during FY 2023-24.

The adopted budget addresses Public Safety needs in Fire with the addition of nine firefighter positions, outside firefighter training, protective equipment, and medical supplies. The primary focus of the FY2023-24 Adopted Budget for the Police Department is compensation to increase competitiveness in an extremely competitive labor market, reduced talent pool, and continuing upward trend in Police Office retirements.

Personnel funding in support of the new facilities and amenities constructed in the 2004 and 2019 bond programs include positions at Parks facilities, the new Garland Animal Shelter facility, and new Libraries. The Downtown Square and surrounding

area will be supported by new maintenance positions and a Visitor Center Manager to staff the new Visitor Center. The budget also includes funding to support the improvements to facilities underway as part of the 2004 and 2019 bond programs. Funding is included for: startup costs at new libraries, the new Streets Department Facility, the new Simunitions Training Facility, and Downtown Square; promotional expenses for groundbreaking events; a new construction management system; and enhanced Parks programs.

The budget priorities for FY2024-25 are primarily focused on an economic environment that shows signs of returning to average levels of growth rather than the historically high levels experienced in the past several years. This slowdown is tied to reduced consumer spending for goods and services and a flattening in economic production due to the Federal Reserve's monetary policies designed to control inflation. While overall sales tax revenue remained strong in FY2023-24, the retail and service industry segments of the state and local sales tax base have shown signs of stagnation, and new development is beginning to decline.

These priorities include:

- Ensure any new facilities resulting from past bond programs are adequately staffed and funded to operate at expected service levels.
- Maintain competitive position with compensation and merit increases.
- Enhance infrastructure and maintenance funding to be able to adequately respond to the results of the street and alley condition assessment and other long-term maintenance initiatives.
- Maintain high levels of reserves to respond to anticipated and unforeseen financial challenges.

To address these priorities, the FY 2023-24 Adopted Budget includes 3.0% compensation/merit increases for General Schedule employees. To maintain competitive compensation for public safety staff, the adopted budget includes a market adjustment for Police and Fire Civil Service employees. Additionally, the adopted budget includes increases to paramedic certification and assignment pay as well as the addition of hazardous material technician certification pay and urban search and rescue certification pay for Fire Civil Service.

In support of the new or expanded facilities constructed as part of the 2019 bond programs, the adopted budget includes additional personnel and enhanced operational funding for the Holford Recreation and Aquatic Center and West Branch Library to support these new amenities available to residents in 2025.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Services Department at the City of Garland, 200 North Fifth Street, Garland, TX 75040 or through the City's internet site www.garlandtx.gov.



GARLAND

TEXAS MADE HERE

City of Garland, Texas
Statement of Net Position
September 30, 2024

	Primary Government		Total	Component Unit
	Governmental Activities	Business-Type Activities		As of 12/31/23
ASSETS				
Cash and cash equivalents	\$ 359,396,528	\$ 122,464,378	\$ 481,860,906	\$ 6,569,522
Investments	83,293,966	39,703,526	122,997,492	-
Accounts Receivable, net of allowance for uncollectibles	26,695,189	111,787,104	138,482,293	2,799,873
Due from other governments	994,857	-	994,857	-
Internal Balances	(29,987,833)	29,987,833	-	-
Inventories	9,675,163	6,713,849	16,389,012	-
Prepaid and other items	2,850,865	1,002,123	3,852,988	20,897
Restricted Assets:				
Cash and cash equivalents	45,730,401	254,256,213	299,986,614	-
Investments	33,840	76,151,264	76,185,104	-
Accrued interest	103	730,278	730,381	-
Assets held for resale	1,134,145	-	1,134,145	788,478
Other Assets	-	167,020,778	167,020,778	-
Capital Assets:				
Land	140,424,231	47,630,191	188,054,422	54,299,729
Construction in Progress	280,281,016	81,428,955	361,709,971	-
Buildings, Improvements, Equipment and System (net of accumulated depreciation/amortization)	471,713,622	1,314,802,678	1,786,516,300	489
Total assets	<u>1,392,236,095</u>	<u>2,253,711,260</u>	<u>3,645,947,355</u>	<u>64,478,988</u>
DEFERRED OUTFLOWS OF RESOURCES				
Fair value of energy risk derivatives	-	2,346,360	2,346,360	-
Deferred charges on debt refunding	14,897	143,244	158,141	-
Deferred charges on pensions	34,420,602	12,860,823	47,281,425	-
Deferred charges on OPEB	25,840,152	9,044,881	34,885,033	-
Deferred charges on ARO	-	353,840	353,840	-
Total deferred outflows of resources	<u>60,275,651</u>	<u>24,749,148</u>	<u>85,024,799</u>	<u>-</u>
LIABILITIES				
Accounts payable and accrued liabilities	40,937,078	32,427,439	73,364,517	-
Escrow payable	275,848	1,309,852	1,585,700	-
Retainage payable	3,591,274	2,052,249	5,643,523	-
Accrued interest payable	4,279,707	4,228,158	8,507,865	-
Customer deposits	22,303,924	-	22,303,924	-
Collateral Held	-	41,670,193	41,670,193	-
Tax Note Payable	45,750,000	-	45,750,000	-
Derivative instrument-energy risk management	-	2,346,360	2,346,360	-
Unearned revenue	47,186,200	63,794	47,249,994	44,418,177
Noncurrent Liabilities:				
Due within one year	64,001,107	55,678,094	119,679,201	11,616
Due in more than one year	631,060,490	1,147,715,294	1,778,775,784	10,269,852
Total liabilities	<u>859,385,628</u>	<u>1,287,491,433</u>	<u>2,146,877,061</u>	<u>54,699,645</u>
DEFERRED INFLOWS OF RESOURCES				
Fair value of energy risk derivatives	-	32,090	32,090	-
Deferred charges on debt refunding	34,410	1,198,887	1,233,297	-
Deferred charges on pensions	6,478,346	2,420,049	8,898,395	-
Deferred charges on OPEB	3,961,507	1,386,655	5,348,162	-
Deferred charges on leases	2,078,736	-	2,078,736	-
Total deferred inflows of resources	<u>12,552,999</u>	<u>5,037,681</u>	<u>17,590,680</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	474,829,891	527,113,667	1,001,943,558	1,141,255
Restricted for:				
Debt Service	121,668	357	122,025	-
Construction	2,621,210	-	2,621,210	-
Rate Mitigation	-	268,194,215	268,194,215	-
Housing	3,927,274	-	3,927,274	-
Other Grant Programs	12,590,664	-	12,590,664	-
Unrestricted net position	86,482,412	190,623,055	277,105,467	8,638,088
Total net position	<u>\$ 580,573,119</u>	<u>\$ 985,931,294</u>	<u>\$ 1,566,504,413</u>	<u>\$ 9,779,343</u>

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

City of Garland, Texas
Statement of Activities
For the Year Ended September 30, 2024

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit as of 12/31/2023
	Expenses	Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental activities:								
General government	\$ 50,111,754	\$ 10,815,733	\$ 40,176,174	\$ 461,162	\$ 1,341,315	\$ -	\$ 1,341,315	\$ -
Public safety	148,261,922	20,390,608	559,660	-	(127,311,654)	-	(127,311,654)	-
Public works	57,527,838	35,911,698	-	2,478,180	(19,137,960)	-	(19,137,960)	-
Culture and recreation	33,563,418	1,007,373	71,097	-	(32,484,948)	-	(32,484,948)	-
Public health	7,444,788	732,079	1,480,984	-	(5,231,725)	-	(5,231,725)	-
Interest and fiscal charges	15,973,660	-	-	-	(15,973,660)	-	(15,973,660)	-
Total governmental activities	<u>312,883,380</u>	<u>68,857,491</u>	<u>42,287,915</u>	<u>2,939,342</u>	<u>(198,798,632)</u>	<u>-</u>	<u>(198,798,632)</u>	<u>-</u>
Business-type activities:								
Electric	317,003,646	375,502,169	-	9,240	-	58,507,763	58,507,763	-
Water	74,763,157	94,120,371	-	1,720,630	-	21,077,844	21,077,844	-
Wastewater	47,214,598	58,429,973	-	721,081	-	11,936,456	11,936,456	-
Golf	5,773,993	5,175,388	-	-	-	(598,605)	(598,605)	-
Heliport	7,406	8,643	-	-	-	1,237	1,237	-
Storm Water Management	5,265,438	6,605,122	-	81,717	-	1,421,401	1,421,401	-
Parks Performance	1,428,053	1,656,860	-	-	-	228,807	228,807	-
Sanitation	25,358,957	26,947,483	-	-	-	1,588,526	1,588,526	-
Total business-type activities	<u>476,815,248</u>	<u>568,446,009</u>	<u>-</u>	<u>2,532,668</u>	<u>-</u>	<u>94,163,429</u>	<u>94,163,429</u>	<u>-</u>
Total primary government	<u>\$ 789,698,628</u>	<u>\$ 637,303,500</u>	<u>\$ 42,287,915</u>	<u>\$ 5,472,010</u>	<u>(198,798,632)</u>	<u>94,163,429</u>	<u>(104,635,203)</u>	<u>-</u>
Component units								
Garland Housing Finance Corp.	\$ 2,065,537	\$ 1,930,697	\$ -	\$ -				\$ (134,840)
	<u>\$ 2,065,537</u>	<u>\$ 1,930,697</u>	<u>\$ -</u>	<u>\$ -</u>				
General revenues:								
					46,641,936	-	46,641,936	-
					8,124,300	-	8,124,300	-
					163,692,333	-	163,692,333	-
					1,764,356	-	1,764,356	-
					469,842	-	469,842	-
					135,237	-	135,237	-
					24,094,214	26,353,206	50,447,420	601,676
					278,672	8,881,085	9,159,757	2,550,804
					41,935,057	(41,935,057)	-	-
					<u>287,135,947</u>	<u>(6,700,766)</u>	<u>280,435,181</u>	<u>3,152,480</u>
					88,337,315	87,462,663	175,799,978	3,017,640
					492,235,804	898,468,631	1,390,704,435	6,761,703
					<u>\$ 580,573,119</u>	<u>\$ 985,931,294</u>	<u>\$ 1,566,504,413</u>	<u>\$ 9,779,343</u>

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

**City of Garland, Texas
Governmental Funds
Balance Sheet
September 30, 2024**

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 44,753,860	\$ 3,504,947	\$ 212,854,578	\$ 26,752,968	\$ 287,866,353
Investments	17,684,636	-	41,916,808	6,272,042	65,873,486
Receivables:					
Accounts, net	17,113,924	-	448,375	5,205,774	22,768,073
Taxes, net	749,648	896,428	-	-	1,646,076
Accrued interest	113,797	-	427,568	55,894	597,259
Assessments	16,032	-	-	-	16,032
Due from other funds	16,787,452	-	-	-	16,787,452
Due from other governments	399,375	-	-	595,483	994,858
Prepaid items	69,256	-	-	1,332	70,588
Assets held for resale	-	-	-	1,134,146	1,134,146
Total Current Assets	<u>97,687,980</u>	<u>4,401,375</u>	<u>255,647,329</u>	<u>40,017,639</u>	<u>397,754,323</u>
Restricted assets:					
Cash and cash equivalents	-	-	-	45,684,433	45,684,433
Investments	-	-	-	4,313	4,313
Total Restricted Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,688,746</u>	<u>45,688,746</u>
Total Assets	<u>\$ 97,687,980</u>	<u>\$ 4,401,375</u>	<u>\$ 255,647,329</u>	<u>\$ 85,706,385</u>	<u>\$ 443,443,069</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 18,731,424	\$ -	\$ 14,255,728	\$ 916,248	\$ 33,903,400
Escrow payable	-	-	28,762	247,082	275,844
Due to other funds	-	-	2,175,591	11,523,884	13,699,475
Unearned revenues	654,773	-	11,039,856	35,491,571	47,186,200
Retainage payable	-	-	3,591,274	-	3,591,274
Tax note payable	-	-	45,750,000	-	45,750,000
Commercial paper	-	-	-	-	-
Total Liabilities	<u>19,386,197</u>	<u>-</u>	<u>76,841,211</u>	<u>48,178,785</u>	<u>144,406,193</u>
DEFERRED INFLOWS OF RESOURCES	<u>8,573,283</u>	<u>838,562</u>	<u>79,136</u>	<u>-</u>	<u>9,490,981</u>
FUND BALANCES					
Fund balances:					
Nonspendable	69,256	-	-	1,332	70,588
Restricted	2,621,210	3,562,813	169,126,664	16,517,938	191,828,625
Committed	13,831,870	-	-	21,008,330	34,840,200
Assigned	17,356,677	-	9,600,318	-	26,956,995
Unassigned	35,849,487	-	-	-	35,849,487
Total Fund Balances	<u>69,728,500</u>	<u>3,562,813</u>	<u>178,726,982</u>	<u>37,527,600</u>	<u>289,545,895</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 97,687,980</u>	<u>\$ 4,401,375</u>	<u>\$ 255,647,329</u>	<u>\$ 85,706,385</u>	<u>\$ 443,443,069</u>

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

**City of Garland, Texas
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
September 30, 2024**

Total fund balances - governmental funds	\$	289,545,895
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		825,692,104
Certain receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.		9,490,981
Deferred outflows related to pensions.		29,910,051
Deferred outflows related to OPEB.		21,624,769
Bond interest is not accrued at the fund level.		(4,166,772)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities consist of:		
Bonds payable		(462,690,000)
Landfill closure costs		(15,755,234)
Compensated absences		(29,343,767)
Unamortized premium on refunding		(30,255,325)
Other Post Employment Benefits liability payable		(73,660,632)
Deferred loss on debt refunding		12,797
Deferred gain on debt refunding		(31,252)
Net pension liability		(21,245,765)
SBITA liability		(7,486,441)
Deferred inflows related to pensions		(5,629,329)
Deferred inflows related to OPEB.		(3,315,280)
Deferred inflows related to Leases.		(2,078,736)
Internal service funds net position adjustment excluding assets and liabilities included in the adjustments listed above. Internal service funds are used by management to charge the costs of various services to individual funds. Certain assets and liabilities of the internal service funds are included with governmental activities in the statement of net position.		<u>59,955,055</u>
Total net position - governmental activities	\$	<u>580,573,119</u>

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

**City of Garland, Texas
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2024**

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 121,916,898	\$ 86,464,914	\$ -	\$ 6,405,956	\$ 214,787,768
Franchise fees	8,124,300	-	-	-	8,124,300
Service charges	42,655,792	-	-	-	42,655,792
Licenses and permits	5,623,490	-	-	-	5,623,490
Earnings on investments	5,433,438	952,033	9,376,124	4,127,977	19,889,572
Intergovernmental	11,011,995	-	6,151,244	25,279,663	42,442,902
Charges for services	11,501,589	-	-	-	11,501,589
Fines and forfeits	5,435,898	-	-	-	5,435,898
Rents and concessions	860,543	-	-	-	860,543
Assessments	-	-	77,072	-	77,072
Impact fees	-	-	-	2,160,362	2,160,362
Contributions	-	-	-	461,162	461,162
Program income	-	-	-	376,527	376,527
Court awarded seizures	-	-	-	503,702	503,702
Miscellaneous and other	-	(4,386)	3,730,708	466,110	4,192,432
Total revenues	<u>212,563,943</u>	<u>87,412,561</u>	<u>19,335,148</u>	<u>39,781,459</u>	<u>359,093,111</u>
EXPENDITURES					
Current:					
General government	16,339,077	-	785,290	-	17,124,367
Public safety	131,752,831	-	-	-	131,752,831
Public works	25,772,236	-	-	-	25,772,236
Culture and recreation	21,113,295	-	-	-	21,113,295
Public health	6,426,983	-	-	-	6,426,983
Nondepartmental	37,582,714	-	-	-	37,582,714
Operations	-	-	-	28,336,560	28,336,560
Capital outlay	20,470,850	-	106,479,988	9,125,003	136,075,841
Debt service:					
Principal	-	32,524,427	-	1,485,573	34,010,000
Interest	-	16,971,777	-	137,765	17,109,542
Other and fiscal expenditures	-	225,412	1,247,276	-	1,472,688
Total expenditures	<u>259,457,986</u>	<u>49,721,616</u>	<u>108,512,554</u>	<u>39,084,901</u>	<u>456,777,057</u>
Excess (deficiency) of revenues over (under) expenditures	(46,894,043)	37,690,945	(89,177,406)	696,558	(97,683,946)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	282,134	-	1,136,300	-	1,418,434
Transfers in	66,485,587	805,651	58,467,182	8,522,633	134,281,053
Transfers out	(13,895,751)	(40,332,000)	(34,317,038)	(5,151,709)	(93,696,498)
Issuance of debt	-	-	134,795,000	-	134,795,000
Premium on issuance of debt	-	-	12,158,071	-	12,158,071
Total other financing sources (uses)	<u>52,871,970</u>	<u>(39,526,349)</u>	<u>172,239,515</u>	<u>3,370,924</u>	<u>188,956,060</u>
Net change in fund balances	5,977,927	(1,835,404)	83,062,109	4,067,482	91,272,114
Fund balances - beginning	63,750,573	5,398,217	95,664,873	33,460,118	198,273,781
Fund balances - ending	<u>\$ 69,728,500</u>	<u>\$ 3,562,813</u>	<u>\$ 178,726,982</u>	<u>\$ 37,527,600</u>	<u>\$ 289,545,895</u>

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

**City of Garland, Texas
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances to the Statement of Activities
For the Year Ended September 30, 2024**

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

Net change in fund balances - total governmental funds	\$ 91,272,114
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/amortization expense.	100,043,268
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(2,035,497)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(111,112,375)
Other long-term liabilities related to pension expense and contributions, are not due and payable in the current period and therefore, are not reported in governmental funds.	5,245,929
Other Post Employment Benefits liability is accrued in the government wide financial statements but not at the fund level.	(5,234,725)
Interest is accrued in the government wide financial statements but not at the fund level. This represents the change in the accrual during the period.	(1,370,750)
Internal service funds are used by management to charge the costs of vehicle services, building services, printing services, and insurance services to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	11,529,351
Net change in net position-total governmental activities	<u>\$ 88,337,315</u>

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

City of Garland, Texas
Proprietary Funds
Statement of Net Position
September 30, 2024

	Business-type Activities					Governmental Activities
	Electric	Water	Wastewater	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 61,412,923	\$ 33,272,484	\$ 21,317,802	\$ 6,461,169	\$ 122,464,378	\$ 71,530,175
Investments	24,989,583	8,203,207	4,919,915	1,590,821	39,703,526	17,420,480
Receivable, net of allowance	87,324,156	14,244,537	6,377,961	3,475,441	111,422,095	1,509,184
Accrued interest	226,334	74,615	45,054	19,006	365,009	158,565
Due from other funds	-	-	-	81,717	81,717	1,746,895
Inventories	6,589,812	-	-	124,037	6,713,849	9,675,160
Prepaid expense	934,469	2,262	65,392	-	1,002,123	2,780,278
Total current assets	<u>181,477,277</u>	<u>55,797,105</u>	<u>32,726,124</u>	<u>11,752,191</u>	<u>281,752,697</u>	<u>104,820,737</u>
Noncurrent Assets:						
Restricted assets						
Revenue bond reserve fund:						
Investments	357	-	-	-	357	-
Total revenue bond reserve fund	<u>357</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>357</u>	<u>-</u>
Rate mitigation:						
Cash and cash equivalents	192,716,808	-	-	-	192,716,808	-
Investments	74,756,826	-	-	-	74,756,826	-
Accrued interest	720,581	-	-	-	720,581	-
Total rate mitigation	<u>268,194,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>268,194,215</u>	<u>-</u>
Collateral:						
Cash and cash equivalents	41,670,193	-	-	-	41,670,193	-
Total collateral	<u>41,670,193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,670,193</u>	<u>-</u>
Construction funds:						
Cash and cash equivalents	4,509,893	2,770,979	7,190,250	5,398,090	19,869,212	45,967
Investments	18,992	18,344	48,629	1,308,116	1,394,081	29,527
Accrued interest	307	121	546	8,723	9,697	103
Total construction funds	<u>4,529,192</u>	<u>2,789,444</u>	<u>7,239,425</u>	<u>6,714,929</u>	<u>21,272,990</u>	<u>75,597</u>
Other Assets						
Cash and cash equivalents	167,020,778	-	-	-	167,020,778	-
Advance to other funds	3,896,269	-	-	-	3,896,269	-
Derivative instruments - energy risk management	32,090	-	-	-	32,090	-
Total other assets	<u>170,949,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>170,949,137</u>	<u>-</u>
Capital Assets:						
Land	32,027,819	1,807,965	2,338,807	11,455,600	47,630,191	358,759
Buildings, improvements, equipment and systems	1,052,090,984	402,574,032	653,879,201	58,091,427	2,166,635,644	168,829,671
Construction in progress	57,148,425	9,776,765	11,798,902	2,704,863	81,428,955	13,929,547
Less accumulated depreciation/amortization	<u>(313,748,987)</u>	<u>(169,331,395)</u>	<u>(326,901,723)</u>	<u>(41,850,861)</u>	<u>(851,832,966)</u>	<u>(116,391,212)</u>
Net capital assets	<u>827,518,241</u>	<u>244,827,367</u>	<u>341,115,187</u>	<u>30,401,029</u>	<u>1,443,861,824</u>	<u>66,726,765</u>
Total noncurrent assets	<u>1,312,861,335</u>	<u>247,616,811</u>	<u>348,354,612</u>	<u>37,115,958</u>	<u>1,945,948,716</u>	<u>66,802,362</u>
Total Assets	<u>1,494,338,612</u>	<u>303,413,916</u>	<u>381,080,736</u>	<u>48,868,149</u>	<u>2,227,701,413</u>	<u>171,623,099</u>
Deferred Outflows of Resources						
Deferred charges on debt refundings	127,094	5,534	10,611	5	143,244	2,100
Deferred charges on pensions	7,602,845	1,366,508	1,858,298	2,033,172	12,860,823	4,510,551
Deferred charges on OPEB	4,165,624	1,078,747	1,692,803	2,107,707	9,044,881	4,215,383
Deferred charges on derivatives	2,346,360	-	-	-	2,346,360	-
Deferred charges on ARO	353,840	-	-	-	353,840	-
Total deferred outflows	<u>14,595,763</u>	<u>2,450,789</u>	<u>3,561,712</u>	<u>4,140,884</u>	<u>24,749,148</u>	<u>8,728,034</u>

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

City of Garland, Texas
Proprietary Funds
Statement of Net Position
September 30, 2024

	Business-type Activities					Governmental Activities
	Electric	Water	Wastewater	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
LIABILITIES						
Current liabilities:						
<i>Payable from current assets</i>						
Accounts payable and accrued liabilities	\$ 21,999,430	\$ 869,298	\$ 1,085,323	\$ 1,110,134	\$ 25,064,185	\$ 7,018,585
Due to other funds	-	-	-	-	-	4,916,589
Insurance claims payable	-	-	-	-	-	4,939,932
Accrued interest payable:						
General obligation bonds	-	-	-	83	83	54,964
Certificates of obligation	-	-	-	160,718	160,718	57,972
Collateral	153,390	-	-	-	153,390	-
Revenue bonds	2,405,182	635,438	873,347	-	3,913,967	-
Customer deposits	-	-	-	-	-	22,303,924
General obligation bonds (net of unamortized premium)	-	-	-	5,000	5,000	1,770,000
Certificates of obligation	-	-	-	3,935,000	3,935,000	1,095,000
Revenue bonds	31,855,000	7,955,000	8,645,000	-	48,455,000	-
Leases payable-current portion	386,540	-	-	-	386,540	1,484,722
Compensated absences	1,743,003	258,267	466,343	428,941	2,896,554	995,157
Derivative instruments-energy risk management	2,346,360	-	-	-	2,346,360	-
Total current liabilities	<u>60,888,905</u>	<u>9,718,003</u>	<u>11,070,013</u>	<u>5,639,876</u>	<u>87,316,797</u>	<u>44,636,845</u>
Long-term liabilities:						
<i>Payable from restricted assets</i>						
Accounts payable	2,275,303	1,758,366	2,568,944	760,641	7,363,254	15,093
Retainage payable	325,400	483,475	1,243,374	-	2,052,249	-
Collateral payable	41,670,193	-	-	-	41,670,193	-
Escrow payable	1,309,852	-	-	-	1,309,852	-
Total payable from restricted assets	<u>45,580,748</u>	<u>2,241,841</u>	<u>3,812,318</u>	<u>760,641</u>	<u>52,395,548</u>	<u>15,093</u>
Advances from other funds	-	-	-	-	-	3,896,269
Revenue bonds payable (net of unamortized premium)	710,166,771	109,597,132	147,480,540	-	967,244,443	-
Certificates of obligation (net of unamortized premium)	-	-	-	11,961,456	11,961,456	6,671,982
General obligation bonds (net of unamortized premium)	-	-	-	10,270	10,270	7,441,526
Commercial paper	91,400,000	9,000,000	26,000,000	-	126,400,000	-
Unearned revenue	63,794	-	-	-	63,794	-
Leases payable	539,340	-	-	-	539,340	6,214,728
Insurance claims payable	-	-	-	-	-	6,147,849
Asset retirement obligations	589,817	-	-	-	589,817	-
Net OPEB liability	14,189,423	3,674,552	5,766,220	7,179,509	30,809,704	14,359,019
Compensated absences	737,958	103,486	86,490	97,255	1,025,189	300,524
Net pension liability	5,400,441	970,602	1,319,884	1,444,148	9,135,075	3,203,994
Total other liabilities	<u>823,087,544</u>	<u>123,345,772</u>	<u>180,653,134</u>	<u>20,692,638</u>	<u>1,147,779,088</u>	<u>48,235,891</u>
Total non-current liabilities	<u>868,668,292</u>	<u>125,587,613</u>	<u>184,465,452</u>	<u>21,453,279</u>	<u>1,200,174,636</u>	<u>48,250,984</u>
Total Liabilities	<u>929,557,197</u>	<u>135,305,616</u>	<u>195,535,465</u>	<u>27,093,155</u>	<u>1,287,491,433</u>	<u>92,887,829</u>
Deferred Inflows of Resources						
Deferred charges on debt refundings	591,011	469,853	138,023	-	1,198,887	3,158
Fair value of energy risk derivatives	32,090	-	-	-	32,090	-
Deferred charges on pensions	1,430,870	257,079	349,550	382,550	2,420,049	849,017
Deferred charges on OPEB	638,624	165,381	259,521	323,129	1,386,655	646,227
Total deferred inflows of resources	<u>2,692,595</u>	<u>892,313</u>	<u>747,094</u>	<u>705,679</u>	<u>5,037,681</u>	<u>1,498,402</u>
NET POSITION						
Net investment in capital assets	226,022,210	118,358,519	162,289,342	20,443,596	527,113,667	42,108,253
Restricted for:						
Debt service	357	-	-	-	357	-
Rate mitigation	268,194,215	-	-	-	268,194,215	-
Unrestricted	82,467,801	51,308,257	26,070,547	4,766,603	164,613,208	43,856,649
Total net position	<u>\$ 576,684,583</u>	<u>\$ 169,666,776</u>	<u>\$ 188,359,889</u>	<u>\$ 25,210,199</u>	<u>959,921,447</u>	<u>\$ 85,964,902</u>
Some amounts reported for business-type activities in the Statement of Net Position are different because certain internal service fund assets and liabilities are included with business-type activities.					<u>26,009,847</u>	
Net position of business type activities					<u>\$ 985,931,294</u>	

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

City of Garland, Texas
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended September 30, 2024

	Business-type Activities					Governmental
	Electric	Water	Wastewater	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES:						
Charges for services	\$ 375,502,169	\$ 94,120,371	\$ 58,429,973	\$ 40,393,496	\$ 568,446,009	\$ 75,612,170
Insurance premiums	-	-	-	-	-	55,162,686
Other	8,233,705	130,046	89,303	114,198	8,567,252	10,694,926
Total Operating Revenues	383,735,874	94,250,417	58,519,276	40,507,694	577,013,261	141,469,782
OPERATING EXPENSES:						
Salaries and benefits	26,244,887	5,598,120	10,256,769	13,416,486	55,516,262	26,299,495
TMPA charges	484,751	-	-	-	484,751	-
Amortization of other assets	11,652,886	-	-	-	11,652,886	-
Energy and fuel purchases	178,517,561	-	-	-	178,517,561	-
Water purchases	-	43,585,340	-	-	43,585,340	-
Landfill fees	-	-	-	3,371,342	3,371,342	-
Maintenance, repairs, and other	23,883,374	6,571,347	9,664,842	11,224,740	51,344,303	31,746,547
Insurance and other expenses	5,691,823	741,784	1,875,096	995,121	9,303,824	-
General and administrative	17,922,369	5,611,290	6,089,755	3,231,126	32,854,540	8,766,717
Capitalized general and administrative	-	(331,797)	(847,243)	-	(1,179,040)	-
Premiums	-	-	-	-	-	15,730,612
Claims	1,366,949	351,134	552,636	668,787	2,939,506	35,579,437
Administrative services	-	-	-	-	-	849,920
Depreciation	25,492,732	9,672,237	15,141,960	5,319,237	55,626,166	15,029,056
Total Operating Expenses	291,257,332	71,799,455	42,733,815	38,226,839	444,017,441	134,001,784
Total Operating Income	\$ 92,478,542	\$ 22,450,962	\$ 15,785,461	\$ 2,280,855	\$ 132,995,820	\$ 7,467,998
NONOPERATING REVENUES (EXPENSES)						
Intergovernmental	-	-	-	81,717	81,717	1,746,895
Gain (loss) on disposal of capital assets	(2,774,063)	-	1,502	398,583	(2,373,978)	1,104,774
Gain on derivative instruments	69,430	-	-	-	69,430	-
Other	313,833	-	-	-	313,833	-
Investment income	22,164,000	2,061,742	1,501,173	626,291	26,353,206	4,204,638
Interest expense	(25,407,194)	(3,526,393)	(4,837,648)	(293,341)	(34,064,576)	(774,139)
Income before transfers and contributions	86,844,548	20,986,311	12,450,488	3,094,105	123,375,452	13,750,166
Capital contributions	9,240	1,720,630	721,081	-	2,450,951	-
TRANSFERS						
Transfers in	-	-	-	1,992,000	1,992,000	1,367,441
Transfers out	(26,083,592)	(8,737,840)	(7,558,690)	(1,546,935)	(43,927,057)	(16,939)
Net transfers	(26,083,592)	(8,737,840)	(7,558,690)	445,065	(41,935,057)	1,350,502
NET INCOME	60,770,196	13,969,101	5,612,879	3,539,170	83,891,346	15,100,668
Net position, beginning of year	515,914,387	155,697,675	182,747,010	21,671,029	876,030,101	70,864,234
Net position, end of year	\$ 576,684,583	\$ 169,666,776	\$ 188,359,889	\$ 25,210,199	959,921,447	\$ 85,964,902

Some amounts reported for business-type activities in the Statement of Activities are different because the net revenue of certain internal service funds is reported with business type activities

3,571,317

Change in net position of business-type activities

\$ 87,462,663

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

City of Garland, Texas
Proprietary Funds
Statement of Cash Flows
For the Year Ended September 30, 2024

	Business-type Activities					Governmental Activities
	Electric	Water	Wastewater	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities:						
Cash received from customers	\$ 363,895,128	\$ 93,602,547	\$ 57,865,421	\$ 40,214,225	\$ 555,577,321	\$ 130,707,721
Cash paid to customer deposit	4,937,614	-	-	-	4,937,614	1,595,035
Cash paid to suppliers	(243,422,606)	(55,904,927)	(16,650,023)	(18,854,371)	(334,831,927)	(94,074,305)
Cash paid to employees for services	(27,344,474)	(5,778,786)	(10,596,341)	(13,761,433)	(57,481,034)	(27,022,177)
Other operating revenues	8,233,705	130,046	89,303	114,198	8,567,252	10,694,926
Net cash provided by operating activities	<u>106,299,367</u>	<u>32,048,880</u>	<u>30,708,360</u>	<u>7,712,619</u>	<u>176,769,226</u>	<u>21,901,200</u>
Cash flows from noncapital financing activities:						
Due from other funds decrease	-	-	-	-	-	(1,160,698)
Due to other funds decrease	-	-	-	(777,227)	(777,227)	(894,262)
Due from other governments increase	-	-	-	(81,717)	(81,717)	-
Intergovernmental	-	-	-	81,717	81,717	1,160,698
Transfers in	-	-	-	1,992,000	1,992,000	1,367,441
Transfers out	(26,083,592)	(8,737,840)	(7,558,690)	(1,546,935)	(43,927,057)	(16,939)
Net cash provided by (used for) noncapital financing activities	<u>(26,083,592)</u>	<u>(8,737,840)</u>	<u>(7,558,690)</u>	<u>(332,162)</u>	<u>(42,712,284)</u>	<u>456,240</u>
Cash flows from capital and related financing activities:						
Proceeds from sales of:						
Certificates of obligation	-	-	-	6,225,000	6,225,000	1,385,000
Revenue bonds	-	10,175,000	26,815,000	-	36,990,000	-
Refunding bonds	-	8,225,000	1,155,000	-	9,380,000	-
Premium on issuance of debt	-	1,772,867	2,668,351	352,440	4,793,658	140,289
Commercial paper	60,000,000	17,000,000	48,000,000	-	125,000,000	-
Acquisition and construction of capital assets	(74,398,375)	(18,435,018)	(47,839,575)	(6,185,361)	(146,858,329)	(15,337,109)
New obligations under capital lease	-	-	-	-	-	-
Principal paid on:						
Revenue bonds	(29,370,000)	(7,315,000)	(10,950,000)	-	(47,635,000)	-
Certificates of obligation	-	-	-	(3,095,000)	(3,095,000)	(930,000)
General obligation bonds	-	-	-	-	-	(1,685,000)
Lease (decrease)	(408,573)	-	-	-	(408,573)	(2,555,914)
Payment to escrow agent	-	(9,183,346)	(1,292,380)	-	(10,475,726)	-
Commercial paper	-	(11,000,000)	(29,000,000)	-	(40,000,000)	-
Interest paid on:						
Revenue bonds	(29,585,644)	(4,673,396)	(5,684,975)	-	(39,944,015)	-
Certificates of obligation	-	-	-	(557,864)	(557,864)	(313,153)
General obligation bonds	-	-	-	(651)	(651)	(472,275)
Commercial paper	(2,534,833)	(509,051)	(934,519)	-	(3,978,403)	-
Collateral Held	(2,295,525)	-	-	-	(2,295,525)	-
Lease	(17,920)	-	-	-	(17,920)	(347,436)
Proceeds from sale of TMPA mine	313,833	-	-	-	313,833	-
Contributions	-	219,825	61,980	-	281,805	-
Proceeds from sales of assets	-	62,817	1,502	450,326	514,645	1,150,990
Net cash used for capital and related financing activities	<u>(78,297,037)</u>	<u>(13,660,302)</u>	<u>(16,999,616)</u>	<u>(2,811,110)</u>	<u>(111,768,065)</u>	<u>(18,964,608)</u>

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

City of Garland, Texas
Proprietary Funds
Statement of Cash Flows
For the Year Ended September 30, 2024

	Business-type Activities				Governmental Activities	
	Electric	Water	Wastewater	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
				Enterprise Funds		
Cash flows from investing activities:						
Purchase of investment securities	(93,751,456)	(8,188,685)	(4,417,045)	(3,249,746)	(109,606,932)	(16,537,147)
Proceeds from sale and maturities of investment securities	96,519,977	5,933,130	4,386,307	2,218,689	109,058,103	15,071,103
Interest received on investments	21,684,248	2,002,221	1,468,174	603,288	25,757,931	4,086,653
Net cash provided by (used for) investing activities	<u>24,452,769</u>	<u>(253,334)</u>	<u>1,437,436</u>	<u>(427,769)</u>	<u>25,209,102</u>	<u>2,620,609</u>
Net increase in cash and cash equivalents	26,371,507	9,397,404	7,587,490	4,141,578	47,497,979	6,013,441
Cash and cash equivalents at beginning of the year	273,938,310	26,646,059	20,920,562	7,717,681	329,222,612	65,562,701
Cash and cash equivalents at end of the year	<u>\$ 300,309,817</u>	<u>\$ 36,043,463</u>	<u>\$ 28,508,052</u>	<u>\$ 11,859,259</u>	<u>\$ 376,720,591</u>	<u>\$ 71,576,142</u>
Reconciliation to Statement of Net Position						
Cash and cash equivalents	\$ 61,412,923	\$ 33,272,484	\$ 21,317,802	\$ 6,461,169	\$ 122,464,378	\$ 71,530,175
Rate mitigation cash and cash equivalents	192,716,808	-	-	-	192,716,808	-
Collateral cash and cash equivalents	41,670,193	-	-	-	41,670,193	-
Construction fund cash and cash equivalents	4,509,893	2,770,979	7,190,250	5,398,090	19,869,212	45,967
Total cash and cash equivalents	<u>\$ 300,309,817</u>	<u>\$ 36,043,463</u>	<u>\$ 28,508,052</u>	<u>\$ 11,859,259</u>	<u>\$ 376,720,591</u>	<u>\$ 71,576,142</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities						
Operating income	\$ 92,478,542	\$ 22,450,962	\$ 15,785,461	\$ 2,280,855	\$ 132,995,820	\$ 7,467,998
Adjustments:						
Depreciation/amortization expense	25,492,732	9,672,237	15,141,960	5,319,237	55,626,166	15,029,056
Amortization of other assets	11,652,886	-	-	-	11,652,886	-
Change in allowance for uncollectible accounts	86,172	19,647	(8,375)	9,569	107,013	(22,725)
Change in assets and liabilities						
Increase in pension related deferred outflows	7,166,287	1,287,971	1,751,462	1,916,358	12,122,078	4,251,640
Decrease in OPEB related deferred outflows	(1,935,199)	(501,147)	(786,415)	(979,164)	(4,201,925)	(1,958,329)
Increase in accounts receivable	(11,693,213)	(537,471)	(556,177)	(188,840)	(12,975,701)	(44,411)
(Increase) decrease in inventory	(569,196)	-	(65,392)	(78,262)	(712,850)	1,010,997
Increase in other assets	(2,072,875)	-	-	-	(2,072,875)	-
Decrease in net pension liability	(9,352,360)	(1,680,865)	(2,285,744)	(2,500,942)	(15,819,911)	(5,548,601)
(Increase) decrease in other prepaid expense	331,879	(1,050)	3,399	-	334,228	(2,631,706)
Increase (decrease) in accounts payable	(14,253,965)	364,086	337,275	204,791	(13,347,813)	(761,447)
Increase (decrease) in compensated absences	233,871	58,991	(13,671)	11,638	290,829	68,431
Increase in customer deposits	4,937,614	-	-	-	4,937,614	1,595,035
Increase in OPEB liability	3,157,266	817,619	1,283,033	1,597,501	6,855,419	3,195,003
Decrease in insurance claims payable	-	-	-	-	-	(39,343)
Increase in pension related deferred inflows	852,615	153,238	208,381	227,999	1,442,233	505,844
Decrease in OPEB related deferred inflows	(213,689)	(55,338)	(86,837)	(108,121)	(463,985)	(216,242)
Total adjustments	<u>13,820,825</u>	<u>9,597,918</u>	<u>14,922,899</u>	<u>5,431,764</u>	<u>43,773,406</u>	<u>14,433,202</u>
Net cash provided by operating activities	<u>\$ 106,299,367</u>	<u>\$ 32,048,880</u>	<u>\$ 30,708,360</u>	<u>\$ 7,712,619</u>	<u>\$ 176,769,226</u>	<u>\$ 21,901,200</u>
Noncash investing, capital and financing activities:						
Contributions from developers	9,240	1,657,813	690,076	-	2,357,129	-
Increase in fair value of investments	(966,449)	(66,950)	(40,416)	(23,847)	(1,097,662)	(142,478)
Change in restricted accounts payable	(3,780,408)	(694,937)	(2,526,826)	(107,736)	(7,109,907)	15,093

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

City of Garland, Texas
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2024

	Other Post Employment Benefits Trust Fund
Assets	
Investments:	
Equity mutual funds	\$ 9,726,046
Fixed income mutual funds	9,411,280
Money market fund	659,225
Total investments	19,796,551
Total assets	\$ 19,796,551
Net Position	
Net Position restricted for other post employment benefits	19,796,551
Total net position	\$ 19,796,551

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

City of Garland, Texas
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2024

	Other Post Employment Benefits Trust Fund
Additions	
Investment earnings	\$ 4,437,272
Investment costs	(908,919)
Net investment earnings	3,528,353
Employer contributions	7,045,425
Total additions	10,573,778
 Deductions	
Administrative expenses	82,253
Payments to beneficiaries	5,285,425
Total deductions	5,367,678
Change in net position	5,206,100
Net position, beginning of year	14,590,451
Net position, end of year	\$ 19,796,551

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

City of Garland, Texas
Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City is a municipal corporation governed by an elected mayor and eight-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Discretely Presented Component Unit

The Garland Housing Finance Corporation (GHFC) was organized to finance the cost of residential ownership and development that will provide decent, safe and sanitary housing for residents of the City at affordable prices. GHFC is governed by a board of directors that are appointed by and serve at the discretion of the City Council. GHFC is reported as a proprietary entity and maintains their accounts on an accrual basis of accounting. On October 1, 2012, GHFC hired an outside accounting firm to conduct their bookkeeping and accounting. The financial information for GHFC is included in the statements for the period of January 1, 2023 through December 31, 2023. Complete separate December 31, 2023 financial statements for GHFC may be obtained from the City.

Blended Component Units

The Garland Foundation for Development (GFFD) was organized to promote economic development within the City of Garland. The City Council serves as the board members for GFFD and the Assistant City Manager is the Executive Director. GFFD is reported as a blended component unit of the non-major governmental funds.

In 2018, the City of Garland created the Garland Public Facility Corporation (GPFC) as a public facility corporation under Chapter 303 of the Texas Local Development Code. The GPFC was organized exclusively for the purpose of assisting the City in financing, refinancing, or providing public facilities. The Mayor and City Council serves as the board members of the GPFC. GPFC is reported as a blended component unit of the non-major governmental funds.

B. Government-wide and fund financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers sales tax revenue to be available if they are collected within 30 days of the end of the current fiscal period and all other revenues available if they are collected within 60 days of the end of the annual fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, actuarially determined pension and OPEB expenses, and claims and judgments, are recorded only when payment is due. Grant revenues are recognized as revenues when all eligibility requirements are met.

Property taxes, franchise fees, licenses, mowing liens, sales taxes, EMS fees, court fines, and earnings on investments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are available as defined above. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

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

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Capital Projects Fund accounts for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

City of Garland, Texas
Notes to the Financial Statements (Continued)

The City reports the following major proprietary funds:

The Electric Fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide electric service for the residents of the City.

The Water Fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide water service for the residents of the City.

The Wastewater Fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide wastewater treatment service for the residents of the City.

Additionally, the City reports the following fund categories:

Special revenue funds account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. These specific revenue sources are Community Development Block Grants, Housing Assistance Grants, Neighborhood Services Grants and Funding, Hotel/Motel Tax, Impact Fees, Landfill Closure Funding, Police Training, Substandard Perimeter Road Funding, Narcotic Seizure Funding, Culture & Recreation Grants, Tax Increment Finance funds, Coronavirus Recovery grant funds, GFFD, and GPFC.

The City's nonmajor enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the City is that costs of providing goods and services to the general public on a continuing basis will be financed or recovered through user charges. These funds are the Golf Fund, the Heliport Fund, the Storm Water Management Fund, the Parks Performance Fund, and the Sanitation Fund.

Internal service funds account for group health, self-insurance, long-term disability, fleet services, vehicle replacement, information technology, facilities management, warehouse, and customer services to other departments of the City on a cost reimbursement basis.

The Other Post-Employment Benefits trust fund accounts for the activities of the trust fund which accumulates resources for OPEB related benefits, and is excluded from the government-wide financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's electric, water, wastewater, sanitation, and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

City of Garland, Texas
Notes to the Financial Statements (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and Wastewater systems. Operating expenses for enterprise funds and internal service 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 non-operating 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.

D. Assets, liabilities, and net position or equity

1. *Deposits and investments*

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

State statutes and the City Council approved investment policy authorize the City to invest in obligations of the Agencies and Instrumentalities of the U.S. Treasury, commercial paper, FDIC insured Certificates of Deposit, repurchase agreements, reverse repurchase agreements, SEC registered no-load money market mutual funds, and investment pools.

The deposits and investments of the OPEB trust fund are held separately from those of other City funds by an outside trustee appointed by the City.

Investments for the primary government, as well as for its component units, are reported at fair value. The Texpool and TexStar investment pools operate in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. *Receivables and payables*

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

City of Garland, Texas Notes to the Financial Statements (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectible accounts for utility billing is estimated based on collection experience. All other allowance for uncollectible accounts is based on accounts outstanding in excess of 360 days of the invoice date and collection experience. The property tax receivable allowance is based on the average collection rate of delinquent taxes over the last five years.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established by the Dallas Central Appraisal District at 100% of estimated market value. Property taxes attach an enforceable lien on property as of January 1. Taxes are due immediately following the October 1 levy date and are considered delinquent after January 31 of the following year. Penalty and interest are charged at 7% on delinquent taxes beginning February 1 and increases each month to 18% on July 1. After all collection efforts have failed, the City files suit to collect the delinquent taxes.

In Texas, countywide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews by the appraisal district through various appeals and, if necessary, legal action. Under this system the City sets tax rates on property within the City. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

3. Inventories and prepaid items

All inventories are valued at average cost and consist of expendable supplies held for consumption or the construction of plant and equipment. Inventories are accounted for under the consumption method.

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 and are accounted for under the consumption method.

4. Restricted assets

Certain proceeds of the City's general obligation bonds, certificates of obligation, and revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet or statement of net position because their use is limited by applicable bond covenants or they are maintained in separate bank accounts due to City Charter requirements. The "rate mitigation" account is used to report resources set aside to subsidize potential deficiencies from Electric Fund operations that could adversely affect rates that are charged to customers. The "revenue bond construction" accounts are used to report those proceeds of revenue bond issuances that are restricted for use in construction of assets.

City of Garland, Texas
Notes to the Financial Statements (Continued)

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the City as tangible or intangible assets used in operations with an initial useful life in excess of one year. Capital asset values are established on a department by department basis where the initial asset cost is \$5,000 and above.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. 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 for buildings 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 40 years. The reported value for infrastructure includes all upgrades and is depreciated over a useful life of 15-50 years. In the case of contributed assets, the City values these capital assets at the acquisition value of the item at the date of its contribution.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets for the electric fund is included as part of the capital value of the electric assets constructed. The total interest expense by the City during the current year was \$51,948,259. Of this amount, \$2,005,283 was included as part of the cost of capital assets under construction in connection with electric construction projects.

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

<u>Assets</u>	<u>Years</u>
Buildings	15 – 40
Improvements other than buildings	5 – 15
Equipment	2 – 10
Systems and Infrastructure	15 – 50

6. Compensated absences

It is the City’s policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Employees are reimbursed upon termination for accumulated vacation and only non-exempt employees are reimbursed for compensatory time. Employees are not reimbursed upon termination for accumulated sick leave except for police and firefighters who are reimbursed up to a maximum of 90 days accumulated sick leave. The liabilities for these amounts are accrued as they are incurred in the government-wide and proprietary fund financial statements.

City of Garland, Texas
Notes to the Financial Statements (Continued)

7. Long-term obligations

In the government-wide financial statements, and proprietary funds 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 interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expense in the period incurred.

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

8. Classifications of Fund balance

Fund balances for governmental funds are reported in classifications that demonstrate the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The governmental fund classifications are as follows:

Nonspendable – The portion of fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact.

Restricted – The portion of fund balance that is restricted for specific purposes due to constraints imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – The portion of fund balance that can only be used for specific purposes by the City's highest level of decision-making authority, the City Council, and are imposed by the City Council through an ordinance. Once adopted, the limitation imposed by the ordinance remains in place until an ordinance is imposed to remove or revise the limitation.

Assigned – The portion of the fund balance that is constrained by the City's intent for specific purposes, but are not restricted or committed. In fund balance policy, the City Council delegates authority to the Director of Finance or the Director of Finance's designee to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriation in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned – The portion of the fund balance that is not restricted, committed, or assigned to specific purposes. The General Fund is the only fund that reports a positive unassigned funds balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, if expenditures incurred for specific purposes exceed the amounts that are not restricted, committed, or assigned to this purpose, it may be necessary to report a negative fund balance in that fund.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

City of Garland, Texas
Notes to the Financial Statements (Continued)

In order to remain financially strong and provide a framework for prudent financial management, the City maintains a minimum unassigned fund balance goal in the General fund of 30 days of budget-based operating expenditures.

Fund balances for governmental funds as of September 30, 2024 are:

<i>Fund Balance</i>	<i>General Fund</i>	<i>Debt Service</i>	<i>Capital Projects</i>	<i>Other Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Nonspendable:					
General government	\$ 69,256	\$ -	\$ -	\$ 1,332	\$ 70,588
Total Nonspendable	<u>69,256</u>	<u>-</u>	<u>-</u>	<u>1,332</u>	<u>70,588</u>
Restricted:					
General government	2,621,210	-	-	11,454,669	14,075,879
Debt service	-	3,562,813	-	-	3,562,813
Public facilities	-	-	169,126,664	-	169,126,664
Housing assistance	-	-	-	3,927,274	3,927,274
Public safety	-	-	-	1,135,995	1,135,995
Total Restricted	<u>2,621,210</u>	<u>3,562,813</u>	<u>169,126,664</u>	<u>16,517,938</u>	<u>191,828,625</u>
Committed:					
General government	2,526,435	-	-	-	2,526,435
Public works and infrastructure	11,305,435	-	-	21,008,330	32,313,765
Total Committed	<u>13,831,870</u>	<u>-</u>	<u>-</u>	<u>21,008,330</u>	<u>34,840,200</u>
Assigned:					
General government	17,356,677	-	9,600,318	-	26,956,995
Total Assigned	<u>17,356,677</u>	<u>-</u>	<u>9,600,318</u>	<u>-</u>	<u>26,956,995</u>
Unassigned					
Unassigned	35,849,487	-	-	-	35,849,487
Total fund balance	<u>\$ 69,728,500</u>	<u>\$ 3,562,813</u>	<u>\$ 178,726,982</u>	<u>\$ 37,527,600</u>	<u>\$ 289,545,895</u>

9. Fund net position

In the fund financial statements, proprietary funds report restricted net position for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

City of Garland, Texas
Notes to the Financial Statements (Continued)

10. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position and balance sheet will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period and will not be recognized as an outflow of resources (expenses/expenditure) until then. The City has the following items that qualify for reporting in this category:

- Fair value of energy risk derivative instruments – The deferred charge represents fuel swap hedging activity and is calculated as the difference between the closing futures price at the end of the reporting period, and the futures price at the time the positions were established.
- Deferred charges on refunding – The deferred charge results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunding or the refunded debt.
- Pension and OPEB contributions subsequent to measurement date – The deferred charges result from contributions made after the measurement date of the plans to the current fiscal year end. These charges will be recognized in the subsequent fiscal year end.
- Difference in expected and actual economic experience – The difference is deferred and will be amortized as a component of pension and OPEB expense over the estimated average remaining lives of all members determined as of measurement date.
- Difference in assumption changes – The difference is deferred and amortized over estimated average remaining lives of all members determined as of measurement date.
- Deferred charges on asset retirement obligation – The deferred charge will be recognized as an outflow of resources over the remaining estimated useful life of the asset.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category:

- Deferred charges on refunding – The deferred charge results from the difference in carry value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunding or the refunded debt.
- Difference in expected and actual economic experience – The difference is deferred and will be amortized as a component of pension and OPEB expense over the estimated average remaining lives of all members determined as of measurement date.
- Difference in projected and actual earnings – The difference is deferred and will be amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.
- Difference in assumption changes – The difference is deferred and amortized over estimated average remaining lives of all members determined as of measurement date.
- Deferred inflows at the fund level – The deferred inflow on the governmental fund statement represents unavailable revenue at year end.
- Deferred inflows on leases – The deferred inflow on the governmental fund statement represents the remaining lease revenue receivable at fiscal year-end.

City of Garland, Texas
Notes to the Financial Statements (Continued)

11. Leases

Lessee

The City is a lessee for noncancellable leases of property and equipment. The City recognizes a lease liability, reported with long-term debt, and a right-to-use lease asset (lease asset) reported with other capital assets, in the government-wide and proprietary fund financial statements.

At the commencement of a lease, the City initially measures the lease liability at the present value of payment expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, purchase option price that the City is reasonable certain to exercise, lease incentives receivable from the lessor, and any other payments that are reasonable certain of being required based on an assessment of all relevant factors.

The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lessor

The City is a lessor for noncancellable leases of property and equipment. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgements related to leases include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease receivable are composed of fixed payments from the lessee, variable payments from the lessee that are fixed in substance or that depend on an index or a rate, residual value guarantee payments from the lessee that are fixed in substance, and any lease incentives that are payable to the lessee.

City of Garland, Texas
Notes to the Financial Statements (Continued)

The City monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

12. Subscription based information technology arrangements (SBITAs)

The City of Garland has noncancellable contracts with subscription based information technology arrangements (SBITA) vendors for the right to use information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). The City recognizes a subscription liability, reported with long-term debt, and a right-to-use subscription asset (an intangible asset), reported with other capital assets, in the government-wide and proprietary fund financial statements.

At the commencement of a SBITA, the City initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of SBITA payments made. The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for SBITA payments made at or before the SBITA commencement date, plus certain initial implementation costs. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying IT assets.

Key estimates and judgments related to SBITAs include how the City determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The City uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the City generally uses the estimated incremental borrowing rate as the discount rate for SBITAs.
- The subscription term includes the noncancellable period of the SBITA.
- The subscription payments included in the measurement of the subscription liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, termination penalties if the City is reasonably certain to exercise such options, subscription contract incentives receivable from the SBITA vendor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

The City monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

City of Garland, Texas
Notes to the Financial Statements (Continued)

13. New accounting principles

The City implemented the following new GASB standards during the fiscal year ended September 30, 2024:

The GASB has issued Statement No. 100, "Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62" (GASB 100), which will be effective in fiscal year 2024. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. The City implemented this statement in the current fiscal year.

GASB issued the following new accounting standards that are expected to be implemented by the City in future years:

The GASB has issued Statement No. 101, "*Compensated Absences*" (GASB 101), which will be effective in fiscal year 2025. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 102, "*Certain Risk Disclosures*" (GASB 102), which will be effective in fiscal year 2025. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow or resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date of the financial statements are issued. The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 103, "*Financial Reporting Model Improvements*" (GASB 103), which will be effective in fiscal year 2026. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements for MD&A will improve the quality of the analysis of changes from the prior year, which will enhance the relevance of that information. The requirements for the separate presentation of unusual or infrequent items will provide clarity regarding which items should be reported separately from other inflows and outflows of resources. The definitions of operating revenues and expenses and of nonoperating revenues and expenses will replace accounting policies that vary from government to government, thereby improving comparability. The addition of a subtotal from operating income(loss) and noncapital subsidies will improve the relevance of information provided in the proprietary fund statement of revenues, expenses, and changes in fund net position. The requirement for presentation of major component unit information will improve comparability. The requirement that budgetary comparison information be presented as RSI will improve comparability, and the inclusion of the specified variances and the explanations of significant variances will provide more useful information for making decisions and assessing accountability. The City has not yet evaluated the impact of the implementation of this standard.

City of Garland, Texas
Notes to the Financial Statements (Continued)

The GASB has issued Statement No. 104, *“Disclosure of Certain Capital Assets”* (GASB 104), which will be effective in fiscal year 2026. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital assets held for sales if (a) the government has decided to pursue the sale of the capital asset and (b) it is probably that the sale will be finalized within one year of the financial statement date.

City of Garland, Texas
Notes to the Financial Statements (Continued)

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$462,690,000 difference is as follows:

General Obligation bonds – General Government portion	\$308,715,000
Certificates of Obligation – General Government portion	<u>153,975,000</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at net position – governmental activities	<u>\$462,690,000</u>

The portion of Certificates of Obligation amounting to \$7,280,000 was outstanding for Internal Service fund projects. The portion of General Obligation bonds amounting to \$8,805,000 was outstanding for Internal Service fund projects.

City of Garland, Texas
Notes to the Financial Statements (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes reconciliation between *net changes in fund balances – total governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this (\$111,112,375) difference are as follows:

Debt issued or incurred:	
Issuance of certificate of obligation – Governmental Funds	\$ (32,985,000)
Issuance of general obligation bonds – Governmental Funds	(101,810,000)
Net premium on issuance of bonds	(12,158,069)
Principal repayments:	
General obligation debt	20,345,000
Certificates of obligation	13,665,000
Amortization of bond premium	5,040,094
Amortization of Lease/SBITA	(286,635)
Change in landfill closure liability	(876,872)
Change in compensated absences liability	(2,045,893)
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$(111,112,375)

City of Garland, Texas
Notes to the Financial Statements (Continued)

Another element of that reconciliation states that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.” The details of this \$100,043,268 difference are as follows:

Capital outlays	\$ 136,075,841
Developers contributions	1,727,988
General Fund expense outlays	2,720,256
Depreciation expense	(39,944,214)
Loss on disposal of assets	<u>(536,603)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u><u>\$ 100,043,268</u></u>

III. Stewardship, compliance, and accountability

Deficit fund equity

The Self-Insurance Fund deficit of \$18,476 is a result of an accrual of claims incurred but not reported of \$5,644,644. This accrual was made on the basis of an actuarial analysis completed in 2024 and will be funded in future periods as the payments become due.

The Long-Term Disability Insurance Fund deficit of \$1,130,189 is the result of an accrual of claims incurred but not reported of \$3,228,223. This accrual was made on the basis of an actuarial analysis completed in 2024 and will be funded in future periods as the payments become due.

The Fleet Services Fund deficit of \$448,376 is related to reporting actuarial determined OPEB and pension expenses. The fund is managed on a modified accrual basis. Charges to other operating funds are adjusted annually to meet current operating needs.

The Facilities Management deficit of \$1,771,553 is related to reporting actuarial determined OPEB and pension expenses. The fund is managed on a modified accrual basis. Charges to other operating funds are adjusted annually to meet current operating needs.

The Warehouse Fund deficit of \$189,888 is related to reporting actuarial determined OPEB and pension expenses. The fund is managed on a modified accrual basis. Charges to other operating funds are adjusted annually to meet current operating needs.

City of Garland, Texas
Notes to the Financial Statements (Continued)

IV. Detailed notes on all funds

A. Deposits and investments

Deposits. Consistent with the requirements of State law and the City’s investment policy, the City requires all bank and savings bank deposits to be federally insured, fully secured through an FHLB standby letter of credit (“LOC”) or collateralized with eligible securities in accordance with Texas Government Code Chapter 2257. The City’s deposits were fully insured or collateralized as required by state statutes as of September 30, 2024. Collateral was held by the Federal Reserve Bank in the City name under a joint safekeeping agreement with JP Morgan Chase Bank. The fair value of the collateral at the close of the fiscal year was \$10,200,000.

As of September 30, 2024, the carrying amount of the City’s deposits was \$7,200,478 and the bank balance was \$5,542,996. These balances include the City’s blended component units (Garland Foundation for Development and Garland Public Facility Corporation). On September 30, 2024, the City’s bank balance, the bank balance for GFFD, and the bank balance for GPFC were fully collateralized. The carrying value of the Garland Foundation for Development component unit deposits was \$939,891 and the carrying value for Garland Public Facility Corporation was \$299,016.

Investments. State statutes, the City’s Investment Policy, and the City Statement of Investment Strategies govern the investments of the City. The City is authorized to invest in obligations of the U.S. Government and its agencies and instrumentalities, federal agency discount-amortizing notes, federal agency coupon securities, managed pool accounts and Certificates of Deposit.

As of September 30, 2024, the City had the following cash equivalents and investments:

<u>Investment Type</u>	<u>Fair Value</u>			<u>WAM</u>	<u>Rating</u>	<u>Rating Agency</u>
	<u>Book Value</u>	<u>Level 2</u>	<u>% of portfolio</u>			
Fed Home Loan Bank	10,004,302	10,000,113	1.03%	97	AA+/Aaa	S&P/Moody’s
Federal Farm Credit Bank	29,993,283	30,018,920	3.08%	78	AA+/Aaa	S&P/Moody’s
U.S. Treasury	158,197,590	159,163,563	16.26%	284	N/A	N/A
Certificates of Deposit	1,273,593	-	0.13%	1	N/A	N/A
Investment Pools	773,373,449	-	79.50%	60	AAAm	S&P
Total investment fair value	<u>\$ 972,842,217</u>	<u>\$ 199,182,596</u>	<u>100.00%</u>	51		

Weighted average maturity (WAM) of the portfolio by investment type categories reflected in the previous table is stated in days. The rating agency acronyms are defined as follows: S&P-Standard & Poor’s rating agency and Moody’s-Moody’s Investor Service.

City of Garland, Texas Notes to the Financial Statements (Continued)

Fair Value Measurement. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets and liabilities in active markets that government can access at the measurement date.
- Level 2 inputs are inputs (other than quoted prices within Level 1) that are observable for an asset and liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. For the City, all of the U.S. Government Agency securities and Municipal obligations are classified in Level 2 of the fair value hierarchy and are valued based on their relationship to benchmark quoted prices. Investment Pools and Certificates of Deposit are measured at amortized cost or net asset value and are exempt from fair value reporting.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits at least half of the City's investment portfolio to maturities of less than five years and a WAM of three years or less. As of September 30, 2024, the WAM for all cash equivalents and investments was 51 days.

Credit risk. The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized rating organization. The City's investments in U. S. agencies were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service as of September 30, 2024.

The City invests in Texpool and TexStar to meet its daily liquidity needs. Texpool and TexStar are local government investment pools (LGIPs) that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. These pools qualify to be valued at amortized cost and have no limitations or restrictions on withdrawals. Texpool and TexStar are funds that allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. Texpool and TexStar are all rated AAAM and must maintain a dollar weighted average maturity not to exceed a 60 day limit. The City considers the holdings in these funds to have a WAM of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City invests in Certificates of Deposit. The City has entered into custody services agreement with Stone Castle Cash Management to act as authorized agent to purchase and manage Certificates of Deposit (CDs) in depository banks. The CDs held at each bank are in the City's name and the CD cannot exceed the FDIC insurance amount. Money can be withdrawn from Stone Castle Cash Management with one day notice. The City considers the holding in these CDs to have a weighted average maturity of one day, due to the fact that these funds can be withdrawn with one day notice.

State law limits investments in commercial paper to the top two ratings issued by at least two nationally recognized credit rating agencies. It is the City's policy to limit its investments in these investment types to the top rating issued by national recognized credit rating agencies.

City of Garland, Texas
Notes to the Financial Statements (Continued)

As of September 30, 2024, the City had the following cash equivalents and investments held by the trust agency Public Agency Retirement Services (PARS) for the OPEB trust fund:

<u>Investment Type</u>	<u>Fair Value</u>
Equity Mutual Funds	\$ 9,726,046
Fixed Income Mutual Funds	9,411,280
Money Market Fund	<u>659,225</u>
 Total investment fair value	 <u>\$ 19,796,551</u>

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Other Funds</u>	<u>Total</u>
Receivables:								
Interest	\$ 113,797	\$ -	\$ 427,568	\$ 226,334	\$ 74,615	\$ 45,054	\$ 233,465	\$ 1,120,833
Taxes	1,825,993	2,183,518	-	-	-	-	-	4,009,511
Utility Accounts	303,614	-	-	29,529,757	10,481,031	6,442,762	4,661,817	51,418,981
Mowing Liens	570,985	-	-	-	-	-	-	570,985
EMS Accounts	1,380,966	-	-	-	-	-	-	1,380,966
Sales Tax	7,175,271	-	-	-	-	-	-	7,175,271
Wholesale & Other Accts	9,336,799	-	448,375	58,474,429	3,901,584	531	5,662,231	77,823,949
Assessments	16,032	-	-	-	-	-	-	16,032
Gross Receivables	<u>20,723,457</u>	<u>2,183,518</u>	<u>875,943</u>	<u>88,230,520</u>	<u>14,457,230</u>	<u>6,488,347</u>	<u>10,557,513</u>	<u>143,516,528</u>
Less: allowance for uncollectibles	<u>(2,730,056)</u>	<u>(1,287,090)</u>	<u>-</u>	<u>(680,030)</u>	<u>(138,078)</u>	<u>(65,332)</u>	<u>(133,649)</u>	<u>(5,034,235)</u>
Net total receivables	<u>\$17,993,401</u>	<u>\$ 896,428</u>	<u>\$ 875,943</u>	<u>\$ 87,550,490</u>	<u>\$ 14,319,152</u>	<u>\$ 6,423,015</u>	<u>\$ 10,423,864</u>	<u>\$138,482,293</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* in the governmental funds were as follows:

	Unearned
Parks service charges for future events	\$ 654,773
Homeowner assistance	7,974,774
Other receivables related to capital projects	11,039,857
ARPA funds	27,516,796
	\$ 47,186,200

Governmental funds defer revenue recognition in connection with resources that have been earned, but not yet available. These amounts are reported as deferred inflows of resources. At the end of the current fiscal year, the various components of deferred inflows of resources in the governmental funds were as follows:

	Unavailable
Delinquent property taxes receivable (general fund)	\$ 701,257
Delinquent property taxes receivable (debt service fund)	838,562
Leases receivable	2,078,736
Sales tax, mowing liens, EMS, & other receivables	5,872,426
	\$ 9,490,981

City of Garland, Texas
Notes to the Financial Statements (Continued)

C. Capital Assets

Capital asset activity for the year ended September 30, 2024, was as follows:

Primary government

	Balance at Oct. 1, 2023	Increases	Decreases	Balance at Sept. 30, 2024
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 129,871,108	\$ 10,194,364	\$ -	\$ 140,065,472
Internal service land	358,759	-	-	358,759
Construction in progress	190,947,688	107,373,729	(31,994,948)	266,326,469
Internal service construction in progress	6,771,126	7,260,314	(101,893)	13,929,547
Total capital assets, not being depreciated	<u>327,948,681</u>	<u>124,828,407</u>	<u>(32,096,841)</u>	<u>420,680,247</u>
Capital assets, being depreciated/amortized:				
Buildings	168,140,634	2,927,107	-	171,067,741
Improvements other than buildings	745,762,531	33,417,470	(6,484,076)	772,695,925
Machinery and equipment	133,259,445	17,856,159	(10,439,136)	140,676,468
Right-to-use SBITA	9,300,386	-	-	9,300,386
Internal service buildings, improvements, and equipment	153,440,912	8,193,783	(5,651,932)	155,982,763
Internal Services SBITA	12,846,908	-	-	12,846,908
Total capital assets being depreciated/amortized	<u>1,222,750,816</u>	<u>62,394,519</u>	<u>(22,575,144)</u>	<u>1,262,570,191</u>
Less accumulated depreciation/amortization for:				
Buildings	(68,116,057)	(4,098,243)	-	(72,214,300)
Improvements other than buildings	(487,593,749)	(23,858,336)	6,484,076	(504,968,009)
Machinery, furniture, and equipment	(93,956,271)	(11,880,836)	10,439,136	(95,397,971)
Right-to-use SBITA	(930,039)	(930,039)	-	(1,860,078)
Internal service buildings, improvements, and equipment	(104,223,232)	(12,284,415)	5,605,716	(110,901,931)
Internal Services Right-to-use SBITA	(2,744,640)	(2,744,640)	-	(5,489,280)
Total accumulated depreciation/amortization	<u>(757,563,988)</u>	<u>(55,796,509)</u>	<u>22,528,928</u>	<u>(790,831,569)</u>
Total capital assets, being depreciated/amortized, net	<u>465,186,828</u>	<u>6,598,010</u>	<u>(46,216)</u>	<u>471,738,622</u>
Governmental activities capital assets, net	<u>\$ 793,135,509</u>	<u>\$ 131,426,417</u>	<u>\$ (32,143,057)</u>	<u>\$ 892,418,869</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

	Balance at Oct. 1, 2023	Increases	Decreases	Balance at Sept. 30, 2024
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 47,103,410	\$ 526,781	\$ -	\$ 47,630,191
Construction in progress	61,113,193	142,511,011	(122,195,249)	81,428,955
Total capital assets, not being depreciated	108,216,603	143,037,792	(122,195,249)	129,059,146
Capital assets, being depreciated/amortized:				
Utility buildings, improvements, and equipment	2,053,880,000	125,357,059	(14,231,180)	2,165,005,879
Right-to-use leased asset	312,007	97,778	-	409,785
Right-to-use SBITA	583,450	636,529	-	1,219,979
Total capital assets being depreciated/amortized	2,054,775,457	126,091,366	(14,231,180)	2,166,635,643
Less accumulated depreciation/amortization for:				
Utility buildings, improvements, and equipment	(806,808,818)	(55,253,579)	10,823,393	(851,239,004)
Right-to-use leased asset	(197,064)	(98,532)	-	(295,596)
Right-to-use SBITA	(24,310)	(274,055)	-	(298,365)
Total accumulated depreciation/amortization	(807,030,192)	(55,626,166)	10,823,393	(851,832,965)
Total capital assets, being depreciated/amortized, net	1,247,745,265	70,465,200	(3,407,787)	1,314,802,678
Business-type activities capital assets, net	\$1,355,961,868	\$ 213,502,992	\$(125,603,036)	\$1,443,861,824

City of Garland, Texas
Notes to the Financial Statements (Continued)

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

Governmental activities:	
General government	\$ 1,429,630
Public safety	5,084,159
Public works	28,791,861
Culture and recreation	5,038,787
Public health	423,016
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of assets	15,029,056
Total depreciation/amortization expense – governmental activities	\$ 55,796,509
Business-type activities:	
Electric	\$ 25,492,732
Water	9,672,237
Wastewater	15,141,960
Other non-major business-type activities	5,319,237
Total depreciation/amortization expense – business-type activities	\$ 55,626,166

The City has identified intangible assets related to right of way easements. These assets have been classified as non-depreciating assets and reported in the same method as land assets.

Construction commitments

The City has active construction projects as of September 30, 2024. At year-end the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Water System	\$ 16,187,761	\$ 1,438,436
Wastewater System	30,039,449	40,353,391
Electric System	5,916,017	2,790,045
Public Safety	9,410,567	89,183
Parks & Recreation	34,105,422	45,169,544
Streets and Drainage	10,228,316	10,001,366
Municipal Facilities	8,502,735	4,030,350
Total	\$ 114,390,267	\$103,872,315

City of Garland, Texas
Notes to the Financial Statements (Continued)

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2024, is as follows:

Interfund Payable	General Fund	Internal Services	Non-Major Enterprise	Total
Capital Project Funds	\$ 2,175,591	\$ -	\$ -	\$ 2,175,591
Non-Major Governmental	9,695,272	1,746,895	81,717	11,523,884
Internal Service Funds	4,916,589	-	-	4,916,589
	\$16,787,452	\$ 1,746,895	\$ 81,717	\$18,616,064

Interfund balances are created by short-term deficiencies in cash position in individual funds and it is anticipated that these balances will be repaid within one year or less.

The composition of advances to/from at September 30, 2024, is as follows:

Advance Payable	Electric	Total
Internal Service	\$ 3,896,269	\$ 3,896,269

Advances are created by long-term deficiencies in cash position in individual funds. It is not anticipated that these balances will be repaid within one year or less.

City of Garland, Texas
Notes to the Financial Statements (Continued)

During the year, funds were transferred from one fund to support expenditures of another fund in accordance with the authority established for the individual fund. A summary of interfund transfers by fund type is as follows:

	General Fund	Debt Service Fund	Capital Project Fund	Non-major Governmental Funds	Non-major Business Funds	Internal Service Funds	Total Transfers
General	\$ -	\$ -	\$13,312,472	\$ 354,612	\$ -	\$ 228,667	\$ 13,895,751
Debt Service	-	-	40,255,000	-	-	77,000	40,332,000
Capital Project	24,036,990	120,027	-	8,168,021	1,992,000	-	34,317,038
Non-major Governmental	252,000	-	4,899,710	-	-	-	5,151,710
Electric	24,947,022	230,482	-	-	-	906,088	26,083,592
Water	8,606,030	131,810	-	-	-	-	8,737,840
Wastewater	7,424,761	133,929	-	-	-	-	7,558,690
Non-major Business-Type	1,218,784	172,464	-	-	-	155,686	1,546,934
Internal Service	-	16,939	-	-	-	-	16,939
	<u>\$66,485,587</u>	<u>\$805,651</u>	<u>\$58,467,182</u>	<u>\$ 8,522,633</u>	<u>\$1,992,000</u>	<u>\$1,367,441</u>	<u>\$137,640,494</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations; in-lieu-of franchise fees and ad valorem taxes transferred to the General Fund by Water, Wastewater, and Solid Waste; return on investment transferred to the General Fund from the Electric Fund; debt service transfers for payment of principal and interest as these payments are due; and other miscellaneous transfers in accordance with budgetary authorizations.

City of Garland, Texas
Notes to the Financial Statements (Continued)

E. Long-term liabilities

A summary of long-term liabilities, including current portion, for the year ended September 30, 2024, is as follows:

	Balance at Oct. 1, 2023	Increased	Retired	Balance at Sept. 30, 2024	Due within one year
<u>Governmental activities:</u>					
General obligation bonds	\$ 237,740,000	\$ 101,810,000	\$ (22,030,000)	\$ 317,520,000	\$ 24,960,000
Certificates of obligation	141,480,000	34,370,000	(14,595,000)	161,255,000	16,835,000
Unamortized premium and deceased debt costs	24,204,696	12,298,358	(5,354,223)	31,148,831	-
Landfill post closure cost	14,878,362	876,871	-	15,755,233	-
Compensated absences	28,525,123	5,186,308	(3,071,982)	30,639,449	15,005,141
SBITA	18,492,012	-	(3,306,121)	15,185,891	2,261,034
Insurance claims payable	11,127,124	35,018,158	(35,057,499)	11,087,783	4,939,932
OPEB liability	68,434,538	19,585,113	-	88,019,651	-
Net pension liability	66,791,286	-	(42,341,527)	24,449,759	-
Governmental activities Long-term debt	<u>\$ 611,673,141</u>	<u>\$ 209,144,808</u>	<u>\$ (125,756,352)</u>	<u>\$ 695,061,597</u>	<u>\$ 64,001,107</u>
<u>Business-type activities:</u>					
Utility System revenue bonds	\$ 968,515,000	\$ 46,370,000	\$ (57,970,000)	\$ 956,915,000	\$ 48,455,000
General obligation bonds	15,000	-	-	15,000	5,000
Certificates of obligation	12,085,000	6,225,000	(3,095,000)	15,215,000	3,935,000
Unamortized premium and deceased debt costs	65,713,318	4,214,269	(10,461,417)	59,466,170	-
Commercial Paper	41,400,000	125,000,000	(40,000,000)	126,400,000	-
Compensated absences	3,630,914	823,102	(532,274)	3,921,742	2,896,554
Lease	115,276	97,778	(107,028)	106,026	89,582
SBITA	484,870	636,529	(301,545)	819,854	296,958
OPEB liability	23,954,285	6,855,419	-	30,809,704	-
Net pension liability	24,954,986	-	(15,819,911)	9,135,075	-
Asset retirement obligations	575,993	13,824	-	589,817	-
Business-type activities Long-term debt	<u>\$ 1,141,444,642</u>	<u>\$ 190,235,921</u>	<u>\$ (128,287,175)</u>	<u>\$ 1,203,393,388</u>	<u>\$ 55,678,094</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

Internal Service Funds predominantly serve the governmental funds. Accordingly, long-term liabilities for those funds are included as part of the above totals for governmental activities. At year-end \$8,805,000 of general obligation bond debt, \$7,280,000 of certificates of obligation, \$1,295,681 of compensated absences, \$893,508 of unamortized premium costs, \$3,203,994 of pension liabilities, and \$14,359,019 of OPEB liabilities from the Internal Service Funds are included in the governmental activities general obligation bonds, certificates of obligation, compensated absences, and OPEB liabilities. Also, for the governmental activities, compensated absences, net pension liabilities, and OPEB claims payable are generally liquidated by the General Fund. For the business-type activities, compensated absences, net pension liability, OPEB claims payable, and leases payable are liquidated with resources from the enterprise fund.

The proceeds of \$34,370,000 from the sale of certificates of obligation and \$101,810,000 of refunded general obligation bonds for governmental activities are reported as follows:

<u>Fund</u>	Certificates of Obligation	General Obligation Debt	Total Bonded Debt
Capital Project Fund – proceeds from issuance of debt	\$ 32,985,000	\$ 101,810,000	\$ 134,795,000
Internal Service Fund statement of cash flows – proceeds from sale	1,385,000	-	1,385,000
Total	<u>\$ 34,370,000</u>	<u>\$ 101,810,000</u>	<u>\$ 136,180,000</u>

A summary of short-term debt transactions for the year ended September 30, 2024, is as follows:

	Balance at October 1, 2023	Increased	Retired	Balance at September 30, 2024
<u>Governmental activities:</u>				
Commercial Paper	\$ 30,000,000	\$ 20,000,000	\$ 50,000,000	\$ -
Governmental activities short-term debt	<u>\$ 30,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 50,000,000</u>	<u>\$ -</u>

Commercial paper notes (CP) are short-term instruments that have maturities ranging from 1 to 270 days. Interest is paid at maturity but principal is rolled forward by issuing new CP. This process continues, typically for three years, until general obligation bonds (GOs) are issued to refinance outstanding CP. Only after GOs are issued do principal payments begin. The combined amortization of the CP and the GOs is set to not exceed 20 years. Utilization of CP enables the City to lower overall debt payments due to the deferral of principal payments and by taking advantage of lower interest rates. CP is only issued as the funds are required throughout the year. Only projects that have been approved as part of a bond referendum may be funded by GO commercial paper. During FY24, the GO commercial paper program was discontinued.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Long-term debt at September 30, 2024, includes the following individual issues (not including the unamortized premium costs of \$90,615,001):

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Cumulative Retirement	Outstanding
General obligation bonds:						
2015A Refunding	2.00 – 5.00	2/19/2015	2/15/2035	22,695,000	7,620,000	15,075,000
2015B Refunding	2.00 – 2.55	2/19/2015	2/15/2025	22,490,000	18,835,000	3,655,000
2016 Refunding	5.00 -- 5.00	12/14/2016	2/15/2027	42,040,000	38,060,000	3,980,000
2017 Refunding	2.00 – 5.00	6/13/2017	2/15/2035	41,140,000	27,885,000	13,255,000
2018 Refunding	5.00 -- 5.00	12/20/2018	2/15/2029	47,270,000	26,040,000	21,230,000
2019 Refunding	4.00 – 4.50	12/03/2019	2/15/2030	22,390,000	3,345,000	19,045,000
2021 Refunding	2.00 – 4.00	6/30/2021	2/15/2041	39,340,000	4,240,000	35,100,000
2022 Refunding	4.00 – 5.00	5/31/2022	2/15/2042	47,200,000	-	47,200,000
2022 Taxable Refunding	2.90 – 3.45	5/31/2022	2/15/2026	6,070,000	3,040,000	3,030,000
2023 Refunding	4.00 – 5.00	5/31/2023	2/15/2043	45,285,000	-	45,285,000
2023 Taxable Refunding	4.00 – 5.00	5/31/2023	2/15/2029	10,085,000	1,215,000	8,870,000
2024 Refunding	4.00 – 5.00	5/16/2024	2/15/2044	91,705,000	-	91,705,000
2024 Taxable Refunding	4.96 – 5.21	5/16/2024	2/15/2028	10,105,000	-	10,105,000
				\$ 447,815,000	\$ 130,280,000	\$ 317,535,000
Certificates of Obligation:						
2012 Various purpose	2.00 – 3.375	6/01/2012	2/15/2032	\$ 6,755,000	\$ 5,700,000	\$ 1,055,000
2013 Various purpose	2.00 – 4.00	6/06/2013	2/15/2033	12,725,000	11,080,000	1,645,000
2014 Various purpose	2.00 – 4.00	6/19/2014	2/15/2034	13,475,000	11,745,000	1,730,000
2015 Various purpose	2.50 – 5.00	6/30/2015	2/15/2035	18,205,000	13,830,000	4,375,000
2016 Various purpose	2.00 – 5.00	6/01/2016	2/15/2036	20,210,000	13,410,000	6,800,000
2017 Various purpose	2.00 – 5.00	6/13/2017	2/15/2037	18,140,000	11,155,000	6,985,000
2018 Various purpose	3.375 – 5.00	6/26/2018	2/15/2038	29,955,000	14,045,000	15,910,000
2019 Various purpose	3.00 – 5.00	6/19/2019	2/15/2039	25,125,000	8,340,000	16,785,000
2020 Various purpose	2.00 – 5.00	6/16/2020	2/15/2040	16,510,000	7,280,000	9,230,000
2021 Various purpose	2.00 – 5.00	6/30/2021	2/15/2041	20,725,000	5,475,000	15,250,000
2022 Various purpose	4.00 – 5.00	5/31/2022	2/15/2042	29,380,000	5,525,000	23,855,000
2023 Various purpose	4.00 – 5.00	5/31/2023	2/15/2043	34,410,000	2,155,000	32,255,000
2024 Various purpose	4.00 – 5.00	5/30/2024	2/15/2044	40,595,000	-	40,595,000
				\$ 286,210,000	\$ 109,740,000	\$ 176,470,000

City of Garland, Texas
Notes to the Financial Statements (Continued)

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Cumulative Retirement	Outstanding
Utility system revenue bonds:						
2013 Electric Utility	2.00 – 2.25	6/06/2013	3/01/2025	11,790,000	10,500,000	1,290,000
2014 Electric Utility	2.00 – 5.00	6/30/2014	3/01/2034	85,305,000	31,780,000	53,525,000
2014 Water & Wastewater	3.00 – 3.375	6/19/2014	3/01/2034	38,175,000	38,175,000	-
2015 Electric Utility	2.00 – 5.00	2/19/2015	3/01/2025	15,355,000	14,965,000	390,000
2016A Electric Utility	2.00 – 5.00	12/14/2016	3/01/2026	12,055,000	8,900,000	3,155,000
2016B Electric Utility	4.00 – 5.00	12/14/2016	3/01/2037	36,875,000	9,030,000	27,845,000
2016 Water & Wastewater	3.00 – 5.00	12/14/2016	3/01/2027	16,715,000	10,845,000	5,870,000
2017 Water & Wastewater	4.00 – 5.00	6/13/2017	3/01/2028	21,430,000	11,875,000	9,555,000
2018 Electric Utility Ref	3.625 – 5.00	6/12/2018	3/01/2048	31,985,000	5,315,000	26,670,000
2018 Water & Wastewater Ref	3.50 – 5.00	6/12/2018	3/01/2038	48,310,000	9,430,000	38,880,000
2018A Water & Wastewater Ref	3.00 – 5.00	12/20/2018	3/01/2029	9,700,000	4,275,000	5,425,000
2019 Electric Utility Ref	4.00 – 5.00	2/26/2019	3/01/2049	147,610,000	13,935,000	133,675,000
2019 Water & Wastewater	.17 – .89	8/02/2019	3/01/2034	6,670,000	2,175,000	4,495,000
2019A Electric Utility	4.00 – 5.00	12/03/2019	3/01/2050	140,790,000	41,915,000	98,875,000
2019A Water & Wastewater	3.00 – 5.00	12/03/2019	3/01/2040	50,865,000	16,760,000	34,105,000
2020 Electric Utility	3.00 – 5.00	6/16/2020	3/01/2050	34,145,000	2,100,000	32,045,000
2021 Electric Utility	2.00 – 5.00	2/25/2021	3/01/2051	52,260,000	3,710,000	48,550,000
2021 Water & Wastewater	2.00 – 4.00	2/25/2021	3/01/2041	34,725,000	3,720,000	31,005,000
2021A Electric Utility	3.00 – 5.00	9/01/2021	3/01/2051	53,185,000	1,875,000	51,310,000
2021B Electric Utility	.0459 – 3.20	9/01/2021	3/01/2051	153,105,000	1,700,000	151,405,000
2022 Water & Wastewater	4.00 – 5.00	5/31/2022	3/01/2042	44,350,000	2,840,000	41,510,000
2023 Electric Utility	4.25 – 5.00	5/31/2023	3/01/2053	72,610,000	-	72,610,000
2023 Water & Wastewater	4.00 – 5.00	8/24/2023	3/01/2043	38,680,000	325,000	38,355,000
2024 Water & Wastewater	4.00 – 5.00	5/30/2024	3/01/2044	46,370,000	-	46,370,000
				<u>\$1,203,060,000</u>	<u>\$246,145,000</u>	<u>\$ 956,915,000</u>

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Net Retirement	Outstanding
Tax anticipation notes						
2023 Tax anticipation	4.91	9/28/2023	11/15/2024	\$ 40,255,000	\$ 40,255,000	\$ -
2023 Tax anticipation	4.91	9/28/2023	11/15/2024*	45,750,000	-	45,750,000
				<u>\$ 86,005,000</u>	<u>\$ 40,255,000</u>	<u>\$ 45,750,000</u>

*The City considers this short-term. The notes were called and final payment was made on February 15, 2025.

City of Garland, Texas
Notes to the Financial Statements (Continued)

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Net Retirement	Outstanding
Commercial Paper						
2021 Electric Commercial Paper Issue R-12	3.420-13.165	7/12/2024	10/31/2024	\$ 76,400,000	\$ -	\$ 76,400,000
2021 Electric Commercial Paper Issue R-13	3.420-13.165	8/20/2024	07/12/2024	15,000,000	-	15,000,000
2015 Water/Wastewater Commercial Paper Issue	3.30	9/09/2024	12/05/2024	25,000,000	-	25,000,000
2015 Water/Wastewater Commercial Paper Issue	3.20	9/23/2024	12/05/2024	10,000,000	-	10,000,000
				<u>\$ 126,400,000</u>	<u>\$ -</u>	<u>\$ 126,400,000</u>

Commercial paper notes (CP) related to the enterprise funds are considered long-term instruments. Interest is paid at maturity but principal is rolled forward by issuing new CP. This process continues, typically for three years, until revenue bonds are issued to refinance outstanding CP. Only after revenue bonds are issued do principal payments begin. The combined amortization of the electric revenue bonds is set to not exceed 30 years. The combined amortization of the water and wastewater revenue bonds is set to not exceed 20 years. Utilization of CP enables the City to lower overall debt payments due to the deferral of principal payments and by taking advantage of lower interest rates. CP is only issued as the funds are required throughout the year. Only projects that have been approved as part of a bond referendum may be revenue commercial paper.

City of Garland, Texas
Notes to the Financial Statements (Continued)

The annual requirements to amortize outstanding debt as of September 30, 2024, including interest payments of \$630,813,283 are summarized in the table below. Due to the nature of the obligation for compensated absences, annual requirements to amortize such obligations are not determinable, and are excluded from the summary:

Governmental Activities						
Years Ending September 30,	General Obligation Bonds		Certificates of Obligation		Leases/SBITA	
	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 24,960,000	\$ 14,489,123	\$ 16,835,000	\$ 7,172,535	\$ 2,261,034	\$ 524,349
2026	17,655,000	12,320,320	15,450,000	6,036,625	2,115,543	447,375
2027	18,460,000	11,486,577	14,610,000	5,312,338	2,069,925	374,790
2028	18,320,000	10,629,547	12,835,000	4,662,991	2,209,697	303,412
2029	14,495,000	9,858,213	11,740,000	4,085,381	1,902,671	227,233
2030-2034	73,790,000	39,430,078	48,140,000	13,232,494	4,627,021	305,124
2035-2039	80,565,000	22,847,497	26,330,000	5,518,553	-	-
2040-2044	69,275,000	6,140,600	15,315,000	1,215,712	-	-
Total	\$317,520,000	\$127,201,955	\$161,255,000	\$ 47,236,629	\$ 15,185,891	\$ 2,182,283

Business-type Activities								
Years Ending September 30,	Revenue Bonds		General Obligation Bonds		Certificates of Obligation		Leases/SBITA	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 48,455,000	\$ 39,600,713	\$ 5,000	\$ 525	\$ 3,935,000	\$ 720,915	\$ 386,540	\$ 26,584
2026	49,480,000	36,839,942	5,000	275	3,615,000	467,925	325,145	16,804
2027	50,040,000	34,569,482	-	150	3,050,000	301,300	103,493	7,818
2028	49,930,000	32,256,142	5,000	75	2,175,000	170,675	110,702	4,040
2029	48,585,000	29,976,490	-	-	1,410,000	81,050	-	-
2030-2034	201,790,000	120,738,130	-	-	295,000	195,325	-	-
2035-2039	167,520,000	82,658,147	-	-	380,000	119,050	-	-
2040-2044	153,915,000	50,573,901	-	-	355,000	36,825	-	-
2045-2049	140,060,000	22,369,671	-	-	-	-	-	-
2050-2054	47,140,000	2,460,462	-	-	-	-	-	-
Total	\$956,915,000	\$452,043,080	\$ 15,000	\$ 1,025	\$ 15,215,000	\$ 2,093,065	\$ 925,880	\$ 55,246

City of Garland, Texas
Notes to the Financial Statements (Continued)

At September 30, 2024, the City has authorized but unissued general obligation bonds and general obligation commercial paper in the amount of \$242,371,586 as follows:

	Balance at Oct. 1, 2023	General Obligation Bonds Issued	Balance at Sept. 30, 2024
Streets Improvements	\$ 133,168,841	\$ 18,728,986	\$ 114,439,855
Park Improvements	79,408,617	47,076,187	32,332,430
Drainage Improvements	51,057,261	5,108,219	45,949,042
Municipal Facilities	7,763,867	1,334,892	6,428,975
Library Improvements	19,082,999	12,724,449	6,358,550
Public Safety	31,409,032	14,911,225	16,497,807
Animal Shelter	189,555	116,042	73,513
Economic Development	30,396,414	10,105,000	20,291,414
	<u>\$ 352,476,586</u>	<u>\$ 110,105,000</u>	<u>\$ 242,371,586</u>

A reconciliation was performed in FY2024 to the authorized but unissued general obligation bonds and it was determined that corrections were necessary. The beginning balances have been restated to correctly reflect the outstanding balances.

General Obligation Refunding Bonds do not impact the authorized but unissued General Obligation bonds. The City intends to retire all general long-term debt, plus interest, from ad valorem taxes and other current revenues. Revenue Bonds, applicable Certificates of Obligation and applicable General Obligation Bonds are reflected in the appropriate Proprietary Fund operation. Current requirements for principal and interest expenses are accounted for in the appropriate Proprietary Fund operation.

The City has pledged future Electric, Water and Wastewater utility revenues, net of specified operating expenses, to repay \$1,061,513,557 in outstanding Electric Utility System Revenue Bonds and \$347,444,523 in outstanding Water & Wastewater Utility System Revenue Bonds. Proceeds from the revenue bonds provide financing for the acquisition and construction of various Electric, Water and Wastewater assets. The bonds are payable solely from Electric net revenues and are payable through 2053. Water and Wastewater bonds are payable solely from net revenues from Water and Wastewater and are payable through 2044. Principal paid and interest incurred for the current year was as follows:

Utility Revenue Bonds	Principal	Interest	Total	Pledged Revenue
Electric	\$ 29,370,000	\$ 29,585,643	\$ 58,955,643	\$ 151,463,080
Water & Wastewater	18,265,000	10,107,572	28,372,572	66,718,888

Certificates of Obligation and General Obligation Bonds applicable to Proprietary Fund operations are reflected in the appropriate Enterprise and Internal Service Funds and current requirements for principal and interest expenses are accounted for in the applicable fund. These requirements will be met by current revenues.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Debt issues for the year are as follows:

Issue	Principal	Purpose
Certificates of Obligation, Series 2024	\$ 40,595,000	Acquiring, constructing, renovating, improving, installing and equipping park and recreational improvements and the acquisition of land and interests in land related thereto; constructing, renovating and equipping municipal drainage improvements, including flood control and flood mitigation improvements; constructing and improving street, including related sidewalks, cycle paths, signage and signalization, landscaping, streetscaping, drainage, utility line relocations and the acquisition of land and rights-of-way therefore; acquisition of vehicles and equipment for the fire, police, and stormwater management departments and programs; constructing, renovating, installing and equipping of buildings, streets and traffic control facilities, and public safety facilities for the police and fire departments, and street department; acquisition of vehicles and equipment for, and acquiring, constructing, installing and equipping additions, extensions, renovations and improvements for the City's sanitation department, including the landfill and transfer station; constructing, equipping, and improving information management services systems; acquiring, constructing, renovating, improving and equipping existing municipal buildings, including HVAC replacement, upgrade, roof replacement and safety upgrades; and professional services rendered in connection therewith including payment of costs of issuance of the Certificates.
General Obligation Refunding Bonds, Series 2024	91,705,000	Commercial paper refunding Fund projects to promote economic development throughout the City, through planning, designing, constructing, improving, extending and expanding public street, utility, and other infrastructure facilities, including the acquisition of land therefor, and through the City's programs for economic development, including the acquisition of improved and unimproved properties, the demolition of existing structures, making grants of bond proceeds and otherwise providing assistance for private commercial, industrial, retail, residential, and mixed-use development, neighborhood revitalization projects, and mixed income development; and pay the costs of issuance associated with the sales of the taxable bonds.
General Obligation Bonds, Taxable Series 2024	10,105,000	
Water & Wastewater System Revenue Refunding Bonds, New Series 2024	46,370,000	Revenue bond and commercial paper refunding
Tax Anticipation Note, Series 2024	45,750,000	Short term capital projects

City of Garland, Texas
Notes to the Financial Statements (Continued)

On May 30, 2024, the City issued \$46,370,000 in Water & Wastewater Revenue Refunding Bonds, New Series 2024 to refund \$10,335,000 of outstanding Water & Wastewater System Revenue Bonds, Series 2013, and takeout \$40,000,000 of outstanding commercial paper. The refunded bonds are considered defeased and the liability for those bonds have been removed from the City's financial statements. As a result of the refunding, the City decreased its total debt service payments over the next ten years by \$1,045,747, and obtained an economic gain (difference between the present values of the debt service payments of the old and new debt) of \$860,930.

On May 16, 2024, the City issued \$91,705,000 in General Obligation Refunding Bonds, Series 2024 to takeout \$50,000,000 of outstanding commercial paper and issue \$50,000,000 for improvements.

In current and prior years, the City legally defeased certain bonds and certificates of obligation by placing cash and/or proceeds of refunding bond issues in an irrevocable trust to provide for all future debt services payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of Sept. 30, 2024, there were no outstanding balances of defeased bonds.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed or are not performed correctly, a liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the Internal Revenue Service's rules and regulations. The City did not identify and material arbitrage liability as of Sept. 30, 2024.

Leases Payable

The City has entered into lease agreement as a lessee. The lease allows the right to use office space over the term of the lease. The City is required to make monthly payments at its incremental borrowing rate or the interest rate stated or implied within the lease. The lease rate, term, and end balance are as follows:

<u>Business-Type Activities</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Liability at Commencement</u>	<u>Ending Balance</u>
Office space	11/30/2025	.227%	\$409,785	\$106,026

City of Garland, Texas
Notes to the Financial Statements (Continued)

Subscription Based Information Technology Arrangements (SBITA)

The City has entered into multiple SBITAs that allow the right-to-use the SBITA vendor's information technology software over the subscription term. The City is required to make monthly, quarterly, or annual payments at its incremental borrowing rate or the interest rate stated or implied within the SBITAs. The SBITA rate, term, and ending subscription liability are as follows:

	Interest Rate(s)	Subscription Term in Years	Ending Balance
Governmental activities			
Public Safety software	3.48%	9 years	\$ 7,486,444
HCM/Finance software	3.16% – 3.48%	7 years	4,745,310
Operational software	3.16% – 3.48%	10 years	1,477,371
Other Arrangements	3.31%	5 years	1,476,766
Total governmental activities			<u>\$ 15,185,891</u>
Business-type activities			
Other arrangements	2.57% -- 3.65%	5 years	\$ 819,853
Total business-type activities			<u>\$ 819,853</u>

The value of the subscription assets as of the end of the current year was \$16,005,744 and had accumulated amortization of \$7,647,423.

City of Garland, Texas
Notes to the Financial Statements (Continued)

F. Retirement Plans

Plan Description

The City participates as one of 921 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, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at www.tmr.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 benefit 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 contributions and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credit for service since the plan began are 200% of the employee's accumulated contributions. In addition, the City granted another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

A summary of the plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required to vesting	5
Service retirement eligibility	age 60 with five or more years of service or with 20 years of service regardless of age

City of Garland, Texas
Notes to the Financial Statements (Continued)

At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,799
Inactive employees entitled to but not yet receiving benefits	1,019
Active employees	<u>2,124</u>
	4,942

Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of Member’s total compensation, and the city matching percentages are either 100%, 150%, or 200%, 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 of the City were required to contribute 7% of their annual compensation during the fiscal year. The contribution rates for the City were 11.14% and 10.83% in calendar years 2023 and 2024, respectively. The City’s contributions to TMRS for fiscal year 2024, were \$21,773,233, and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2023, 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 Total Pension Liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with 100% of the Public Safety table used for males and 100% of 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are 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 the most recent Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

City of Garland, Texas
Notes to the Financial Statements (Continued)

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over a four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rate (APRs) is based on the Mortality Experience Investigation Study covering 2009 thru 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 by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage. The target allocation and best estimates of the expected return for each major asset class in fiscal year 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0 %	6.70 %
Core Fixed Income	6.0	4.70
Non-Core Fixed Income	20.0	8.00
Other Public and Private Markets	12.0	8.00
Real Estate	12.0	7.60
Hedge Funds	5.0	6.40
Private Equity	10.0	11.60
Total	100.0 %	

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 benefits payments to 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.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balance at December 31, 2022	\$1,164,492,863	\$ 1,072,746,591	\$ 91,746,272
Changes for the year:			
Service Cost	28,035,696		28,035,696
Interest (on the total pension liability)	77,329,845		77,329,845
Difference between expected and actual experience	(3,175,432)		(3,175,432)
Change in assumptions	(5,182,162)		(5,182,162)
Benefit payments, including refunds of employee contributions	(65,766,769)	(65,766,769)	-
Contributions-employer		19,450,670	(19,450,670)
Contributions – employee		12,572,061	(12,572,061)
Net investment income		123,942,041	(123,942,041)
Administrative expense		(789,866)	789,866
Other		(5,521)	5,521
Net changes	31,241,178	89,402,616	(58,161,438)
Balance at December 31, 2023	\$1,195,734,041	\$ 1,162,149,207	\$ 33,584,834

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease	Current Single Rate	1 % Increase
5.75%	Assumption 6.75%	7.75%
\$ 173,323,788	\$ 33,584,834	\$ (84,163,322)

City of Garland, Texas
Notes to the Financial Statements (Continued)

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 www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to Pensions

For the year ended September 30, 2024, the City recognized pension expense of \$12,743,703.

At September 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 1,270,898	\$ (4,915,805)
Difference in assumption changes	-	(3,982,590)
Difference between projected and actual investment earnings on pension plan investments	30,327,997	-
Employer contributions subsequent to the measurement date	15,682,530	-
	\$ 47,281,425	\$ (8,898,395)

Deferred outflows of resources of \$15,682,530 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, 2025. Other amounts reported as deferred outflows and inflows or resources related to pension will be recognized in pension expense as follows:

Year ended	
September 30,	
2025	\$ 6,123,631
2026	6,690,904
2027	20,811,371
2028	(10,925,406)
Total	\$ 22,700,500

City of Garland, Texas
Notes to the Financial Statements (Continued)

G. Other postemployment benefits

City of Garland other postemployment benefit plan

Plan Description

The City makes available health care benefits to all employees who work for the City of Garland a minimum of five years, meet the Texas Municipal Retirement System (TMRS) criteria listed on page 76, and elect coverage at the time of retirement and maintain continuous, uninterrupted coverage. Benefit provisions are established by management and funding is approved by City Council annually, during the budget process.

In 2008, the City established an irrevocable trust fund in an effort to begin funding the actuarial determined OPEB unfunded liability and to ensure that funding is available in the future for retiree medical benefits. In 2024, the City Council approved a transfer of \$1,760,000 to the trust, and a long-term funding strategy was implemented to increase the annual contribution to this trust with a goal of fully funding the annual OPEB obligation after ten years.

The OPEB trust investments are held in the Public Agencies Retirement Services (PARS) Post-retirement Health Care Plan Trust by its trustee, US Bank. US Bank has delegated investment management responsibilities to HighMark Capital Management, Inc. (Investment Manager), a SEC-registered investment advisor. The Trust investment guideline mandates a diversified portfolio designed to generate long-term returns that, when combined with contributions, will result in sufficient assets to pay future obligation associated with the retiree health plan.

Benefits Provided

The City of Garland provides insurance to eligible pre-65 retirees, their spouses and dependents through the City's self-insured group health plan. Post-65 retirees are offered a fully insured Medicare Supplement Plan through Hartford, who assumes all claims risk liability on this group of retirees. The City makes contributions towards retiree health care benefits. However, the City reduces its liability and risk by capping the annual increase to the City contribution to a maximum of 3% per year. For FY2024, the monthly City contribution per participant for the retiree group as a whole was \$532.37.

As of December 31, 2023 biennial actuarial valuation, the Plan's membership consisted of the following:

<u>Number of plan members</u>	<u>Medical</u>
Retirees and dependents currently receiving benefits	1,025
Inactive members entitled to benefits, but not yet receiving them	-
Active members	<u>1,983</u>
Total	<u><u>3,008</u></u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

Contributions and Funding Policy

The City has the authority to establish and amend the Plan contributions. The City makes an annual contribution to the Trust fund; the funding is established and approved by City Council as part of the City budget process. For the year ended September 30, 2024, the City's average contribution rate was 3.12 percent of the covered payroll. Monthly retiree premiums are utilized to fund current medical claims and are based on the benefit election of the Plan member.

Net OPEB Liability

The City's net OPEB liability was measured as of December 31, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

Actuarial Valuation Date	12/31/2023
Actuarial Cost Method	Entry Age Normal
Asset valuation method	Fair value
Inflation	2.50%
Projected salary increase	3.00%
Discount rate	4.7%
Healthcare cost trend rates	All years capped at 3.0%
Mortality	Non Annuitants – Sex distinct PUB 2010 general employee headcount weighted mortality table with mortality improvement scale MP-2021. Annuitants – Sex distinct PUB 2010 retiree headcount weighted mortality table with mortality improvement scales MP-2021.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Rate of Return

The long-term expected rate of return on OPEB plan investments will be managed on a total return basis which takes into consideration both investment income and capital appreciation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Geometric)</u>
Large Cap	26.4 %	7.00 %
Mid Cap	4.8	7.60
Small Cap	5.9	7.20
International	9.2	7.80
Emerging Markets	2.4	8.80
Real Estate	2.4	7.50
Intermediate Term Bond	45.6	3.90
Government Bonds	0.00	3.90
Mortgage Backed Securities	0.00	6.50
Cash	3.3	2.90
Total	<u>100.00 %</u>	

The long-term expected rate of return is 6.75%. The expected return is determined through a combination of historical rates of return, valuation projections, and economic expectations.

Discount rate

The discount rate used to measure the Total OPEB Liability was 4.7%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the OPEB plan's Fiduciary Net Position was projected to be available to make all projected future benefits payments to current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all period of projected benefit payments to determine the total OPEB liability.

The discount rate for the 12/31/2023 measurement was 4.7% which caused an actuarial gain. The discount rate for the 12/31/2022 measurement was 4.15%. The discount rate incorporates a blend of the expected rate of return and the yield of a set of 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of December 31, 2023, the measurement date (6.75% and 4.00%, respectively).

City of Garland, Texas
Notes to the Financial Statements (Continued)

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balance at December 31, 2022	\$ 97,371,656	\$ 12,419,395	\$ 84,952,261
Changes for the year:			
Service Cost	2,080,963	-	2,080,963
Interest (on the total OPEB liability)	5,260,690	-	5,260,690
Difference between expected and actual experience	816,935	-	816,935
Change in assumptions	30,319,531	-	30,319,531
Benefit payments, including refunds of employee contributions	(7,259,006)	(7,259,006)	-
Contributions-employer	-	10,694,006	(10,694,006)
Net investment income	-	2,059,481	(2,059,481)
Administrative expense	-	(71,154)	71,154
Net changes	<u>31,219,113</u>	<u>5,423,327</u>	<u>25,795,786</u>
Balance at December 31, 2023	<u>\$ 128,590,769</u>	<u>\$ 17,842,722</u>	<u>\$ 110,748,047</u>

Plan fiduciary net position as a percentage of the total OPEB liability is 13.88%.

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

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.7%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.7%) or 1-percentage-point higher (5.7%) than the current rate:

1% Decrease 3.7%	Current Single Rate Assumption 4.7%	1 % Increase 5.7%
<u>\$ 129,846,804</u>	<u>\$ 110,748,047</u>	<u>\$ 95,331,951</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.7% as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rate:

1% Decrease 2.0%	Current Single Rate Assumption 3.0%	1 % Increase 4.0%
<u>\$ 93,317,848</u>	<u>\$ 110,748,047</u>	<u>\$ 132,541,582</u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended September 30, 2024, the City recognized OPEB expense of \$15,503,911.

At September 30, 2024, 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	\$ 2,022,746	\$ -
Difference in assumption changes	28,787,606	(2,739,062)
Difference between projected and actual investment earnings on pension plan investments	744,577	-
Employer contributions subsequent to the measurement date	1,966,121	-
	\$ 33,521,050	\$ (2,739,062)

Deferred outflows of resources of \$1,966,121 related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows or resources related to pensions will be recognized in OPEB expense as follows:

Year ended	
September 30,	
2025	\$ 7,133,607
2026	6,847,534
2027	4,677,432
2028	4,967,882
2029	5,189,412
Total	\$ 28,815,867

City of Garland, Texas
Notes to the Financial Statements (Continued)

Supplemental Death Benefits Plan (SDBF)

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members and retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (pay as you go plan). The retiree portion of the SDBF is considered to be a single-employer, defined benefit OPEB plan.

Detail information about the SDBF OPEB plan is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employee's entire careers. The SDBF contribution rate for retirees is .16%.

As of December 31, 2023, membership in the plan consisted of the following:

Inactive employees currently receiving benefits	1,357
Inactive members entitled to benefits, but not yet receiving them	255
Active members	<u>2,124</u>
Total	<u>3,736</u>

The City's OPEB liability is measured as of December 31, 2023, and the total OPEB liability was determined by an actuarial valuation as of December 31, 2023.

City of Garland, Texas
Notes to the Financial Statements (Continued)

Actuarial Assumptions

Inflation	2.5%
Salary increases	3.6% to 11.85% including inflation
Discount rate*	3.77%
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 Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
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 of Scale MP-2021 (with immediate convergence) 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, 2023.

Changes in Total OPEB Liability

Beginning at December 31, 2022	\$ 7,436,562
Service Cost	233,483
Interest on the total OPEB liability	300,454
Differences between expected and actual experience	586
Change in assumptions	379,624
Benefit payments	<u>(269,401)</u>
Net change in total OPEB liability	<u>644,746</u>
Ending at December 31, 2023	<u><u>\$ 8,081,308</u></u>

City of Garland, Texas
Notes to the Financial Statements (Continued)

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 3.77%, as well as what the City's Total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.77%) or 1-percentage-point higher (4.77%) than the current rate:

1% Decrease 2.77%	Current Discount Rate Assumption 3.77%	1 % Increase 4.77%
\$ 9,499,939	\$ 8,081,308	\$ 6,951,895

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended September 30, 2024, the City recognized OPEB expense of \$285,568.

At September 30, 2024, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,838	\$ (376,612)
Difference in assumption changes	1,119,902	(2,232,488)
Employer contributions subsequent to the measurement date	225,243	-
	\$ 1,363,983	\$ (2,609,100)

Deferred outflows of resources of \$225,243 related to OPEB resulting from retiree contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows or resources related to OPEB will be recognized in OPEB expense as follows:

Year ended	
September 30,	
2025	\$ (271,167)
2026	(311,365)
2027	(493,762)
2028	(438,986)
Thereafter	44,920
Total	\$ (1,470,360)

City of Garland, Texas
Notes to the Financial Statements (Continued)

H. Self-Insurance

Self-insurance for general and auto liability exposure and workers' compensation is maintained in the Self-Insurance Fund of the Internal Service Fund. A private insurance company administers workers' compensation claims and losses for the City. Self-insurance premiums of \$11,941,732 were collected from funds that participate in these. Claims settlement and loss expenses are accrued in the Self-Insurance Fund for the estimated settlement value of claims reported and incurred but not reported arising from incidents during the period. A liability, insurance claims payable, has been established. The reported liability includes actuarially determined present value projected losses for general, auto, and workers' compensation exposure. In determining projected losses, coverages with material incurred losses were compared to expected industry loss levels for prior periods. Based on this comparison, an experience modifier was selected and applied to current indicated industry premiums per exposure unit to obtain expected losses as of September 30, 2024, at the selected per occurrence limits. Based on a current independent actuarial analysis completed in December 2024 claims payable as of September 30, 2024 was estimated at \$5,644,644.

Long-Term Disability (LTD) claims are paid from the LTD Insurance Fund, which is funded with City and employee contributions. A private company administers the long-term disability claims and losses for the City. Based on a current independent actuarial analysis, an actuarially determined liability of \$3,228,223 has been established for projected future claims.

Group medical benefits are paid from the Group Health Fund, which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At September 30, 2024, a short-term liability of \$2,214,914 was recognized for open claims and claims incurred but not reported. The claims incurred but not reported are calculated based on a monthly average for claims paid during the current fiscal year.

There were no significant reductions in insurance coverage in the current year from coverage in the prior year, nor have there been any settlements that have exceeded insurance coverage for each of the past three fiscal years.

Changes in the self-insurance, long-term disability and group health insurance claims payable in fiscal years 2023 and 2024 were:

Internal Service Fund	Beginning of Fiscal Year Liability	Current Year Claims	Changes in Estimates	Claim Payments	Balance at Fiscal Year – End	Current Portion
Self-Insurance – 2023	\$ 5,654,887	\$ 632,433	\$ -	\$ 632,433	\$ 5,654,887	\$ 2,774,500
Self-Insurance – 2024	5,654,887	821,073	(10,243)	821,073	5,644,644	2,409,814
Long-Term Disability – 2023	3,677,127	449,507	-	449,507	3,677,127	490,000
Long-Term Disability – 2024	3,677,127	355,052	(448,904)	355,052	3,228,223	315,204
Group Health – 2023	2,683,918	30,024,903	(888,808)	30,024,903	1,795,110	1,795,110
Group Health – 2024	1,795,110	33,422,227	419,804	33,422,227	2,214,914	2,214,914

City of Garland, Texas
Notes to the Financial Statements (Continued)

I. Texas Municipal Power Agency

The Texas Municipal Power Agency (TMPA) was created in 1975 pursuant to legislation that was passed by the 64th Legislative Session. TMPA, a municipal corporation, is governed by a Board of Directors, where each member city appoints two representatives to the Board. In 1976, the City along with the cities of Bryan, Denton, and Greenville (collectively “the Member Cities”) entered into identical Power Sales Contracts with TMPA. For more than 40 years, the Power Sales Contract governed the relationship between, and the rights and obligations of, TMPA and each of the Member Cities with respect to, among other items, generation, transmission, and sale of electric energy to each Member City. On September 1, 2018, TMPA made the final debt service payment on TMPA’s generation debt which extinguished the Member City’s unconditional obligation with respect to such TMPA debt. The Power Sales Contract expired by its terms and none of the Member Cities elected to extend the Power Sales Contract beyond September 30, 2018.

TMPA and the Cities entered into a Joint Operating Agreement (JOA) effective September 1, 2016. The JOA represents the post-2018 plans for TMPA and the Cities and is intended to provide terms of agreement for (i) TMPA operations outside the scope of the Power Sales Contract, (ii) matters relating to decommissioning of the Gibbons Creek power plant, (iii) disposition of TMPA assets, and (iv) matters relating to dissolution of TMPA, at such time as it may be dissolved. Among other matters, the JOA (i) allocates the costs of TMPA transmission operations to the Member Cities in accordance with Member City percentages as they existed at expiration of the Power Sales Contract, (ii) establishes formulas for determining each Member City’s ownership interest in TMPA assets (such calculations generally being based on each City’s proportional share of payments made to TMPA) and used to allocate TMPA assets or proceeds of the sale thereof to each Member City, and (iii) provides for the allocation among the Member Cities of TMPA transmission assets if a majority of the Member Cities authorize the transfer of ownership of the TMPA transmission assets. The JOA divides TMPA assets and operations into three business categories – generation, transmission, and mining – and establishes protocols for Member Cities to exit one or more business categories.

During FY2024, the City paid TMPA \$484,751 for charges related to ongoing operations.

Total debt of TMPA at September 30, 2024, amounted to \$199,737,000 of which \$5,632,000 represented the current portion. TMPA’s outstanding long-term debt and short-term debt obligations are all associated with TMPA’s transmission system and are payable from and secured by TMPA’s transmission net revenues.

TMPA
 Outstanding Debt Amounts
 September 30, 2024
 (reported in thousands)

	Long-Term	Current	Total
Revenue Bonds	\$ 161,005	\$ 5,632	\$ 166,637
Tax Exempt Commercial Paper	33,100	-	33,100
	\$ 194,105	\$ 5,632	\$ 199,737

City of Garland, Texas
Notes to the Financial Statements (Continued)

Prepaid Energy Costs, Impairment of Prepaid Energy Costs, and Regulatory Assets

On March 1, 2010, the City issued Combination Tax & Electric Utility System Revenue Refunding Bonds, Series 2010 with a maturity of 20 years for the purpose of prepaying certain contractual obligations to TMPA. The principal amount of the bonds was \$126,885,000 with a reoffering premium and other bond issuance costs of \$11,367,850 for a total of \$138,252,850. Since the proceeds of this debt issuance were placed with TMPA and the City received an economic benefit over a period of years, an Other Asset was recorded in the Electric Fund Statement of Net Position in the amount of \$138,252,850. The City is amortizing the Other Asset over a period of 20 years with a half year convention. The generation portion of the Other Asset was impaired in 2017 and 2018 leaving only the transmission portion of the Other Asset. On September 30, 2024, TMPA Transmission Asset had a balance of \$2,550,451.

On September 30, 2017, the City impaired 37.9% of the generation portion of the Other Assets when the TMPA Board of Directors approved a plan of "seasonal operations". The total impairment was \$50,045,780. On September 30, 2018, the City impaired the remaining generation portion of the Other Asset when ERCOT was notified of the plan to suspend operations indefinitely. The impaired portion was recorded as a GASB 62 Regulatory Asset in Other Assets to be amortized through FY2030. On September 30, 2024, the Generation Regulatory Asset had a balance of \$35,469,083.

In February 2021, the state of Texas experienced an unprecedented winter weather event, Winter Storm Uri, resulting in severe cold weather, snow, and ice. The storm caused power outages across the state. As a result, energy and natural gas prices increased dramatically from February 11 to February 24, 2021. The City recorded a Regulatory Asset of \$137,343,717. The asset was calculated by looking at historical prices for the same period and recording the additional costs incurred as a regulatory asset. The asset will be amortized over thirty years. In FY2023, the value of this Regulatory Asset was increased by \$906,004. This adjustment reflects the recognition of ERCOT short payments that are not expected to be recovered. On September 30, 2024, the Winter Storm Uri regulatory asset had a balance of \$122,162,708.

To qualify to utilize GASB 62, the following must apply:

- The regulated business-type activity's rate for regulated services provided to its customers are established by or are subject to approval of an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
- The regulated rates are designed to recover the specific regulated business-type activity's costs of providing the regulated services.
- In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the regulated business-type activity's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

City of Garland, Texas
Notes to the Financial Statements (Continued)

The City of Garland qualifies to utilize GASB 62 due to:

- State and local statutes empower the City of Garland City Council to establish retail rates.
- The City of Garland specific costs are recovered through City of Garland retail rates.
- Current and projected customer demand support the recovery of City of Garland cost of service.

	February 2021 Winter Storm URI	TMPA Transmission	GASB 62 TMPA PPD Demand Regulatory Asset	Total Other Asset
Balance Sept. 30, 2023	\$ 126,772,622	\$ 3,014,169	\$ 41,918,007	\$ 171,704,798
Other asset amortization	(4,609,914)	(463,718)	(6,448,924)	(11,522,556)
Balance Sept. 30, 2024	\$ 122,162,708	\$ 2,550,451	\$ 35,469,083	\$ 160,182,242

Financial statements for TMPA are available from the TMPA website texasmpa.org or through the City of Garland Financial Services Department.

City of Garland, Texas
Notes to the Financial Statements (Continued)

J. Deferred Compensation Plan

The City offers its non-civil service employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan, available to all permanent City employees, permits participants to contribute annually the amount up to the annual contribution limit allowed by the IRS. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In addition, the City offers to civil service employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457 which is known as the Retirement Stability Benefit Plan (RSB Plan). Due to the fact that Civil-Service employees do not contribute to Social Security, the City created the RSB plan to provide sworn Firefighters and Police Officers the option to supplement their retirement benefits by making both pre-tax and post-tax contributions to their plan. In FY2024, if civil-service employees contributed at least 2.75% of their gross pay per pay period, the City would match 2.25%. The total amount contributed by the City for Fiscal Year 2024 was \$1,474,716. It should be noted that City Council approved an incremental increase of 0.25% to the plan for FY2025. Therefore, for FY2024 civil-service employees that contribute at least 3.0% of their gross pay per pay period will receive a 2.5% match from the City. This plan is available to all City civil-service employees and permits annual contributions from both employees and the City up to the annual contribution limit allowed by the IRS. The deferred compensation is not available to the civil service employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under both of the plans, all property and rights purchased with those amounts, and all income attributable to these amounts, property, or rights are held in trust for the exclusive benefits of participants and their beneficiaries.

K. Governmental Activity Component Units

The Garland Public Facility Corporation (GPFC) was organized for the purpose of assisting the City in financing, refinancing, or providing public facilities. GPFC is reported as a blended component unit in the non-major governmental fund. As of September 30, 2024, the condensed combining information for GPFC is \$3,521,016 for contributed land reported in governmental activities on the government wide statement of net position and statement of activities.

The Garland Foundation for Development (GFFD) was organized to promote economic development within the City of Garland. GFFD is reported as a blended component unit in the non-major governmental fund. As of September 30, 2024, the condensed combining information for GFFD is \$37,231,677 for contributed land reported in governmental activities on the government wide statement of net position and statement of activities.

City of Garland, Texas
Notes to the Financial Statements (Continued)

L. Landfill Closure and Post-closure Care Cost

As of September 30, 2024, the total estimated landfill closure/ post-closure cost for the City's Castle Drive landfill, Hinton landfill, and transfer station is \$2,028,694, \$32,021,141 and \$173,214 respectively. The \$15,755,233 reported as landfill closure and post-closure care liability represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of the Castle landfill, 47.05% use of the Hinton landfill, 100% of the closure cost for the transfer station, less post closure expenditures to date of \$1,511,885. The City will recognize the remaining estimated closure and post-closure care costs of \$16,955,932 as the percentage of capacity depletion increases. These amounts are based on an engineering study performed in 1996 and updated in 2023, which estimated cost to perform all closure and post-closure care. In addition, the closure and post-closure care cost were adjusted for inflation annually based on the most recent Implicit Price Deflator for Gross National Product published by the United States Department of Commerce. Actual cost may differ from the estimate due to inflation, changes in technology, or regulatory changes. The Hinton landfill has an estimated remaining useful life of 24.3 years.

Since the City's Landfill operation is a general government function, a special revenue fund was established to account for actual landfill closure and post-closure care funding sources and expenditures as they are incurred. Based on the City's current landfill closure financial strategy, \$2.4 million in Certificates of Obligation will be issued to finance the one time closure cost and the on-going post closure care will be paid from operating funds.

City of Garland, Texas
Notes to the Financial Statements (Continued)

M. Economic Incentives and Tax Abatements

The City enters into economic development and tax abatement agreements in order to spur commercial activity, generate additional sales tax revenue, enhance the property tax base, and provide increased economic vitality to the City. All abatement projects meet a minimum threshold point total based on full-time jobs, annual payroll, value of new or remodeled facilities, value of machinery and equipment, value of inventory, annual sales tax generated, or Garland Power & Light electric usage. All abatements must be approved on a case-by-case basis negotiated by City staff and approved by the City Council. Recipients receiving assistance generally commit to building or remodeling real property and related infrastructure, expanding operations, renewing facility leases and bringing targeted businesses to the City. Recipients are largely required to meet and maintain minimum thresholds of real and personal property values, full time employees, number of tenants or other provisions specific to an individual recipient. Agreements are generally made for a minimum of five years and generally contain recapture provisions which may require repayment or termination if a recipient fails to meet the required provisions.

The City has two categories of economic development agreements:

Tax Abatements – Under Chapter 312 of the Texas Tax Code the City is allowed to designate tax reinvestment zones and negotiate tax abatement agreements with applicants within these zones. The abatement agreements authorize the appraisal districts to reduce the assessed value of the taxpayer’s property by a percentage specified in the agreement, and the taxpayer will pay taxes on the lower assessed value during the term of the agreement. A summary of Chapter 312 Tax Abatements for the year ended September 30, 2024, is as follows:

<u>Abatement Type</u>	<u>Active Agreements</u>	<u>Total Taxes Abated FY24</u>
Business Personal Property Tax	1	\$ -

Tax Rebates – Under Chapter 380 of the Texas Local Government Code, the City is allowed to enter into agreements in order to stimulate economic activity. These agreements may rebate a flat amount or percentage of real property, personal property or sales taxes received by the City. A summary of Chapter 380 tax rebates for the year ended September 30, 2024 is as follows:

<u>Abatement Type</u>	<u>Active Agreements</u>	<u>Total Taxes abated FY24</u>
Ad Valorem Tax	4	\$ 355,232
Business Personal Property Tax	8	292,055
Sales Tax	2	439,544

City of Garland, Texas
Notes to the Financial Statements (Continued)

N. Commitments and Contingent Liabilities

The City has been named as a defendant or co-defendant in a number of personal injury cases. While the outcome of these cases is not known at this time, the City attorney and City management are of the opinion that any awards to injured parties which must be paid in excess of amounts covered by insurance will not be material to the financial position of the City.

A number of other claims against the City, as well as certain other matters of litigation, are pending with respect to various matters arising in the normal course of the City's operations. The City attorney and City management are of the opinion that the settlement of these other claims and pending litigation will not have a material adverse impact on the City's financial position.

The City participates in a number of State and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

On December 19, 2013, the City entered into a twenty (20) year energy purchase power agreement with Spinning Spur Wind Three, LLC. The agreement extends from the start hour 1:00 of the Commercial Operation Date and ends at the completion of hour 24:00 of the day immediately preceding the twentieth anniversary. The City purchases 26% of the output from the 194MW facility. Commercial Operations began September 28, 2015.

On August 28, 2014, the City entered into a twenty-five (25) year energy purchase power agreement with Los Vientos Windpower V, LLC. The agreement extends from the start of hour 1:00 of the Commercial Operation Date and ends at the completion of hour 24:00 of the day immediately preceding the twenty-fifth anniversary. The City purchases 45.96% of the output from the 110MW facility. Commercial Operations began December 23, 2015.

On June 12, 2015, the City entered into a fourteen (14) year energy purchase power agreement with Salt Fork Wind, LLC. The agreement extends from the start of hour 1:00 (CPT) of the Commercial Operation Date and ends at the completion of hour 24:00 (CPT) of the day immediately preceding the fourteenth anniversary. The City purchases up to 150MW from the facility. The City has contracts to sell 77% of this energy downstream. Commercial Operations began December 1, 2016.

On October 27, 2015, the City entered into a twenty (20) year energy purchase power agreement with Albercas Wind Energy II, LLC. From the effective date, the agreement extends until 23:59:59 (CPT) on the day prior to the 20th anniversary of the Commercial Operation Date. The City purchases up to 96MW from the facility. The City has contracts to sell 74% of this energy downstream. Commercial Operations began November 13, 2016.

On December 28, 2015, the City entered into a fifteen (15) year energy purchase power agreement with BNB Lemesa Solar LLC. The agreement extends from the start of hour 1:00 (CPT) of the Commercial Operation Date and ends at the completion of hour 24:00 (CPT) of the day immediately preceding the fifteenth anniversary. The Commercial Operation Date is anticipated to be no later than March 31, 2017. The City will purchase 102 MW from the facility. The City has contracts to sell 49% of this energy downstream. Commercial Operations began April 27, 2017.

City of Garland, Texas
Notes to the Financial Statements (Continued)

On November 20, 2018, the City entered into renewable purchase power agreement with Engie Long Draw Solar LLC. The agreement extends fifteen (15) years following the Commercial Operation Date. The City will purchase up to 25 MW from the facility. Commercial Operations began December 11, 2020.

On December 11, 2018, the City entered into a renewable purchase power agreement with Concho Bluff LLC. The agreement extends fifteen (15) years following the Commercial Operation Date. The Commercial Operation Date of the facility occurred on February 12, 2021. The City is purchasing 50 MW from the facility. On or about May 1, 2022, a hail storm caused a forced outage to a portion of the facility. The facility is currently generating approximately 50% of the energy originally expected. On January 12, 2024, an amendment to the original contract was signed. The amendment defines a Rebuild Commercial Operation Date of no later than December 31, 2025. Until the Rebuild Completion Date, the City's purchase power will be 31.25 MW. After the Rebuild Completion Date the agreement will adjust to 25 MW with the City retaining the first right of refusal of an additional 25 MW for a five (5) year period after the First Amendment Date. The amended contract extends twelve (12) years from Rebuild Commercial Operation Date.

The City executed confirmations through December 31, 2032, under its International Swaps and Derivatives Association Inc. (ISDA) Master Agreement to purchase electricity under specific terms and conditions. Management believes the purchase of electricity under the specific terms and conditions of the confirmation were for normal purchases/normal sales and non-speculative in nature.

O. Derivative Instruments

In an effort to mitigate the financial and market risk associated with the purchase of natural gas, energy, and congestion price volatility, the City has established a Risk Management Program. This program was authorized by the City Council and is led by the Risk Oversight Committee. Under this program, the City enters into forward contracts for natural gas and energy for the purpose of reducing exposure to natural gas and energy price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. The City typically settles these contracts by delivery of certain commodities.

The City applies GASB Statement No 53 – *Accounting and Financial Reporting for Derivative Instruments*, (“GASB 53”), which addresses the recognition, measurement, and disclosures related to derivative instruments. The City utilizes natural gas commodity swaps to hedge its exposure to fluctuating fuel prices. Since these derivative instruments are entered into for risk mitigation purposes, the instruments are considered potential hedging derivative instruments under GASB 53. The City evaluated all potential hedging derivative instruments for effectiveness utilizing the consistent critical terms method as of September 30, 2024, and as of September 30, 2023, and determined the derivative instruments to be effective in substantially offsetting the change in cash flows of the hedgeable items. These derivative instruments act as cash flow hedges.

City of Garland, Texas
Notes to the Financial Statements (Continued)

At September 30, 2024, the total fair value of outstanding hedge instruments was a net asset of \$2,314,270. Fuel hedging instruments with a fair value of \$32,090 are classified on the Statement of Net Position as a non-current asset. Fuel hedging instruments with a fair value of \$2,246,360 are classified on the Statement of Net Position as a current liability. As of September 30, 2023, the total fair value of outstanding hedge instruments was a net asset of \$4,465,523. Fuel hedging instruments with a fair value of \$409,322 are classified on the Statement of Net Position as a non-current asset. Fuel hedges with a fair value of \$4,466,523 are classified as a current asset. Changes in fair value as of September 30, 2024, of \$1,904,948 are reflected in deferred inflows. The following information details the City Electric Fund's hedging derivative instruments below:

Derivative transactions as of September 2024:

Type	Terms	Notional Amount (MMBtu)	Purchase Dates	Maturity Dates	Referenced Index	Fair Value
Commodity Swaps	City pays prices of \$2.58 - \$4.00	5,856,137	Dec 2022- Feb 2024	Oct 2024- Dec 2025	NYMEX	\$ 2,314,270
<u>5,856,137</u>						<u>\$ 2,314,270</u>

Derivative transactions as of September 2023:

Type	Terms	Notional Amount (MMBtu)	Purchase Dates	Maturity Dates	Referenced Index	Fair Value
Commodity Swaps	City pays prices of \$3.250 - \$4.000	5,037,067	Dec 2021- Dec 2022	Oct 2023- Dec 2024	NYMEX	\$ 4,465,523
<u>5,037,067</u>						<u>\$ 4,465,523</u>

At September 30, 2024, the City had twelve customers to provide wholesale power supply and/or qualified scheduling entity services. The contract terms extend up to November, 2036. For the power supply customers, the City charges an energy charge which is based on the quantity of power supplied multiplied by a fixed price, or multiplied by a fixed heat rate and a fuel index price. In order to hedge the City's risk, the City has entered into corresponding power supply agreements with counterparties to hedge against energy price or heat rate fluctuation in the market.

Congestion Revenue Rights

Pre-assigned Congestion Revenue Rights (PCRRs) and Congestion Revenue Rights (CRRs) function as financial hedges against the cost of resolving congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow the City to hedge expected future congestion that may arise during a certain period. CRRs are purchased at auction, annually and monthly at fair market value. Municipally owned utilities are granted the right to purchase PCRRs annually at 10-20% of the cost of CRRs. At September 30, 2024, the City held CRRs with a cost and fair value of \$566,567, that the City expects to use in normal operations, which is recorded as prepaid expense in the Electric fund.

Risks

Credit Risk. The City's over-the-counter agreements for natural gas and energy expose the City to credit risk. In the event of default, the City's operations will not be materially affected. However, the City does not expect the counterparties to fail to meet their obligations. The City maintains contracts with contractual provisions under the ISDA, EEI (Edison Electric Institute), and NAESB (North American Energy Standards Board) agreements. As of September 30, 2024, the City had outstanding forward purchase contracts extending through December 31, 2032, which are expected to be settled through physical delivery.

City of Garland, Texas
Notes to the Financial Statements (Continued)

The City monitors the credit ratings of all of its counterparties to adhere to the City's Risk Management Policy. Any counterparty that does not have at least a BBB- credit rating must be approved by the Risk Oversight Committee.

The congestion revenue rights expose the City to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default or nonperformance, the City's operations will not be materially affected. However, the City does not expect ERCOT to fail in meeting their obligations as they are a regulatory entity of the State of Texas.

Basis Risk. The City could be exposed to basis risk on its fuel hedges if the expected commodity purchases being hedged will price based on a delivery point (WAHA/Katy/HSC) different than that at which the financial hedging contracts are expected to settle NYMEX (Henry Hub).

Termination Risk. Termination risk is the risk that a derivative instrument will terminate prior to its scheduled maturity date due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. The City's exposure to termination risk for over-the-counter agreements is minimal due to the high credit rating of the counterparties, and the contractual provisions under the ISDA, EEI, and NAESB agreements applied to these contracts. Termination risk is associated with all of the City's derivative instruments up to their fair value of the instrument.

Close-out Netting Arrangements. The City enters into close-out netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and set off the transaction's fair values so that a single sum will be owed by or owed to the non-defaulting party.

Asset Retirement Obligation

The City operates the Ray Olinger Power Plant. The 400-megawatt, gas-fired plant consists of four power generating units: three stream boilers and one turbine. In 2019, the City hired an outside engineering firm to access the environmental obligations and closure requirements in the event of a plant closure. It was determined that the four evaporation ponds and the above ground storage tank at the Olinger Power Plant are considered to be industrial solid waste management units subject to TCEQ closure requirements. The total cost was estimated to be \$480,322. The City is estimating the life of the plant to be 10 years.

	Balance at Oct. 1, 2023	Additions	Amortization	Balance at Sept. 30, 2024
ARO Deferred Outflow	\$ 379,332	\$ 13,824	\$ 39,316	\$ 353,840
	Balance at Oct. 1, 2023	Additions	Reductions	Balance at Sept. 30, 2024
ARO Liability	\$ 575,993	\$ 13,824	\$ -	\$ 589,817

City of Garland, Texas
Notes to the Financial Statements (Continued)

P. Subsequent Events

On December 17, 2024, the City issued \$111,160,000 of Electric Utility System Revenue Refunding Bonds, New Series 2024, to refund outstanding revenue notes and EUS Revenue Bonds, Series 2014.

On February 4, 2025, the City approved an ordinance to call \$45,750,000 of Tax Anticipation Note, Series 2024 to be called on February 15, 2025.

Effective May 27, 2023, the Texas Legislature amended the Texas Municipal Retirement System (TMRS) Act to offer participating cities a new non-retroactive repeating Cost-of-Living Adjustment (COLA) option. This option eliminates the retroactive calculation of COLAs, which had previously required cities to assess changes in the Consumer Price Index (CPI) from each retiree's retirement date. The non-retroactive COLA option applies only to the change in the CPI over the one-year period that ends 12 months before the COLA's effective date. This new provision is expected to be more affordable for cities, as it significantly reduces the cost of granting a COLA.

Prior to the legislative amendment, the City of Garland discontinued the retroactive repeating COLA for retirees in 2009, due to the anticipated increase in the City's TMRS contribution rate, which would have cost an additional \$11.7 million annually. The discontinuation was necessary to maintain sustainable contribution rates for employee retirement.

During the Budget Work Session on August 17, 2024, City staff presented a recommendation to the City Council to adopt a 50% non-retroactive repeating COLA, effective January 1, 2025. The City Council directed staff to proceed with drafting an ordinance for formal adoption which was formally approved on October 8, 2024, at a regular Council meeting. The adoption of the 50% non-retroactive repeating COLA is expected to increase the City's long-term pension liability by approximately \$130 million citywide. However, the actual impact will not be known until June of 2025 when TMRS provides the formal rate letter outlining the actuarial impact of this change. In anticipation of this change, the City plans to issue Pension Obligation Bonds in July 2025 to finance the increased pension liability associated with the adoption of the non-retroactive COLA.

City of Garland, Texas
Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended September 30, 2024
(unaudited)

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Taxes	\$ 118,692,728	\$ 123,609,651	\$ 121,916,898	\$ (1,692,753)
Franchise fees	8,756,525	8,795,484	8,124,300	(671,184)
Service charges	39,853,620	42,516,002	42,655,792	139,790
Licenses and permits	5,687,609	5,162,256	5,623,490	461,234
Earnings on investments	2,393,800	4,956,000	5,433,438	477,438
Intergovernmental	2,200,208	1,482,874	11,011,995	9,529,121
Charges for services	11,435,209	11,435,209	11,501,589	66,380
Fines and forfeits	5,011,674	5,982,042	5,435,898	(546,144)
Rents and concessions	789,893	857,368	860,543	3,175
Total revenues	<u>194,821,266</u>	<u>204,796,886</u>	<u>212,563,943</u>	<u>7,767,057</u>
Expenditures:				
Current:				
General government	16,461,904	16,316,333	16,339,077	(22,744)
Public safety	147,558,106	158,908,597	152,223,681	6,684,916
Public works	31,302,421	33,662,144	25,772,236	7,889,908
Culture and recreation	21,068,457	22,961,595	21,113,295	1,848,300
Public health	7,047,816	6,836,866	6,426,983	409,883
Nondepartmental	40,735,933	38,661,139	37,582,714	1,078,425
Total expenditures	<u>264,174,637</u>	<u>277,346,674</u>	<u>259,457,986</u>	<u>17,888,688</u>
Excess (deficit) of revenues over (under) expenditures	<u>(69,353,371)</u>	<u>(72,549,788)</u>	<u>(46,894,043)</u>	<u>25,655,745</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	-	-	282,134	282,134
Transfer in	67,996,125	64,724,741	66,485,587	1,760,846
Transfers out	<u>(8,340,969)</u>	<u>(14,064,339)</u>	<u>(13,895,751)</u>	<u>168,588</u>
Total other financing sources (uses)	<u>59,655,156</u>	<u>50,660,402</u>	<u>52,871,970</u>	<u>2,211,568</u>
Net Change in fund balances	(9,698,215)	(21,889,386)	5,977,927	27,867,313
Fund balance, beginning of year	63,750,573	63,750,573	63,750,573	-
Fund balance, end of year	<u>\$ 54,052,358</u>	<u>\$ 41,861,187</u>	<u>\$ 69,728,500</u>	<u>\$ 27,867,313</u>

See notes to required supplementary information.

City of Garland, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Ten Calendar Years
(unaudited)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Pension Liability										
Service Cost	\$ 19,196,960	\$ 20,067,678	\$ 21,522,671	\$ 22,270,032	\$ 23,370,261	\$ 24,406,916	\$ 26,203,127	\$ 25,977,603	\$ 26,268,489	\$ 28,035,696
Interest	54,497,988	56,833,734	57,958,342	60,506,232	63,285,856	66,121,119	69,127,800	72,367,235	74,927,679	77,329,845
Difference between expected and actual experience	(3,135,740)	(6,147,278)	84,986	928,620	892,041	2,799,800	7,470,398	(2,381,211)	(2,837,850)	(3,175,432)
Change of assumptions	-	15,651,656	-	-	-	1,605,156	-	-	-	(5,182,162)
Benefit payments, including refunds of employee contributions	(36,818,136)	(38,435,413)	(42,367,920)	(42,018,404)	(44,132,351)	(47,992,826)	(54,582,524)	(54,811,345)	(61,541,795)	(65,766,769)
Net Change in Total Pension Liability	33,741,072	47,970,377	37,198,079	41,686,480	43,415,807	46,940,165	48,218,801	41,152,282	36,816,523	31,241,178
Total Pension Liability - Beginning	787,353,277	821,094,349	869,064,726	906,262,805	947,949,285	991,365,092	1,038,305,257	1,086,524,058	1,127,676,340	1,164,492,863
Total Pension Liability - Ending	<u>\$ 821,094,349</u>	<u>\$ 869,064,726</u>	<u>\$ 906,262,805</u>	<u>\$ 947,949,285</u>	<u>\$ 991,365,092</u>	<u>\$ 1,038,305,257</u>	<u>\$ 1,086,524,058</u>	<u>\$ 1,127,676,340</u>	<u>\$ 1,164,492,863</u>	<u>\$ 1,195,734,041</u>
Plan Fiduciary Net Position										
Contributions - Employer	\$ 14,502,416	\$ 14,462,360	\$ 14,265,404	\$ 15,640,715	\$ 16,662,812	\$ 16,995,099	\$ 18,554,489	\$ 18,626,665	\$ 19,118,221	\$ 19,450,670
Contributions - Employee	9,056,479	9,304,889	9,694,895	10,035,625	10,546,061	11,021,733	11,777,742	11,649,149	11,815,278	12,572,061
Net Investment Income	45,500,705	1,220,504	54,933,203	117,621,308	(28,429,765)	139,604,497	77,545,208	140,045,792	(86,762,429)	123,942,041
Benefit payments, including refunds of employee contributions	(36,818,136)	(38,435,413)	(42,367,920)	(42,018,404)	(44,132,351)	(47,992,826)	(54,582,524)	(54,811,345)	(61,541,795)	(65,766,769)
Administrative Expense	(475,082)	(743,428)	(620,477)	(609,672)	(549,660)	(789,265)	(502,139)	(648,494)	(751,667)	(789,866)
Other	(39,061)	(36,717)	(33,430)	(30,898)	(28,717)	(23,709)	(19,593)	4,442	896,962	(5,521)
Net Change in Plan Fiduciary Net Position	31,727,321	(14,227,805)	35,871,675	100,638,674	(45,931,620)	118,815,529	52,773,183	114,866,209	(117,225,430)	89,402,616
Plan Fiduciary Net Position - Beginning	795,438,855	827,166,176	812,938,371	848,810,046	949,448,720	903,517,100	1,022,332,629	1,075,105,812	1,189,972,021	1,072,746,591
Plan Fiduciary Net Position - Ending	<u>\$ 827,166,176</u>	<u>\$ 812,938,371</u>	<u>\$ 848,810,046</u>	<u>\$ 949,448,720</u>	<u>\$ 903,517,100</u>	<u>\$ 1,022,332,629</u>	<u>\$ 1,075,105,812</u>	<u>\$ 1,189,972,021</u>	<u>\$ 1,072,746,591</u>	<u>\$ 1,162,149,207</u>
Net Pension Liability (Asset)	\$ (6,071,827)	\$ 56,126,355	\$ 57,452,759	\$ (1,499,435)	\$ 87,847,992	\$ 15,972,628	\$ 11,418,246	\$ (62,295,681)	\$ 91,746,272	\$ 33,584,834
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	100.74%	93.54%	93.66%	100.16%	91.14%	98.46%	98.95%	105.52%	92.12%	97.19%
Covered Payroll	\$ 129,267,431	\$ 132,898,533	\$ 138,498,528	\$ 143,307,799	\$ 150,581,579	\$ 157,362,452	\$ 168,076,505	\$ 166,416,417	\$ 168,712,216	\$ 179,600,871
Net Pension Liability (Asset) as a Percentage of Covered Payroll	(4.70%)	42.23%	41.48%	(1.05%)	58.34%	10.15%	6.79%	(37.43%)	54.38%	18.70%

Measurement date December 31

City of Garland, Texas
Required Supplementary Information
TMRS Schedule of Contributions
Last Ten Fiscal Years
(unaudited)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Actuarially Determined Contribution	\$ 14,703,510	\$ 15,134,606	\$ 15,568,576	\$ 16,665,242	\$ 17,281,423	\$ 17,978,839	\$ 18,897,527	\$ 19,328,261	\$ 19,969,422	\$ 21,773,233
Contributions in relation to the actuarially determined contribution	<u>14,703,510</u>	<u>15,134,606</u>	<u>15,568,576</u>	<u>16,665,242</u>	<u>17,281,423</u>	<u>17,978,839</u>	<u>18,897,527</u>	<u>19,328,261</u>	<u>19,969,422</u>	<u>21,773,233</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 132,016,898	\$ 142,253,130	\$ 141,938,528	\$ 148,461,246	\$ 156,242,087	\$ 160,756,322	\$ 165,972,997	\$ 167,564,375	\$ 176,646,631	\$ 190,211,842
Contributions as a percentage of covered payroll	11.14%	10.64%	10.97%	11.23%	11.06%	11.18%	11.39%	11.53%	11.30%	11.45%

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January, thirteen 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	22 Years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to the experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 100% Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information:

Notes: There were no benefit changes during the year.

City of Garland, Texas
 Required Supplementary Information
 City of Garland other postemployment plan
 Schedule of Changes in OPEB Liability and Related Ratios
 Last Seven Calendar Years
 (unaudited)

	2017	2018	2019	2020	2021	2022	2023
Total OPEB Liability							
Service Cost	\$ 2,260,181	\$ 2,220,788	\$ 3,024,066	\$ 3,024,066	\$ 2,239,204	\$ 2,142,366	\$ 2,080,963
Interest	3,284,435	3,291,786	3,403,827	3,525,395	3,545,372	5,106,386	5,260,690
Difference between expected and actual experience	(1,303,593)	917,146	8,472,720	2,095,099	2,307,370	-	816,935
Change of assumptions	7,017,755	(5,723,188)	1,369,232	-	8,803,333	(4,565,102)	30,319,531
Benefit payments, including refunds of employee contributions	(3,529,580)	(4,039,931)	(4,894,085)	(5,598,096)	(7,032,293)	(4,645,265)	(7,259,006)
Net Change in Total OPEB Liability	7,729,198	(3,333,399)	11,375,760	3,046,464	9,862,986	(1,961,615)	31,219,113
Total OPEB Liability - Beginning	70,652,262	78,381,460	75,048,061	86,423,821	89,470,285	99,333,271	97,371,656
Total OPEB Liability - Ending	<u>\$ 78,381,460</u>	<u>\$ 75,048,061</u>	<u>\$ 86,423,821</u>	<u>\$ 89,470,285</u>	<u>\$ 99,333,271</u>	<u>\$ 97,371,656</u>	<u>\$ 128,590,769</u>
Plan Fiduciary Net Position							
Contributions - Employer	\$ 4,779,579	\$ 5,374,931	\$ 6,314,085	\$ 7,103,096	\$ 8,622,293	\$ 4,645,265	\$ 10,694,006
Net Investment Income	527,289	(266,098)	1,218,881	1,357,858	1,119,635	(2,128,605)	2,059,481
Benefit payments, including refunds of employee contributions	(3,529,580)	(4,039,931)	(4,894,085)	(5,598,096)	(7,032,293)	(4,645,265)	(7,259,006)
Administrative Expense	(21,120)	(32,518)	(40,759)	(50,492)	(65,244)	(66,795)	(71,154)
Net Change in Plan Fiduciary Net Position	1,756,168	1,036,384	2,598,122	2,812,366	2,644,391	(2,195,400)	5,423,327
Plan Fiduciary Net Position - Beginning	3,767,364	5,523,532	6,559,916	9,158,038	11,970,404	14,614,795	12,419,395
Plan Fiduciary Net Position - Ending	<u>\$ 5,523,532</u>	<u>\$ 6,559,916</u>	<u>\$ 9,158,038</u>	<u>\$ 11,970,404</u>	<u>\$ 14,614,795</u>	<u>\$ 12,419,395</u>	<u>\$ 17,842,722</u>
Net OPEB Liability	\$ 72,857,928	\$ 68,488,145	\$ 77,265,783	\$ 77,499,881	\$ 84,718,476	\$ 84,952,261	\$ 110,748,047
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	7.00%	8.70%	10.60%	13.40%	14.71%	12.75%	13.88%
Covered Payroll	\$ 177,921,683	\$ 178,663,144	\$ 186,115,788	\$ 198,597,431	\$ 199,329,268	\$ 209,553,251	\$ 225,944,014
Net OPEB Liability as a Percentage of Covered Payroll	40.95%	38.33%	41.50%	39.00%	42.50%	40.54%	49.02%

Measurement date December 31

The City of Garland implemented Statement 75 in FY2018 and a full ten-year trend is not yet available.

Notes to Schedule:

Changes in assumptions. The initial discount rate for the 12/31/16 measurement was 4.75%.

2017-2018: The discount rate was decreased from 4.75% to 4.14%.

2018-2019: The discount rate was increased from 4.14% to 4.63%.

2019-2020: The discount rate was decreased from 4.63% to 4.02%.

2020-2021: The discount rate was increased from 4.02% to 5.15%.

2021-2022: The discount rate was increased from 5.15% to 5.49%.

2022-2023: The discount rate was decreased from 5.49% to 4.70%.

City of Garland, Texas
Required Supplementary Information
City of Garland other postemployment plan
OPEB Schedule of Contributions
Last Seven Fiscal Years
(unaudited)

	2018	2019	2020	2021	2022	2023	2024
Actuarially Determined Contribution	\$ 6,502,862	\$ 5,391,362	\$ 8,109,928	\$ 8,343,165	\$ 9,090,276	\$ 7,320,224	\$ 10,074,127
Contributions in relation to the actuarially determined contribution	5,024,715	6,632,454	6,664,631	8,122,773	6,826,969	7,039,741	7,045,425
Contribution deficiency (excess)	\$ 1,478,147	\$ (1,241,092)	\$ 1,445,297	\$ 220,392	\$ 2,263,307	\$ 280,483	\$ 3,028,702
Covered payroll	\$ 148,461,246	\$ 156,242,087	\$ 160,756,322	\$ 165,972,997	\$ 167,564,375	\$ 176,646,631	\$ 190,211,842
Contributions as a percentage of covered payroll	3.38%	4.24%	4.15%	4.89%	4.07%	3.99%	3.70%

Notes to Schedule of Contributions

Valuation Date: The Actuarially Determined Contribution is the sum of the current year's normal cost plus an amount necessary to amortize the unfunded liability over a closed 17-year period. Actuarial valuation has been performed as of December 31.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 Years
Asset Valuation Method	Fair value
Inflation	2.5%
Salary Increases	3.0%
Discount Rate	4.70%
Healthcare cost trend rates	Capped at 3.0%
Mortality	Non-Annuity: Sex distinct PUB 2010 general employee headcount weighted mortality table with mortality improvement scale MP-2021. Annuity: sex distinct PUB 2010 retiree headcount weighted mortality table with mortality improvement scale MP-2021.

Other Information:

Notes

The City of Garland implemented Statement 75 in FY2018 and a full ten-year trend is not yet available.

City of Garland, Texas
 Required Supplementary Information
 TMRS Supplemental Death Benefit
 Schedule of Changes in OPEB liability and Related Ratios
 Last Seven Calendar Year
 (unaudited)

	2017	2018	2019	2020	2021	2022	2023
Total OPEB Liability							
Service Cost	\$ 214,962	\$ 255,989	\$ 236,042	\$ 336,153	\$ 399,399	\$ 438,652	\$ 233,483
Interest	238,314	240,384	286,023	234,005	200,979	194,069	300,454
Difference between expected and actual experience	-	497,210	(966,665)	(169,737)	(201,508)	(54,745)	586
Change of assumptions	542,752	(474,877)	1,259,391	1,249,459	297,565	(3,359,629)	379,624
Benefit payments	(57,323)	(60,233)	(62,945)	(67,232)	(216,341)	(219,326)	(269,401)
Net Change in Total OPEB Liability	938,705	458,473	751,846	1,582,648	480,094	(3,000,979)	644,746
Total OPEB Liability - Beginning	6,225,775	7,164,480	7,622,953	8,374,799	9,957,447	10,437,541	7,436,562
Total OPEB Liability - Ending	<u>\$ 7,164,480</u>	<u>\$ 7,622,953</u>	<u>\$ 8,374,799</u>	<u>\$ 9,957,447</u>	<u>\$ 10,437,541</u>	<u>\$ 7,436,562</u>	<u>\$ 8,081,308</u>
Covered Employee Payroll	\$ 143,307,799	\$ 150,581,579	\$ 157,362,452	\$ 168,076,505	\$ 166,416,417	\$ 168,712,216	\$ 179,600,871
Total OPEB Liability as a Percentage of Covered Employee Payroll	5.00%	5.06%	5.32%	5.92%	6.27%	4.41%	4.50%

Measurement date December 31

The City of Garland implemented Statement 75 in FY2018 and a full ten-year trend is not yet available.

Notes to Schedule:

Changes in assumptions . The initial discount rate for the 12/31/16 measurement was 3.81%.

The discount rate for the 12/31/17 measurement was 3.31%.

The discount rate for the 12/31/18 measurement was 3.71%.

The discount rate for the 12/31/19 measurement was 2.75%.

The discount rate for the 12/31/20 measurement was 2.00%.

The discount rate for the 12/31/21 measurement was 1.84%.

The discount rate for the 12/31/22 measurement was 4.05%.

The discount rate for the 12/31/23 measurement was 3.77%.

No assets accumulated in a trust meets the criteria to pay related benefits for the OPEB plan.

City of Garland, Texas

Notes to Required Supplementary Information

Budgets and Budgetary Accounting

Annual appropriations for the General Fund are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

The City Charter contains the following requirements, which are adhered to by the City Council and management, regarding preparation of the annual Budget:

1. Prior to August 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted prior to September 15 to obtain taxpayer comments.
3. Prior to September 20, annual appropriations are approved through the passage of an ordinance. If the Council takes no action on or prior to such day, the budget, as submitted by the City Manager, is deemed to have been adopted by the City Council.
4. The level of control (level at which expenditures may not exceed budget) is the fund. The City Manager is authorized to transfer unexpended balances within each fund. The City Council, however, must approve any revisions in fund appropriations.

APPENDIX C

SELECTED PROVISIONS FROM THE ORDINANCE

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SELECTED PROVISIONS OF THE ORDINANCE

The following are selected provisions of the Ordinance. These excerpts are qualified by reference to the exact terms of the Ordinance. Unless otherwise indicated, any references to sections listed below are to sections contained in the Ordinance and section headings contained in the following excerpts are to sections contained in the Ordinance.

SECTION 10. DEFINITIONS. In addition to such other terms defined elsewhere in this Ordinance, for all purposes of this Ordinance and in particular for clarity with respect to the issuance of the Bonds and the pledge and appropriation of revenues therefor, the following definitions are provided:

(a) The term "Additional Bonds" shall mean the additional parity revenue obligations authorized to be issued in accordance with the terms and conditions prescribed in Section 21 hereof.

(b) The term "Annual Debt Service Requirements" shall mean, for any Fiscal Year, the principal of and interest on all Bonds Similarly Secured coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(1) Committed Take Out. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice to discharge any of its Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced for such discharge or purchase constitutes Debt, then the portion of the Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Debt to be discharged or purchased, shall be added;

(2) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Debt due (or payable in respect of any required purchase of such Debt by the City) in any Fiscal Year either is equal to at least 25% of the total principal (including the accretion of interest resulting from original issue discount or compounding of interest) of such Debt or exceeds by more than 50% the greatest amount of principal of such series or issue of Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Debt being referred to herein as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(3) Consent Sinking Fund. In the case of Balloon Debt (as defined in clause above), if the City Manager or the Finance Director or a designee of either shall deliver to the City a certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed schedule stated in such certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the City has elected to apply the rule set forth in clause (2) above;

(4) Prepaid Debt. Principal of and interest on Bonds Similarly Secured, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal or interest are payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Debt;

(5) Variable Rate.

(i) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the average for the then immediately preceding five (5) years of the SIFMA Index, plus twenty (20) basis points; provided, however, that (i) if, after the issuance of the Variable Rate Obligations then proposed to be issued, more than 20% of the aggregate of the Bonds Similarly Secured Outstanding will bear interest at a variable rate and (ii) any Bond Similarly Secured is then insured by a Bond Insurer, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the greater of (x) the most recently announced thirty (30) year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Ordinance was adopted, in the City of New York, New York or (y) 1.25 times the average variable rate borne by any Variable Rate Obligations then Outstanding during the then immediately preceding twelve-month period, and

(ii) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations outstanding at the time of such calculation shall be deemed to be the lesser of (i) the then current per annum rate of interest borne by such Variable Rate Obligations or (ii) the average per annum rate of interest borne by such Variable Rate Obligations during the then immediately preceding twelve-month period; provided, however, that for any period during which (a) more than 20% of the aggregate of the Bonds Similarly Secured then Outstanding bear interest at a variable rate and (b) any Bond Similarly Secured is then insured by a Bond Insurer, the rate of interest on such Variable Rate Obligations shall be the greater of (x) the most recently announced 30-year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Ordinance was adopted, in the City of New York, New York, (y) the rate of interest then in effect with respect to such Variable Rate Obligations in accordance with their terms, or (z) 1.25 times the average variable rate borne by such Variable Rate Obligations during the then immediately preceding twelve-month period;

(6) Guarantee. In the case of any guarantee, as described in clause (2) of the definition of Debt, no obligation will be counted if the City does not anticipate in its annual budget that it will make any payments on the guarantee. If however, the City is making payments on a guarantee or anticipates doing so in its annual budget, such obligation shall be treated as Previously Issued Bonds and calculations of Annual Debt Service Requirements with respect to such guarantee shall be made assuming that the City will make all additional payments due under the guaranteed obligation. If the entity whose obligation is guaranteed cures all defaults and the City no longer anticipates making payments under the guarantee, the guaranteed obligations shall not be included in the calculation of Annual Debt Service Requirements;

(7) Commercial Paper. With respect to any Bonds Similarly Secured issued in the form of commercial paper with maturities not exceeding 270 days, the interest on such Bonds Similarly Secured shall be calculated in the manner provided in clause (5) of this definition and the maturity schedule shall be calculated in the manner provided in clause (2) of this definition; and

(8) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement (other than payments made by the City in connection with the termination or unwinding of a Credit Agreement), from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (1) through (7) above and any payments otherwise included above under (1) through (7) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation.

(c) The term "Bond Date" shall mean the dated date for a series of Bonds as set forth in a Pricing Certificate.

(d) The term "Bond Insurer" shall mean a company licensed to issue policies of municipal bond insurance in the State.

(e) The term "Bonds" shall mean, collectively, the bonds of all series of Bonds authorized, issued and delivered pursuant to this Ordinance.

(f) The term "Bonds Similarly Secured" shall mean, collectively, the Bonds, the Previously Issued Bonds and any Additional Bonds.

(g) The term "City" shall mean the City of Garland, Texas

(h) The term "Consultant" shall mean an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal electric light and power facilities and systems similar in size to the System.

(i) The term "Credit Agreement" shall mean, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Bonds Similarly Secured, purchase or sale agreements, interest rate swap agreements, currency exchange agreements, interest rate floor or cap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of Bonds Similarly Secured and on a parity therewith.

(j) The term "Credit Provider" shall mean any bank, financial institution, insurance company, surety bond provider, or other entity which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

(k) The term "Debt" shall mean, with respect to the System, all:

(1) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the City that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(2) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(3) all indebtedness secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by the City whether or not the City has assumed or become liable for the payment thereof.

For the purpose of determining the "Debt" of the City, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements prepared by or for the benefit of the City in prior Fiscal Years.

(l) The term "Fiscal Year" shall mean the 12 month period ending September 30th of each year; provided, however, the City may change the Fiscal Year to another period of not less than 12 calendar months, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

(m) The term "Gross Revenues" shall mean those revenues, income, and receipts derived or received by the City from the operation and ownership of the System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or another ordinance or authorizing document associated with the Bonds or Additional Bonds or maintained by the City in connection with the System, and money transferred to the System Fund, other than those amounts subject to the payment of the United States of America as rebate pursuant to Section 148 of the Code. The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts, grants in aid of construction or "transition charges" or similar charges imposed pursuant to the Texas Utilities Code, Subchapter G of Chapter 39, as amended, or similar law imposed for the payment of "transition bonds".

(n) Subject to any limitation that may be provided in a Pricing Certificate, the term "Government Obligations", as used herein, shall mean (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or

other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iv) any other then authorized securities or obligations that may be used to defease obligations such as the Bonds under the then applicable laws of the State.

(o) The term "Maturity" shall mean, when used with respect to any Debt, the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

(p) The term "Net Revenues" shall mean for any period of time the Gross Revenues of the System less the Operation and Maintenance Expenses incurred during such period.

(q) The term "New Series 2018 Bonds" shall mean the "City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2018," dated May 15, 2018.

(r) The term "Operation and Maintenance Expense" means the expenses of operation and maintenance of the System, including all salaries, labor, material, repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Bonds Similarly Secured. Operation and Maintenance Expenses shall include the purchase of power. Depreciation shall not be considered as an expense of operation and maintenance.

(s) The term "Outstanding" when used in this Ordinance with respect to the Bonds means, as of the date of determination, all Bonds and Bonds Similarly Secured theretofore issued and delivered, except:

(1) those Bonds or Bonds Similarly Secured theretofore cancelled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds or Bonds Similarly Secured for which payment has been duly provided by the City in accordance with the provisions of Section 30 hereof by the irrevocable deposit with the Paying Agent/Registrar of money or Government Obligations, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Bonds or Bonds Similarly Secured are to be redeemed, notice of redemption thereof shall have been duly given pursuant to the ordinance authorizing the issuance of such Bonds or Bonds Similarly Secured or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(3) those Bonds or Bonds Similarly Secured that have been mutilated, destroyed, lost or stolen and for which replacement bonds have been registered and delivered in lieu thereof.

(t) The term "Owner," with respect to any Bond shall mean the person in whose name such Bond is registered on the register kept by the Paying Agent/Registrar.

(u) The term "Paying Agent/Registrar" shall mean the person or entity designated as such pursuant to Section 5(a) of this Ordinance.

(v) The term "Previously Issued Bonds" shall mean (i) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2015, dated February 1, 2015, (ii) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2016A, dated November 15, 2016, (iii) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2016B, dated November 15, 2016, (iv) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2018, dated May 15, 2018, (v) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2019, dated February 15, 2019, (vi) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2019A, dated December 1, 2019, (vii) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2020, dated June 1, 2020, (viii) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2021, dated January 15, 2021, (ix) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, Tax-Exempt New Series 2021A, dated August 1, 2021, (x) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, Taxable New Series 2021B, dated August 1, 2021, (xi) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2023, dated August 1, 2023, and (xii) City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2024, dated November 15, 2024.

(w) The term "State" shall mean the State of Texas.

(x) The term "Stated Maturity" shall mean, when used with respect to any Debt or any installment of interest thereon, any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

(y) The term "System" shall mean the City's Electric Utility System, including all present and future extensions, additions, replacements and improvements thereto.

(z) The term "Term of Issue" shall mean, with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or (ii) thirty (30) years.

(aa) The term "Variable Rate Obligations" shall mean Bonds Similarly Secured that bear interest at a rate per annum which is subject to adjustment so that the actual rate of interest is not ascertainable at the time such Bonds Similarly Secured are issued; provided, however, that upon the conversion of the rate of interest on a Variable Rate Obligation to a fixed rate of interest (whether or not the interest rate thereon is subject to conversion back to a variable rate of interest), such Bond Similarly Secured shall not be treated as a "Variable Rate Obligation" for so long as such Bond Similarly Secured bears interest at a fixed rate.

The City reserves the right to establish accounts within the Bond Fund for the payment of obligations, including specifically obligations incurred under a Credit Agreement or a Variable Rate Obligation; that is declared to be a Bond Similarly Secured in the ordinance authorizing the execution of such Credit Agreement or such Variable Rate Obligation.

SECTION 11. PLEDGE OF REVENUES. The City hereby covenants and agrees that the Net Revenues of the System, with the exception of those in excess of the amounts required for the payment and security of the Outstanding Bonds Similarly Secured, are hereby irrevocably pledged to the payment and security of the Outstanding Bonds Similarly Secured, including the maintenance of the special funds herein created in connection with the issuance of the Bonds, all as hereinafter provided, and it is hereby ordained that the Bonds Similarly Secured, and the interest thereon, shall be equally and ratably secured by a parity first lien on and pledge of the Net Revenues of the System and be valid and binding without any filing or recording except for the filing of this Ordinance in the records of the City.

Texas Government Code, Chapter 1208, as amended, applies to the issuance of the Bonds and the pledge of the revenues granted by the City under this Section of this Ordinance, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds are Outstanding and unpaid such that the pledge of the revenues granted by the City under this Section of this Ordinance is to be subject to the filing requirements of Texas Business and Commerce Code, Chapter 9, as amended, then in order to preserve to the Owners of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Texas Business and Commerce Code, Chapter 9, as amended, and enable a filing to perfect the security interest in said pledge to occur.

SECTION 12. RATES AND CHARGES. The City hereby covenants and agrees with the Owners of the Bonds that rates and charges for electric utility services afforded by the System will be established and maintained to provide Gross Revenues, including the money transferred to the System Fund for the sole purpose of compliance with this Section 12, sufficient at all times to:

- (a) Pay for all operation, maintenance, depreciation, replacement, and betterment charges of said System;
- (b) Maintain the Bond Fund;
- (c) Maintain the Reserve Fund at the Required Reserve Amount; and
- (d) Pay all other outstanding indebtedness against said System as and when the same becomes due.

SECTION 13. FUND DESIGNATIONS. The City hereby covenants and agrees that all revenues derived from the operation of the System shall be kept separate and apart from all other funds of the City, and the following Funds or Accounts shall be created and established in connection with the issuance of the Bonds (to the extent such funds are required to be established and to the extent such funds have not previously been created and established) and shall continue to be kept and maintained during the period of time any Bonds Similarly Secured are Outstanding, to wit:

(a) City of Garland, Texas Electric Utility System Fund, hereinafter called the "System Fund," which Fund is kept and maintained at a depository bank of the City.

(b) City of Garland, Texas Electric Utility System Interest and Sinking Fund, hereinafter called the "Bond Fund," which Bond Fund is hereby declared to be the combined interest and sinking fund created for the payment of principal of and interest on any Outstanding Bonds Similarly Secured, and the same shall continue to be a single fund for the payment of principal of and interest on such Outstanding Bonds Similarly Secured. The Bond Fund shall be kept and maintained at a City depository, as custodian of the pledged revenues, and moneys deposited therein shall be used solely for the purpose of paying the principal of and interest on the Outstanding Bonds Similarly Secured when and as the same become due and payable.

(c) City of Garland, Texas Electric Utility System Revenue Reserve Fund, hereinafter called the "Reserve Fund," which Reserve Fund, if required to be established and maintained as set forth herein or as set forth in an ordinance of the City relating to the issuance of Additional Bonds, shall be kept and maintained at a City depository, and moneys or instruments or any combination of both deposited in the Reserve Fund shall be used to pay principal of and interest on any Outstanding Bonds Similarly Secured falling due at any time when there is insufficient money available in the Bond Fund for such purpose.

It is specifically provided, however, that the City may change the custodian of the Bond Fund and the Reserve Fund without impairing the obligation of contract with the Owners of the Bonds, if the new custodian for such Fund or Funds is a financial institution with trust powers. In no event shall a change of the custodian of either of the Bond Fund or the Reserve Fund be considered as a change in the purpose for which such Funds were created and established as provided in this Ordinance, and the City covenants that it will cause such Funds to be timely utilized for the respective purposes for which they were created.

The City reserves the right to establish and maintain additional funds and accounts in connection with payment or support of the Outstanding Bonds Similarly Secured and the money on deposit in any such fund or account on the last day of the Fiscal Year may be used for any lawful purpose related to the Outstanding Bonds Similarly Secured and any proposed obligations which would be Bonds Similarly Secured when issued, including being applied to any Net Revenue calculations associated with Additional Bonds.

SECTION 14. SYSTEM FUND. The City hereby covenants and agrees that all revenues and income of every nature derived and to be derived from the operation of the System shall be deposited from day to day as collected into the System Fund, and the reasonable and proper maintenance and operation expenses of the System shall be paid therefrom. All moneys deposited therein which are not required for the payment of maintenance and operating expenses of the System shall be appropriated and used, first to the payment of any principal, interest or reserve requirements of any Outstanding Bonds Similarly Secured, second to the payment of any principal, interest or reserve requirements of any outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the System subordinate to the lien on and pledge of the Net Revenues to any Outstanding Bonds Similarly Secured and third, for any purpose authorized by applicable law.

SECTION 15. BOND FUND. The following provisions shall govern the maintenance and use of the Bond Fund: the City covenants that from the funds in the System Fund, after paying or making provision for the payment of the necessary and reasonable expenses of operation and maintenance of the System, the City shall pay into the Bond Fund during each year in which any of the Bonds Similarly Secured are Outstanding, an amount equal to one hundred percent (100%) of the amount required to meet the principal and interest payments falling due on or before the next maturity date of the Outstanding Bonds Similarly Secured. An amount of moneys in the Bond Fund sufficient to pay principal and interest next coming due shall be transferred to the Paying Agent/Registrar on or before the principal or interest payment date.

SECTION 16. RESERVE FUND. (a) Establishment. A Reserve Fund shall not be required to be established or maintained by the City for the payment of the Bonds or any other Bonds Similarly Secured so long as the Net Revenues of the System for a Fiscal Year equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of Bonds Similarly Secured due and payable in such Fiscal Year. If for any Fiscal Year such Net Revenues do not exceed 150% of the Annual Debt Service Requirements of the Bonds Similarly Secured, the City shall be obligated to establish and maintain on the books of the City a separate fund or account designated as the Reserve Fund. Upon being established and except as provided below, the amount on deposit to the credit of the Reserve Fund shall be maintained for the benefit of the owners of the Bonds Similarly Secured. The amounts deposited to the credit of the Reserve Fund shall be in a special fund maintained at a depository of the City. Monies or investments held in the Reserve Fund shall be used for the purpose of retiring the last of the Bonds Similarly Secured as they become due or paying principal of and interest on the Bonds Similarly Secured when and to the extent the amounts in the Bond Fund are insufficient for such purpose.

When a Reserve Fund is required to be established as noted above and while the same is required to be maintained, the amount to be accumulated and maintained in such Fund (the "Required Reserve Amount") shall be determined and re-determined as follows:

(1) ten per cent (10%) of the average annual debt service requirement for all Bonds Similarly Secured if the Net Revenues for the previous Fiscal Year were less than 150% of the annual debt service requirement for such Fiscal Year;

(2) twenty per cent (20%) of the average annual debt service requirement for all Bonds Similarly Secured if the Net Revenues for the previous Fiscal Year were less than 140% of the annual debt service requirement for such Fiscal Year, but greater than or equal to 130% of the annual debt service requirement for such Fiscal Year;

(3) thirty per cent (30%) of the average annual debt service requirement for all Bonds Similarly Secured then Outstanding if the Net Revenues for the previous Fiscal Year were less than 130% of the annual debt service requirement for such Fiscal Year, but greater than or equal to 120% of the annual debt service requirement for such Fiscal Year;

(4) forty per cent (40%) of the average annual debt service requirement for all Bonds Similarly Secured if the Net Revenues for the previous Fiscal Year were less than 120% of the annual debt service requirement for such Fiscal Year, but greater than or equal to 110% of the annual debt service requirement for such Fiscal Year; and

(5) fifty per cent (50%) of the average annual debt service requirement for all Bonds Similarly Secured if the Net Revenues for the previous Fiscal Year were less than 110% of the annual debt service requirement for such Fiscal Year.

The City shall review the amount, if any, on deposit in the Reserve Fund within thirty (30) days of the receipt of the audited financial statements applicable to the System for the preceding Fiscal Year to determine compliance with the provisions of subparagraphs (1) through (5) of subsection (a) of this Section 16. If at any time the City is required to fund the Required Reserve Amount, or to increase the Required Reserve Amount, the Required Reserve Amount or increase in the Required Reserve Amount, as applicable, shall be funded as provided in subsection (b) of this Section 16 in not more than sixty (60) substantially equal consecutive monthly deposits commencing not later than the month following the receipt of audited financial statements for the System for the preceding Fiscal Year.

(b) Funding. The Required Reserve Amount shall be established and maintained with Net Revenues of the System, transfer(s) of funds from refunded obligations, proceeds of sale of Bonds Similarly Secured, or by depositing to the credit of the Reserve Fund, to the extent permitted by law, one or more surety bonds or insurance policies issued by a company or institution which at the time of such deposit has a rating in one of the two highest rating categories by two nationally recognized rating agencies or services, or any combination thereof. The City hereby covenants and agrees to accumulate in the Reserve Fund the Required Reserve Amount either by depositing, from Net Revenues, in not more than sixty (60) substantially equal monthly payments, which initial fractional payment thereof shall be made on or before the fifteenth (15th) day of the month next following the determination that additional amounts need to be accumulated in the Reserve Fund to satisfy the Required Reserve Amount or by funding the Reserve Fund in the Required Reserve Amount from funds received from the transfer of funds from refunded obligations, from proceeds of sale of Bonds Similarly Secured, or by depositing one or more surety bonds or insurance policies issued by a company or companies meeting the aforesaid criteria, or any combination of the foregoing.

Concurrently with the delivery of a series of Additional Bonds, the appropriate City officials shall determine the Required Reserve Amount as well as the amount then held in the Reserve Fund, and the amount of such difference shall be deposited in the said Reserve Fund (i) by depositing to the credit of the Reserve Fund (concurrently with the delivery of the then proposed Additional Bonds) cash or an additional surety bond or insurance policy or revised surety bond or revised insurance policy with coverage in an amount sufficient to provide for the new Required Reserve to be fully or partially funded, or (ii) at the option of the City, in not more than sixty (60) substantially equal consecutive monthly payments, cash, the initial payment to be made on or before the fifteenth (15th) day of the month next following the month in which such Additional Bonds are delivered (or 1/60th of the balance of the additional amount not deposited immediately in cash or provided by a surety bond or insurance policy).

When and so long as the cash and investments in the Reserve Fund and/or coverage afforded by a surety bond or insurance policy held for the account of the Reserve Fund total not less than the Required Reserve Amount, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve Amount (or so much thereof as shall then be required to be contained therein if Additional Bonds have been issued and the City has elected to accumulate all or a portion of the Required Reserve Amount with Net Revenues), the City covenants and agrees to cause monthly deposits to be made to the Reserve Fund on or before the fifteenth (15th) day of each month (beginning the month next following the month the deficiency in the Required Reserve Amount occurred by reason of a draw on the Reserve Fund or as a result of a reduction in the market value of investments held for the account of the Reserve Fund) from Net Revenues of the System in an amount equal to either (i) one-sixtieth (1/60th) of the Required Reserve Amount until the total Required Reserve Amount then required to be maintained in said Fund has been fully restored or (ii) the amounts to pay principal of and interest on Bonds Similarly Secured held by an insurer, or evidenced by an instrument of assignment entitling an insurer to payment of principal of and interest on Bonds Similarly Secured, as a result of payments or draws made on a surety bond or insurance policy held for the account of the Reserve Fund, and such payments will result in (x) the principal of and/or interest on such Bonds Similarly Secured to be paid and (y) the restoration and replenishment of the surety bond or insurance policy coverage representing all or a portion of the Required Reserve Amount.

During such time as the Reserve Fund contains the total Required Reserve Amount, the City may, at its option, withdraw all surplus in the Reserve Fund over the Required Reserve Amount and deposit such surplus in the System Fund. Any such amount

to be withdrawn that is allocated to proceeds of Bonds Similarly Secured shall be deposited to the Bond Fund or otherwise used for only such purposes as other bond proceeds may be used.

If the Reserve Fund is required to be established as provided in (a) above, and for two consecutive Fiscal Years, the Net Revenues of the System for a Fiscal Year equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of Bonds Similarly Secured due and payable in such Fiscal Year, then the Reserve Fund does not need to be maintained and the amounts in the Reserve Fund may be deposited to the Bond Fund or otherwise used for only such purposes as other bond proceeds may be used.

SECTION 17. DEFICIENCIES IN FUNDS. If in any month the City shall, for any reason, fail to pay into the Bond Fund or Reserve Fund the full amounts above stipulated, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available and unallocated Net Revenues of the System for the following month or months, and such payments shall be in addition to the amounts otherwise required to be paid into said Funds during such month or months.

SECTION 18. EXCESS REVENUES. Any Net Revenues in excess of those required to establish and maintain the special Funds as herein required may be used for any other lawful purpose.

SECTION 19. SECURITY OF FUNDS. All moneys deposited in the Funds referred to in this Ordinance shall be secured in the manner and to the fullest extent required by the laws of the State for the security of public funds, and shall be used only for the purposes permitted by this Ordinance and the ordinances authorizing the issuance of other Bonds Similarly Secured.

SECTION 20. NO ADDITIONAL OBLIGATIONS TO BE ISSUED SUPERIOR TO THE BONDS SIMILARLY SECURED - OBLIGATIONS OF INFERIOR LIEN AND PLEDGE. The City will not create or issue any obligations or evidences of indebtedness for any purpose possessing a lien on the Net Revenues of the System superior to that to be possessed by the Bonds Similarly Secured. The City, however, retains the right to create and issue evidences of indebtedness whose lien on and pledge of the Net Revenues of the System shall be subordinate to that possessed by the Bonds Similarly Secured.

SECTION 21. ISSUANCE OF ADDITIONAL BONDS. In addition to the right to issue obligations of inferior lien as authorized by the laws of the State, the City hereby reserves the right to issue additional parity obligations. The Additional Bonds, when issued, shall be payable from and secured by a first lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Outstanding Bonds Similarly Secured, and the Outstanding Bonds Similarly Secured and any Additional Bonds shall in all respects be of equal dignity. The Additional Bonds may be issued in one or more installments, provided, however, that none shall be issued unless and until the following conditions have been met:

(a) A certificate is executed by the Mayor and Finance Director (or other officer of the City having primary responsibility for the financial affairs of the City) to the effect that no default exists in connection with any of the covenants or requirements of the ordinances authorizing the issuance of all then Outstanding Bonds Similarly Secured;

(b) A certificate is executed by the Mayor and Finance Director (or other officer of the City having primary responsibility for the financial affairs of the City) to the effect that the Bond Fund and the Reserve Fund each contains the amount then required to be on deposit therein;

(c) A certificate is executed by a certified public accountant to the effect that, in his or her opinion, the Net Revenues of the System either for the last complete Fiscal Year of the City, or for any 12 consecutive calendar month period ending not more than 90 days prior to the passage of the ordinance authorizing the issuance of such Additional Bonds were at least 1.25 times the average annual principal and interest requirements for the calculation period of all then Outstanding Bonds Similarly Secured and for the installment or series of Additional Bonds then proposed to be issued and 1.00 times the maximum annual principal and interest requirements for all then Outstanding Bonds Similarly Secured after giving effect to the issuance of the Additional Bonds then being issued. However, (i) should the certificate of the accountant certify that the Net Revenues of the System for the period covered thereby were less than required above, and (ii) a change in the rates and charges for electric utility services afforded by the System became effective at least 60 days prior to the last day of the period covered by the accountant's certificate, and (iii) a Consultant having a favorable reputation with respect to such matters will certify that, had such change in rates and charges been effective for the entire period covered by the accountant's certificate, the Net Revenues of the System covered by the accountant's certificate would have been, in his or her opinion, equal to at least 1.25 times the average annual and 1.00 times the maximum annual principal and interest requirements (calculated on a Fiscal Year basis) of the Outstanding Bonds Similarly Secured after giving effect to the issuance of the proposed Additional Bonds, then, in such event, the coverage specified in the first sentence of this subparagraph (c) shall not be required for the period specified, and such accountant's certificate will be sufficient if accompanied by a Consultant's certificate to the above effect. The term Net Revenues, as used in this subparagraph (c), shall mean the Net Revenues of the System, but excluding and not deducting any charges or disbursements which under standard accounting practice should be charged to capital expenditures;

(d) The Additional Bonds are scheduled to mature on March 1 or September 1, or both, and the interest thereon is scheduled to be paid on March 1 and September 1, provided, however, if the City issues Variable Rate Obligations, such Variable Rate Obligations may mature and pay interest on such date or dates provided in the ordinance authorizing the issuance of such Variable Rate Obligations;

(e) The ordinance authorizing the issuance of such Additional Bonds provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be increased by an additional amount not less than the applicable percentage of the average Annual Debt Service Requirements for the Bonds Similarly Secured, taking into account the proposed Additional Bonds and that such additional amount shall (i) be so accumulated within sixty (60) months from the date of the Additional Bonds by the deposit in the Reserve Fund of the necessary sums in substantially equal consecutive monthly installments; or (ii) be deposited therein transfers of lawfully available funds, proceeds of sale of Bonds Similarly Secured or depositing to the credit of the Reserve Fund one or more surety bonds or insurance policies as provided in this Ordinance; provided, however, that the aggregate amount to be accumulated in the Reserve Fund shall never be required to exceed the applicable percentage of the average Annual Debt Service Requirements for all Bonds Similarly Secured taking into account the series of Additional Bonds then proposed to be issued; and

(f) All calculations of maximum and average Annual Debt Service Requirements made pursuant to this Section shall be made based upon the actual rate of interest to be borne by the Additional Bonds then proposed to be issued.

Bonds Similarly Secured may be refunded (pursuant to any law then available) upon such terms and conditions as the City may deem to be in the best interest of the City and its inhabitants, and if fewer than all such Outstanding Bonds Similarly Secured are refunded, the proposed refunding bonds shall be considered as "Additional Bonds" under the provisions of this Section, and the certificate(s) required in subdivision (c) shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the Bonds Similarly Secured being refunded following their cancellation or provision being made for their payment).

SECTION 22. MAINTENANCE AND OPERATION - INSURANCE. The City covenants and agrees that the System shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Bonds are Outstanding, the City agrees to maintain insurance on the System of a kind, including self-insurance by the City, and in an amount not less than, customarily carried by municipal corporations in the State engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City from doing so.

SECTION 23. RECORDS - ACCOUNTS - ACCOUNTING REPORTS.

(a) The City hereby covenants and agrees that so long as any of the Bonds remain Outstanding, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System separate and apart from all other records and accounts of the City in accordance with accepted accounting principles prescribed for municipal corporations. The Owner of any Bond or any duly authorized agent or agents of such Owner shall have the right at all reasonable times to inspect all such records, accounts, and data relating thereto, and to inspect the System and all properties comprising same. The City further agrees that as soon as possible following the close of each Fiscal Year it will cause an audit of such books and accounts to be made by an independent firm of certified public accountants or licensed public accountants.

(b) Expenses incurred in making the audits above referred to are to be regarded as maintenance and operating expenses of the System and paid as such. Copies of the aforesaid annual audit shall be immediately furnished to the Executive Director of the Municipal Advisory Council of Texas at his or her office in Austin, Texas, and, upon written request to the Purchasers and any subsequent Owners of the Bonds.

SECTION 24. REMEDIES IN EVENT OF DEFAULT. In addition to all the rights and remedies provided by the laws of the State, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Bond Fund and Reserve Fund as required by this Ordinance or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the Owner or Owners of any Bond shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition or obligation prescribed in this Ordinance.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedies herein provided shall be cumulative of all other existing remedies and the specification of such remedies shall not be deemed to be exclusive. Notwithstanding anything in this Ordinance to the contrary, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under this Ordinance.

SECTION 25. SPECIAL COVENANTS. The City hereby further covenants as follows:

(a) That it has the lawful power to pledge the revenues supporting this issue of Bonds and has lawfully exercised said power under the Constitution and laws of the State, including said power existing under Texas Government Code, Chapter 1502, as amended, that the Bonds when issued, shall be ratably secured under said pledge of income in such manner that one Bond Similarly Secured shall have no preference over any other Bond Similarly Secured.

(b) That, other than for the payment of the Previously Issued Bonds and the Bonds, the Net Revenues of the System have not in any manner been pledged to the payment of any debt or obligation of the City or of the System that is on a parity with the pledge of the Net Revenues to Bonds Similarly Secured. The Net Revenues have been pledged to the Refunded Obligations (which are being discharged with proceeds of the Bonds), subject to the lien on and pledge of the Net Revenues to the Outstanding Bonds Similarly Secured.

(c) That, as long as any of the Bonds Similarly Secured issued prior to the issuance of the New Series 2018 Bonds or any interest thereon remain Outstanding, the City will not sell or encumber the System or any substantial part thereof; provided that this shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System; also, with the exception of the Additional Bonds expressly permitted by this Ordinance to be issued, it will not encumber the Net Revenues thereof unless such encumbrance is made subordinate to the lien on and pledge of said Net Revenues to any Bonds Similarly Secured.

(d) That no free service of the System shall be allowed, and should the City or any of its agents or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the City out of funds from sources other than the revenues and income of the System.

(e) At such time as there are no Outstanding Bonds Similarly Secured issued prior to the issuance of the New Series 2018 Bonds, the City may sell or exchange at any time and from time to time any properties and facilities constituting the System if the City shall have received a certificate executed by the Finance Director stating that the sale or exchange of such property or facilities will not materially adversely affect the financial condition of the City or its ability to satisfy the System's rate covenants. The proceeds of any such sale or exchange shall be used by the City, at the option of the City, (i) to acquire additional System facilities; (ii) to purchase, defease, or redeem System Debt; or (iii) for any other lawful purpose. Additionally, the portion of property comprising personal property or machinery, properties, and equipment which has become obsolete or otherwise unneeded in the operation of the System may be sold or otherwise disposed in any manner deemed appropriate by the City acting through the City Manager, the Finance Director or a designee of either of such City representatives.

To the extent that it legally may, the City further covenants and agrees that, so long as any of the Bonds Similarly Secured, or any interest thereon, are Outstanding, no franchise shall be granted for the installation or operation of any competing electric utility system other than that owned by the City.

SECTION 26. BONDS ARE SPECIAL OBLIGATIONS. The Bonds are special obligations of the City payable from the pledged Net Revenues of the System, and the Owners thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

SECTION 27. BONDS ARE NEGOTIABLE INSTRUMENTS. That each of the Bonds shall be deemed and construed to be a "security," and as such a negotiable instrument, within the meaning of Texas Business and Commerce Code, Chapter 8, as amended.

SECTION 28. INVESTMENTS. Moneys in the Bond Fund and the Reserve Fund may at the option of the City be invested or reinvested from time to time in direct obligations of the United States of America, or other obligations permitted by the Texas Public Funds Investment Act, as amended.

SECTION 29. PAYMENT OF BONDS. While any of the Bonds are Outstanding, the Mayor, the Finance Director and the City Secretary, individually or jointly, are hereby authorized to transfer or cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Bond Fund and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Bonds as the same accrue or mature or come due; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds on or before the date of payment for the Bonds.

* * * * *

SECTION 47. THE BOND INSURANCE POLICY FOR THE BONDS. The provisions below are incorporated into the Bond Ordinance for all purposes thereof as Section 47, and such terms shall govern the Bonds (as defined below) notwithstanding anything to the contrary set forth in the Bond Ordinance.

(a) The following defined terms are incorporated into and made a part of the Bond Ordinance for all purposes:

"Insurance Policy" means the insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

"Bond Insurer" means Assured Guaranty Inc., a Maryland domiciled financial guaranty insurance company, or any successor thereto or assignee thereof.

(b) The prior written consent of the Bond Insurer shall be a condition precedent to the deposit of any surety bonds or insurance policies in lieu of a cash deposit into the Reserve Fund, if any.

(c) The Bond Insurer shall be a third-party beneficiary to the Bond Ordinance. Any amendment, supplement, modification to, or waiver of, the Bond Ordinance that requires the consent of Holders or adversely affects the rights and interests of the Bond Insurer shall be subject to the prior written consent of the Bond Insurer.

(d) Provided that the Bond Insurer is not in default on the Insurance Policy, then the Bond Insurer shall be deemed to be the sole Holder of the Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Holders of the Bonds insured by it are entitled to take pursuant to the Bond Ordinance pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Paying Agent. In furtherance thereof and as a term of the Bond Ordinance and each Bond, the Paying Agent and each Bondholder appoint the Bond Insurer as their agent and attorney-in-fact and agree that the Bond Insurer may at any time during the continuation of any proceeding by or against the City under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law relating to the Bonds ("Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Paying Agent and each Bondholder delegate and assign to the Bond Insurer, to the fullest extent permitted by law, the rights of the Paying Agent and each Bondholder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Remedies granted to the Bondholders shall expressly include mandamus.

(e) Amounts paid by the Bond Insurer under the Insurance Policy shall not be deemed paid for purposes of the Bond Ordinance and the Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the City in accordance with the Bond Ordinance. The Bond Ordinance shall not be discharged unless all amounts due or to become due to the Bond Insurer have been paid in full or duly provided for.

(f) Claims Upon the Insurance Policy and Payments by and to the Bond Insurer:

(i) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Paying Agent, after making all transfers and deposits required under the Bond Ordinance, moneys sufficient to pay the principal of and interest on the Bonds due on such Payment Date, the Paying Agent shall give notice to the Bond Insurer and to its designated agent (if any) (the "Bond Insurer's Fiscal Agent") by telephone or electronic transmission of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Payment Date, the Paying Agent shall make a claim under the Insurance Policy and give notice to the Bond Insurer and the Bond Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Bond Insurer and the Bond Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

(ii) The Paying Agent shall designate any portion of payment of principal on Bonds paid by the Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Bond Insurer, registered in the name of Assured Guaranty Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Paying Agent's failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the City on any Bond or the subrogation rights of the Bond Insurer.

The Paying Agent shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Bond.

The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Paying Agent.

(iii) Upon payment of a claim under the Insurance Policy, the Paying Agent shall establish a separate special purpose trust account for the benefit of Bondholders referred to herein as the "Policy Payments Account" and over which the Paying Agent shall have exclusive control and sole right of withdrawal. The Paying Agent shall receive any amount paid under the Insurance Policy in trust on behalf of Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Paying Agent to Bondholders in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything herein to the contrary, the City agrees to pay to the Bond Insurer (i) a sum equal to the total of all amounts paid by the Bond Insurer under the Insurance Policy (the "Bond Insurer Advances"); and (ii) interest on such Bond Insurer Advances from the date paid by the Bond Insurer until payment thereof in full, payable to the Bond Insurer at the Late Payment Rate per annum (collectively, the "Bond Insurer Reimbursement Amounts"). "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The City hereby covenants and agrees that the Bond Insurer Reimbursement Amounts are secured by a lien on and pledge of the Net Revenues and payable from such Net Revenues on a parity with debt service due on the Bonds.

(iv) Funds held in the Policy Payments Account shall not be invested by the Paying Agent and may not be applied to satisfy any costs, expenses or liabilities of the Paying Agent. Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the Bond Insurer.

(g) The Bond Insurer shall, to the extent it makes any payment of principal or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy (which subrogation rights shall also include the rights of any such recipients in connection with any Insolvency Proceeding). Each obligation of the City to the Bond Insurer under the Bond Ordinance shall survive discharge or termination thereof.

(h) Subject to applicable law, and solely from Net Revenues, the City shall pay or reimburse the Bond Insurer, from the trust estate, any and all charges, fees, costs and expenses that the Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Bond Ordinance or other bond document (collectively, the "Related Documents"), or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Bond Ordinance or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Bond Ordinance or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Bond Insurer to honor its obligations under the Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Bond Ordinance or any other Related Document.

(i) The Bond Insurer shall be entitled to pay principal or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the City (as such terms are defined in the Insurance Policy) and any amounts due on the Bonds as a result of acceleration of the maturity thereof in accordance with the Bond Ordinance, whether or not the Bond Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

(j) The notice address of the Bond Insurer is: Assured Guaranty Inc., 1633 Broadway, New York, New York 10019, Attention: Managing Director - Surveillance, Re: Policy No. _____, Telephone: (212) 974-0100. In each case in which notice, or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

(k) The Bond Insurer shall be provided with the following information by the City or Paying Agent, as the case may be:

(i) Notice of any draw upon the Reserve Fund, if any, within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Required Reserve Amount and (ii) withdrawals in connection with a refunding of Bonds.

(ii) Notice of any default known to the Paying Agent or the City within five Business Days after knowledge thereof.

(iii) Prior notice of the advance refunding or redemption of any of the Bonds, including the principal amount, maturities and CUSIP numbers thereof.

(iv) Notice of the resignation or removal of the Paying Agent and Bond Registrar and the appointment of, and acceptance of duties by, any successor thereto.

(v) Notice of the commencement of any Insolvency Proceeding.

(vi) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Bonds.

(vii) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents; and

(viii) All reports, notices and correspondence to be delivered to Holders under the terms of the Related Documents.

(l) The Bond Insurer shall have the right to receive such additional information as it may reasonably request. The City will permit the Bond Insurer to discuss the affairs, finances and accounts of the City or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the City and will use commercially reasonable efforts to enable the Bond Insurer to have access to the facilities, books and records of the City on any business day upon reasonable prior written notice.

(m) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Bond Ordinance would adversely affect the security for the Bonds or the rights of the Bondholders, the Paying Agent shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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Proposed Form of Opinion of Bond Counsel

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

CITY OF GARLAND, TEXAS
ELECTRIC UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2026
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$97,925,000

AS BOND COUNSEL for the City of Garland, Texas (the "Issuer"), we have examined into the legality and validity of the issue of bonds described above (the "Bonds"), which bear interest in the manner and from the dates and mature on the dates specified in the text of the Bonds, all in accordance with the Ordinance adopted by the City Council of the Issuer authorizing the issuance of the Bonds (the "Ordinance"). Capitalized terms used but not defined in this opinion shall have the meanings given said terms in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas; a transcript of certified proceedings of the Issuer relating to the authorization, issuance, sale and delivery of the Bonds, including the Ordinance; certificates of officials of the Issuer; and other pertinent instruments relating to the issuance of the Bonds. We have also examined one of the executed Bonds which we found to be in due form and properly executed.

BASED ON SAID EXAMINATION, it is our opinion that the Bonds have been duly authorized, issued and delivered in accordance with law; that the Bonds are valid and legally binding special obligations of the Issuer except as the enforceability thereof may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by governmental immunity and general principles of equity which permit the exercise of judicial discretion.

IT IS FURTHER OUR OPINION that the Bonds are payable solely from and equally secured by a first lien on and pledge of the Net Revenues of the City's Electric Utility System (the "System"). The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the System, except with respect to the Net Revenues.

SUBJECT TO SATISFYING THE TERMS and conditions stated in the Ordinance, the Issuer has reserved the right to issue additional parity bonds in all things on a parity with the Bonds (the "Additional Bonds"), payable solely from and equally secured by the same lien on and pledge of the Net Revenues of the System as the Bonds; provided, however, that any and all such Additional Bonds may be so issued only in accordance with and subject to the covenants, conditions, limitations and restrictions relating thereto which are set out and contained in the



Ordinance. In addition, the Issuer has reserved the right, subject to the restrictions stated in the Ordinance, to amend the Ordinance.

THE REGISTERED OWNERS OF THE BONDS shall never have the right to demand payment of the principal thereof or interest thereon out of any funds raised or to be raised by taxation, or from any source whatsoever, other than as specified in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

WE CALL YOUR ATTENTION TO THE FACT THAT the interest on tax-exempt obligations, such as the Bonds, is includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit



to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the availability and sufficiency of the revenues pledged by the Issuer to the payment of the Bonds. 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.

Respectfully,

APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY INC. ("AG"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AG, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AG shall have received Notice of Nonpayment, AG will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AG, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AG. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AG is incomplete, it shall be deemed not to have been received by AG for purposes of the preceding sentence and AG shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AG shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AG hereunder. Payment by AG to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AG under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AG shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AG which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AG may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AG pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AG and shall not be deemed received until received by both and (b) all payments required to be made by AG under this Policy may be made directly by AG or by the Insurer's Fiscal Agent on behalf of AG. The Insurer's Fiscal Agent is the agent of AG only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AG to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AG agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AG to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AG, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY INC.

By _____
Authorized Officer

1633 Broadway, New York, N.Y. 10019

(212) 974-0100

Form 500 (8/24)

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Municipal Advisory Services
Provided By

