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PRELIMINARY OFFICIAL STATEMENT

Dated January 16, 2026

Ratings:
S&P: "AA" (BAM Insured)
S&P: "A+" (Underlying)
(See "OTHER INFORMATION – Ratings", "BOND INSURANCE" and "BOND INSURANCE RISKS" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Certificates is (i) excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.

THE CERTIFICATES *WILL NOT BE* DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$19,775,000*

CITY OF PALESTINE, TEXAS

(Anderson County)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATIONS, SERIES 2026

Dated Date: January 15, 2026

Due: February 15, as shown on page 2

Interest accrues from the Delivery Date (defined herein)

PAYMENT TERMS. . . Interest on the \$19,775,000* City of Palestine, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2026 (the "Certificates") will accrue from the date of initial delivery to the underwriter of the Certificates (the "Delivery Date", anticipated to be on or about February 25, 2026), and will be payable February 15 and August 15 of each year commencing February 15, 2027, 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 Certificates 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 Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates 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 Certificates (see "THE CERTIFICATES – Book-Entry-Only System" herein). The initial Paying Agent/Registrar is Regions Bank, Houston, Texas (see "THE CERTIFICATES – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council"), on January 26, 2026, and are direct obligations of the City of Palestine, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of \$1,000 of the surplus revenues of the City's Waterworks and Sewer System (the "System") remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the System, as provided in the ordinance authorizing the Certificates (the "Ordinance") (see "THE CERTIFICATES – Authority for Issuance of the Certificates").

PURPOSE. . . Proceeds from the sale of the Certificates will be used to for the following purposes: (i) designing, developing, constructing, improving, extending, and expanding streets, thoroughfares, sidewalks, bridges, and other public ways of the City, including in downtown Palestine, and including streetscaping, signage, streetlighting, right-of-way protection, utility relocation, and related storm drainage improvements; and acquiring rights-of-way in connection therewith; (ii) designing, developing, constructing, improving and renovating City parks, trails and recreation facilities, including the City's Athletic Complex; (iii) designing, developing, constructing, improving and extending the City's waterworks and sewer system, including Southview Lift Station improvements; (items (i) through (iii), collectively, the "Projects"); (iv) professional services incurred in connection with the Projects; and (v) paying the costs incurred in connection with the issuance of the Certificates.

CUSIP PREFIX: 696327

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page 2

MUNICIPAL BOND INSURANCE . . . The scheduled payment of principal of and interest on the Certificates, when due, will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by Build America Mutual Assurance Company ("BAM"). See "BOND INSURANCE" herein.



LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the underwriters of the Certificates named below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Dallas, Texas, as Bond Counsel (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters with respect to the Certificates will be passed upon by Bracewell LLP, Dallas, Texas, Disclosure Counsel for the City. Certain legal matters will be passed upon for the Underwriter by its counsel, Jackson Walker LLP, Houston, Texas.

DELIVERY. . . It is expected that the Certificates will be available for delivery through the facilities of DTC on or about February 25, 2026.

TD FINANCIAL PRODUCTS

* Preliminary, subject to change.

MATURITY SCHEDULE*

CUSIP Prefix: 696327 ⁽¹⁾

<u>Amount</u>	<u>Maturity Date</u>	<u>Initial Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$ 125,000	2/15/2028			
205,000	2/15/2029			
220,000	2/15/2030			
450,000	2/15/2031			
390,000	2/15/2032			
410,000	2/15/2033			
425,000	2/15/2034			
450,000	2/15/2035			
475,000	2/15/2036			
495,000	2/15/2037			
525,000	2/15/2038			
550,000	2/15/2039			
580,000	2/15/2040			
610,000	2/15/2041			
635,000	2/15/2042			
670,000	2/15/2043			
700,000	2/15/2044			
740,000	2/15/2045			
765,000	2/15/2046			
140,000	2/15/2047			
145,000	2/15/2048			
155,000	2/15/2049			
160,000	2/15/2050			
165,000	2/15/2051			
1,705,000	2/15/2052			
1,825,000	2/15/2053			
1,920,000	2/15/2054			
2,020,000	2/15/2055			
2,120,000	2/15/2056			

(Interest to accrue from the Delivery Date)

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OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2037, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption of the Certificates”).

MANDATORY SINKING FUND REDEMPTION. . . If two or more consecutive serial maturities of the Certificates are grouped into a single maturity (the “Term Certificates”) by the Underwriter, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the provisions of the Ordinance and will be described in the final Official Statement.

* Preliminary, subject to change.

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

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

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

THE CERTIFICATES 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 CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM") MAKES NO REPRESENTATION REGARDING THE CERTIFICATES OR THE ADVISABILITY OF INVESTING IN THE CERTIFICATES. IN ADDITION, BAM 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 BAM, SUPPLIED BY BAM AND PRESENTED UNDER THE HEADING "BOND INSURANCE" AND "APPENDIX D - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

NONE OF THE CITY, THE UNDERWRITER, OR THE MUNICIPAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK ENTRY-ONLY SYSTEM, OR BAM OR ITS MUNICIPAL BOND INSURANCE POLICY, AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY AND BAM, RESPECTIVELY.

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

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

PRELIMINARY 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 Certificates 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 Palestine, Texas is a political subdivision and municipal corporation of the State of Texas (the “State”), located in Anderson County, Texas. The City covers approximately 18 square miles (see “INTRODUCTION – Description of the City”).

THE CERTIFICATES The Certificates are issued as \$19,775,000* Combination Tax and Revenue Certificates of Obligation, Series 2026 (the “Certificates”). The Certificates are issued as serial certificates maturing on February 15 in each of the years 2028 through 2056, inclusive, unless the Underwriter designates one or more consecutive serial maturities as Term Certificates (see “THE CERTIFICATES – Description of the Certificates”).

PAYMENT OF INTEREST

ON THE CERTIFICATES..... Interest on the Certificates accrues from the date of initial delivery (the “Delivery Date”) (anticipated to be February 25, 2026), and is payable February 15 and August 15 of each year, commencing February 15, 2027, until maturity or prior redemption (see “THE CERTIFICATES – Description of the Certificates”).

AUTHORITY FOR ISSUANCE

FOR THE CERTIFICATES The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, as amended, and the ordinance (the “Ordinance”) to be adopted by the City Council of the City (the “City Council”) on January 26, 2026 (see “THE CERTIFICATES – Authority for Issuance of the Certificates”).

SECURITY FOR THE

CERTIFICATES The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of \$1,000 of the surplus revenues of the City’s Waterworks and Sewer System (the “System”) remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with any of the City’s revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the System, as provided in the Ordinance (see “THE CERTIFICATES – Security and Source of Payment of the Certificates”).

OPTIONAL REDEMPTION OF

THE CERTIFICATES The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2037, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption of the Certificates”).

MANDATORY SINKING FUND

REDEMPTION OF THE

CERTIFICATES If two or more consecutive serial maturities of the Certificates are grouped into a single maturity (the “Term Certificates”) by the Underwriter, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the provisions of the Ordinance and will be described in the final Official Statement.

TAX EXEMPTION..... In the opinion of Bond Counsel, under existing law, interest on the Certificates is (i) excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) not an item for purposes of the alternative minimum tax on individuals. See “TAX MATTERS” herein, including information regarding potential alternative minimum tax consequences for corporations.

NOT QUALIFIED TAX-EXEMPT

OBLIGATIONS The Certificates will not be designated as “Qualified Tax-Exempt Obligations” for financial institutions.

USE OF PROCEEDS FOR THE

CERTIFICATES Proceeds from the sale of the Certificates will be used to for the following purposes: (i) designing, developing, constructing, improving, extending, and expanding streets, thoroughfares, sidewalks, bridges, and other public ways of the City, including in downtown

Palestine, and including streetscaping, signage, streetlighting, right-of-way protection, utility relocation, and related storm drainage improvements; and acquiring rights-of-way in connection therewith; (ii) designing, developing, constructing, improving and renovating City parks, trails and recreation facilities, including the City’s Athletic Complex; (iii) designing, developing, constructing, improving and extending the City’s waterworks and sewer system, including Southview Lift Station improvements; (items (i) through (iii), collectively, the “Projects”); (iv) professional services incurred in connection with the Projects; and (v) paying the costs incurred in connection with the issuance of the Certificates (see “PLAN OF FINANCING – Purpose”).

RATINGS FOR THE

CERTIFICATES The Certificates will be rated “AA” by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC (“S&P”) by virtue of a municipal bond insurance policy to be issued by Build America Mutual Assurance Company (“BAM”) upon delivery of the Certificates to the Underwriter. The Certificates also have been rated “A+” (stable outlook) by S&P without regard to credit enhancement (see “Other Information – Ratings”, “BOND INSURANCE” and “BOND INSURANCE RISKS”).

MUNICIPAL BOND

INSURANCE..... The scheduled payment of principal of and interest on the Certificates, when due, will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by BAM (see “BOND INSURANCE” and “BOND INSURANCE RISKS”).

BOOK-ENTRY-ONLY

SYSTEM..... The definitive Certificates 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 Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity of each series. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates 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 Certificates (see “THE CERTIFICATES – Book-Entry-Only System”).

PAYMENT RECORD The City has never defaulted in payment of its general obligation tax debt.

PAYING AGENT/REGISTRAR..... The initial Paying Agent/Registrar for the Certificates is Regions Bank, Houston, Texas.

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SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Net Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾⁽⁴⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2022	18,756	\$ 1,070,507,974	\$ 57,075	\$49,384,880	4.61%	\$ 2,633
2023	18,981	1,240,211,026	65,340	47,917,867	3.86%	2,525
2024	19,583	1,561,938,056	79,760	46,148,559	2.95%	2,357
2025	19,583	1,635,114,106	83,497	44,347,654	2.71%	2,265
2026	19,583	1,689,649,545	86,281	62,329,464 ⁽⁵⁾	3.69% ⁽⁵⁾	3,183 ⁽⁵⁾

(1) Source: City Staff.

(2) As reported by the Anderson County Appraisal District on the City’s annual Certified Rolls; subject to change during the ensuing year.

(3) Includes self-supporting debt. See Table 1 – “Assessed Valuation and Exemptions” and Table 10 – “Self-Supporting Debt” for additional information on self-supporting debt.

(4) Includes Capital Leases. See Table 1 – “Assessed Valuation and Exemptions” for additional information on Capital Leases.

(5) Includes the Certificates. Preliminary, subject to change.

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>
Mitchell Jordan Mayor	2 Years 8 Months	May 2027	Postal Worker
Sean Conner Councilmember	3 Years 8 Months	May 2026	Civil Engineer
Ava Harmon Councilmember	4 Years 8 Months	May 2027	Marketing Professional
James Smith Councilmember	2 Years 8 Months	May 2026	Retired
Kenneth Davidson Councilmember	3 Years 8 Months	May 2027	Retired
Angela Woodard Councilmember	1 Year 8 Months	May 2026	Retired
Christopher Gibbs Councilmember	3 Years 8 Months	May 2027	District Sales Manager

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Total Governmental Service</u>
Teresa Herrera	City Manager	6 Years	20 Years
Andrew Sibai	Finance Director	4 Years	12 Years
April Jackson	City Secretary	5 Years	7 Years

CONSULTANTS AND ADVISORS

Auditors	Pattillo, Brown & Hill, L.L.P. Waco, Texas
Bond Counsel and Disclosure Counsel	Bracewell LLP Dallas, Texas
Municipal Advisor	Hilltop Securities Inc. Dallas, Texas

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

\$19,775,000*

CITY OF PALESTINE, TEXAS

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$19,775,000* City of Palestine, Texas Combination Tax and Revenue Certificates of Obligation, Series 2026 (the “Certificates”) being offered herein. Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the “Ordinance”) to be adopted by the City Council (the “City Council”) of the City of Palestine, Texas (the “City”) on January 26, 2026 which will authorize the issuance of the Certificates.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City of Palestine, Texas and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such documents. Copies of such documents may be obtained from the City's Municipal Advisor, Hilltop Securities Inc., Dallas, Texas, electronically or upon payment of reasonable copying, handling, and delivery charges.

DESCRIPTION OF THE CITY. . . The City is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1871, and first adopted its Home Rule Charter in 1909 and is currently operating under a Home Rule Charter adopted in 1983. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is two years with the terms of the Mayor and three of the Councilmembers’ terms expiring in odd-numbered years and the terms of the other three 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, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2020 Census population for the City was 18,544 and the estimated 2026 population is 19,583. The City encompasses approximately 18 square miles.

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

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

PLAN OF FINANCING

PURPOSE. . . Proceeds from the sale of the Certificates will be used for the following purposes: (i) designing, developing, constructing, improving, extending, and expanding streets, thoroughfares, sidewalks, bridges, and other public ways of the City, including in downtown Palestine, and including streetscaping, signage, streetlighting, right-of-way protection, utility relocation, and related storm drainage improvements; and acquiring rights-of-way in connection therewith; (ii) designing, developing, constructing, improving and renovating City parks, trails and recreation facilities, including the City’s Athletic Complex; (iii) designing, developing, constructing, improving and extending the City’s waterworks and sewer system, including Southview Lift Station improvements; (items (i) through (iii), collectively, the “Projects”); (iv) professional services incurred in connection with the Projects; and (v) paying the costs incurred in connection with the issuance of the Certificates.

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* Preliminary, subject to change.

SOURCES AND USES OF PROCEEDS. . . Proceeds from the sale of the Certificates are expected to be expended as follows:

Sources:	
Par Amount of the Certificates	\$ -
Cash Premium	-
Total Sources	<u>\$ -</u>
Uses:	
Deposit to Project Fund	-
Cost of Issuance	-
Underwriter's Discount	-
Total Uses	<u>\$ -</u>

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES. . . The Certificates are dated January 15, 2026 (the “Dated Date”) and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the date of initial delivery (the “Delivery Date”, anticipated to be February 25, 2026) to the initial purchaser thereof (the “Underwriter”), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year commencing February 15, 2027, until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity of each series and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates (see “THE CERTIFICATES - Book-Entry-Only System”).

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES. . . The Certificates are being authorized and issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES. . . The Certificates constitute direct obligations of the City and the principal thereof and interest thereon are payable from a combination of (i) an annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City, and (ii) a limited pledge of \$1,000 of the surplus net revenues of the City's Waterworks and Sewer System (the “System”) remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or part of the net revenues of the System, all as provided in the Ordinance.

TAX RATE LIMITATION. . . All taxable property within the City is subject to the assessment, levy and collection by the City of a direct and continuing annual ad valorem tax to provide for the operations of the City, including the payment of principal of and interest on all ad valorem tax debt, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance.

OPTIONAL REDEMPTION OF THE CERTIFICATES. . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2037, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of the Certificates to be redeemed. If less than all of the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION OF THE CERTIFICATES. . . If the Underwriter combines two or more consecutive maturities of Certificates into “Term Certificates”, such Term Certificates will be subject to mandatory sinking fund redemption in accordance with the Ordinance and will be described in the Final Official Statement.

NOTICE OF REDEMPTION. . . Not less than 30 days prior to a redemption date for the Certificates, 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 Certificates to be redeemed, in whole or in part, at the address of each registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

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 AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE CITY IN THE NOTICE, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The City reserves the right to give notice of its election or direction to redeem Certificates conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Certificates subject to conditional redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Certificates, will send any notice of redemption relating to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemptions of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates within a maturity to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption (see "THE CERTIFICATES – Book-Entry-Only System" herein).

MANDATORY SINKING FUND REDEMPTION. . . In the event any of the Certificates are structured as "Term Certificates", such Term Certificates, if any, will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance, which provisions will be included in the final Official Statement.

DEFEASANCE . . . The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Certificates to pay principal and interest thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Paying Agent/Registrar or any other lawfully authorized entity a sum of money equal to the principal of and all interest to accrue on the Certificates to maturity or prior redemption or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investments earnings thereon, to provide for the payment and/or redemption of such Certificates; provided, that under current law, such deposits may be invested and reinvested only in (a) direct non-callable 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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations, 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 the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Certificates are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Certificates. If any of Certificates are to be redeemed prior to their dates of maturity, provision must have been made for the payment to the registered owners of such Certificates of the full amount to which such owner would be entitled and for giving notice of redemption as provided in the Ordinance.

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 Certificates. Because the Ordinance does not contractually limit such investments, registered owners may 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 such securities will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible Securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other securities, notwithstanding the fact that such Securities may not be of the same investment quality as those currently identified under State law as permissible securities.

Upon making such deposit in the manner described, such defeased Certificates shall no longer be deemed outstanding Certificates secured by the Ordinance, but will be payable only from the funds and securities deposited into escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt for any other purpose.

Upon such deposit as described above, such Certificates 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 Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption, or take any other action amending the terms of the Certificates, are extinguished; provided, however, that the right to call the Certificates 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 Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates 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.

BOOK-ENTRY-ONLY SYSTEM. . . *This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC, while the Certificates 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, Municipal Advisor and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

DTC will act as securities depository for the Certificates. The Certificates 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 certificate will be issued for each maturity of the Certificates in the aggregate principal amount of each 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 of 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 S&P Global Ratings rating of: AA+. The DTC Rules applicable to its Direct and Indirect Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of Certificates under the DTC system must be made by or through direct Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in

turn to be recorded on the Direct or 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 interest in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. **Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system described herein is discontinued.**

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

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

Redemption notices relating to the Certificates shall be sent to DTC. If less than all of the Certificates 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 such other DTC nominee) will consent or vote with respect to the Certificates 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 (hereinafter defined). The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered.

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

So long as Cede & Co. is the registered owner of the Certificates, the City will have no obligation or responsibility to the Direct Participants or Indirect Participants, or the persons for which they act as nominees, with respect to the payment to or providing of notice to such Direct Participants, Indirect Participants or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Certificates 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 Certificates, 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 System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Municipal Advisor or the Underwriter.

PAYING AGENT/REGISTRAR. . . The initial Paying Agent/Registrar for the Certificates is Regions Bank, 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 Certificates 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. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner and any bond insurer of such Certificates by United States mail, first class, postage prepaid, which notice shall also give the name and address of the new Paying Agent/Registrar.

Principal of the Certificates will be payable to the registered owner at maturity or prior redemption upon presentation and surrender at the principal office of the Paying Agent/Registrar. Interest on the Certificates 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 (see "THE CERTIFICATES – Record Date for Interest Payment" herein), and such interest shall be paid (i) by check sent by 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 customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday or day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. is the registered owner of the Certificates, payments of principal and interest on the Certificates will be made as described in "THE CERTIFICATES - Book-Entry-Only System" herein.

TRANSFER, EXCHANGE AND REGISTRATION. . . In the event the Book-Entry-Only System should be discontinued, printed Certificate certificates will be delivered to the registered owners of the Certificates and thereafter the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such 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. Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the principal 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 Certificates issued in an exchange or transfer of Certificates 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 Certificates 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 Certificates registered and delivered in an exchange or transfer shall be of the same series, in denominations of \$5,000 or integral multiples thereof for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES - Book-Entry-Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 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 an Certificate.

RECORD DATE FOR INTEREST PAYMENT. . . The record date (the "Record Date") for determining the party to whom interest is payable on the Certificates on any interest payment date means the close of business on the last business day of the month next preceding each interest payment date for the Certificates.

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 (the "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 (the "Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Certificate 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.

MUTILATED, DESTROYED, LOST AND STOLEN CERTIFICATES. . . If any Certificate is mutilated, destroyed, stolen or lost, a new Certificate in the same principal amount as the Certificate so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Certificate, such new Certificate will be delivered only upon surrender and cancellation of such mutilated Certificate. In the case of any Certificate issued in lieu of and substitution for any Certificate which has been destroyed, stolen or lost, such new Certificate will be delivered only (a) upon filing with the Paying Agent/Registrar evidence satisfactory to the Paying Agent/Registrar to the effect that such Certificate has been destroyed, stolen or lost and authenticity of ownership thereof, and (b) upon furnishing the Paying Agent/Registrar with indemnity satisfactory to hold the City and the Paying Agent/Registrar harmless.

The person requesting the authentication and delivery of a new Certificate must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

CERTIFICATEHOLDERS' REMEDIES. . . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. 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. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006 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." 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 Certificates may not be able to bring such a suit against the City for breach of the covenants in the Certificates or in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities under certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services to cities.

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 I*"), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests LTD. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) ("*Wasson II*", and together with *Wasson I* "*Wasson*"), ruling 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 at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law 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 authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

As noted above, the Ordinance provides that holders of the Certificates may exercise the remedy of mandamus to enforce the Certificates of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Certificates 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 remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in

administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors, principles of governmental immunity, and general principles of equity that permit the exercise of judicial discretion.

AMENDMENTS ... The City may amend the Ordinance without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, formal defect, or omission therein. In addition, the City may, with the written consent of the registered owners of a majority in aggregate principal amount of the Certificates then outstanding and affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Certificates then outstanding, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Certificates, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of the payment of the principal of, premium, if any, or interest on the Certificates; (2) give any preference to any Certificate over any other Certificate; or (3) reduce the aggregate principal amount of the Certificates required to be held by the registered owners for consent to any such amendment, addition, or rescission.

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Certificates, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Certificates (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section 6901 of the New York Insurance Law, which are most often issued by states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.bambonds.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at <https://www.spglobal.com/en/>. The rating of BAM should be evaluated independently. The rating reflects S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Certificates, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Certificates. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Certificates 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 Policy), and BAM does not guarantee the market price or liquidity of the Certificates, nor does it guarantee that the rating on the Certificates will not be revised or withdrawn.

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2025 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$517.2 million, \$273.6 million and \$243.6 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM’s most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM’s website at www.bambonds.com, is incorporated herein by reference and may be obtained, without charge,

upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at <https://bambonds.com/insights/#video>. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at <https://bambonds.com/credit-profiles>. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Certificates, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Certificates. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Certificates, whether at the initial offering or otherwise.

BOND INSURANCE RISKS

BOND INSURANCE RISK FACTORS. . . In the event of default of the scheduled payment of principal of or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates 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 Certificates 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 BAM at such time and in such amounts as would have been due absent such prepayment by the Town (unless BAM chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Certificates will not be subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE CERTIFICATES – Certificateholders' Remedies"). BAM has reserved the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Certificateholders.

In the event BAM is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from ad valorem taxes levied, within the limited prescribed by law, as further described in "THE CERTIFICATES – Security and Source of Payment of the Certificates". In the event the BAM becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the

The long-term ratings on the Certificates will be dependent in part on the financial strength of BAM and its claims-paying ability. BAM'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 the BAM and of the ratings on the Certificates, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) of the Certificates (see "OTHER INFORMATION – Ratings").

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

CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS . . . 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 Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims-paying ability of any such bond insurer, particularly over the life of the Certificates.

TAX INFORMATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

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

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

Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,000,000 (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. After the 2024 tax year, through December 31, 2026 (unless extended by the Legislature), the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value. For the 2025 tax year, the Maximum Property Value was increased to \$5,160,000.

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "TAX INFORMATION – City and Taxpayer Remedies."

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

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

Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER . . . The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. The Texas legislature amended Section 11.35 of the Tax Code to clarify that “damage” for purposes of such statute is limited to “physical damage.” For more information on the exemption, reference is made to Section 11.35 of the Tax Code, as amended.

PERSONAL PROPERTY . . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. From and after the 2026 tax year, a person is entitled to an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

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

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

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

OTHER EXEMPT PROPERTY . . . Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property. Beginning with the 2026 tax year, all intangible personal property is exempt from State taxation.

TAX INCREMENT FINANCING ZONES . . . A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing zones (“TIRZ”) within its boundaries, and other overlapping taxing units may agree to contribute taxes levied against the “Incremental Value” in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, general located within the TIRZ. At the time of the creation of the TIRZ, a “base value” for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the “Incremental Value”, and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

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

For a discussion of how the various exemptions described above are applied by the City, See “TAX INFORMATION – City Application of Property Tax Code” and “Table 1 – Assessed Valuation and Exemption” herein.

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

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$61,349,201 for the 2025 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

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

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

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

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

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on

property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS. . . . The Following terms as used in this section have the meanings provided below:

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

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

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

"unused increment rate" means the greater of (i) zero; or (ii) the sum of the foregone revenue amount for each of the tax years 2023 foregone revenue amount, the 2024 foregone revenue amount, and 2025 foregone revenue amount divided by the current total value.

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

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

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

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

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

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

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

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

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census

and does not qualify as a special taxing unit, if a city's adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city's voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

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

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

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

During the 89th Regular Session, the Legislature adopted Senate Bill 1851 ("SB 1851"), which will become effective in connection with the adoption of an ad valorem tax rate for tax year 2026 and thereafter. Under SB 1851, if the Texas Attorney General determines that a city has (a) not had its records and accounts audited and an annual financial statement prepared based on the audit or (b) failed to file its financial statements and auditor's opinion on such financial statements with the city secretary or city clerk before the 180th day after the city's fiscal year end, the city may not adopt an ad valorem tax rate that exceeds the city's no-new-revenue tax rate for (i) the tax year that begins on or after the date for the Attorney General's determination or (ii) a subsequent tax year that begins before the date the city has had an annual audit completed and financial statements prepared or filed the financial statement and auditor's opinion on such financial statement with the city secretary or city clerk, as applicable.

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

2025 REGULAR AND SPECIAL LEGISLATIVE SESSIONS. . . . The regular session of the 89th Texas Legislature (the "2025 Legislative Session") convened on January 14, 2025, and concluded on June 2, 2025. The Texas Legislature (the "Legislature") meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called and the Legislature has concluded two special sessions since the conclusion of the 89th Regular Session.

During the 89th Regular Session, the Legislature adopted a general appropriations act and legislation affecting ad valorem taxation procedures and the procedures of issuing debt affecting cities among other legislation affecting cities. Adopted legislation affecting ad valorem taxation procedures includes legislation that (i) changes the procedure for the adoption of and imposes limits on the amount of an M&O tax increase that may be adopted in response to declared disasters, (ii) makes technical modifications to the tax rate setting process, and (iii) makes intangible personal property exempt from ad valorem taxation. The City is reviewing the impact of the legislation approved during the 89th Regular Session and the two called special sessions and cannot make any representations regarding the likelihood of future legislative sessions or the full impact of the legislation approved during the 89th Regular Session or the two called special sessions at this time.

CITY APPLICATION OF TAX CODE . . . The City grants an exemption . . . to the market value of the residence homestead of persons 65 years of age or older of \$11,000.

The City has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

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

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

The City does not tax nonbusiness personal property; and Anderson County collects taxes for the City.

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

The City does not tax freeport property.

The City does not tax goods-in-transit.

The City does collect the additional one-eight cent sales tax for reduction of ad valorem taxes.

The City has not adopted a tax abatement policy. The City enters into tax abatement agreements with entities at the discretion of the City Council. The City does not have any outstanding tax abatement agreements.

TAX INCREMENT FINANCING REINVESTMENT ZONES . . . The City does not currently have any tax increment financing reinvestment zones.

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TABLE 1 – ASSESSED VALUATION AND EXEMPTIONS

2025/26 Market Valuation Established by Anderson County Appraisal District		\$2,049,994,978
Less Exemptions/Reductions at 100% Market Value:		
Over 65 Residence and Disabled Homestead Exemptions	\$ 16,009,374	
Pollution Control	6,830	
Productivity Loss	7,945,708	
Freeport	38,763,636	
Total Exempt	216,417,570	
Disabled Veterans Exemptions	23,993,486	
Misc.	817,188	
Homestead Cap Loss	56,391,641	\$ 360,345,433
2025/26 Taxable Assessed Valuation		<u>\$ 1,689,649,545</u>
General Obligation Bonds and Certificates of Obligation Funded from Ad Valorem Taxes as of 1/15/2026	\$ 43,815,000	
Capital Leases funded from Ad Valorem Taxes as of 1/15/2026	444,124	
The Certificates ⁽¹⁾	19,775,000	
Total General Obligation Debt Funded from Ad Valorem Taxes as of 1/15/2026 ⁽¹⁾		\$ 64,034,124
Less: Self-Supporting Debt as of 1/15/2026 ⁽²⁾		
Combination Tax & Revenue Certificates of Obligation, Series 2013 (Water & Sewer)	\$ 785,000	
Combination Tax & Revenue Refunding Bonds, Series 2020 (Water & Sewer)	2,370,000	
Combination Tax & Revenue Certificates of Obligation, Series 2021 (Water & Sewer)	4,245,000	
Combination Tax & Revenue Certificates of Obligation, Series 2022 (Water & Sewer)	12,425,000	
The Certificates (Water & Sewer) ⁽¹⁾	7,440,000	
Total Self-Supporting Debt as of 1/15/2026 ⁽¹⁾		\$ 27,265,000
Net General Obligation Debt Funded Debt Payable from Ad Valorem Taxes ⁽¹⁾		<u>\$ 36,769,124</u>
Interest and Sinking Fund as of 12/31/2025		\$ 380,703
Ratio Funded Tax Debt to Taxable Assessed Valuation		3.79%

2026 Estimated Population - 19,583
Per Capita Taxable Assessed Valuation - \$86,281
Per Capita Total General Obligation Debt Payable from Ad Valorem Tax - \$3,270

(1) Preliminary, subject to change.

(2) The amount shown is anticipated to be self-supported from the City’s Water and Sewer System Fund Net Revenues. If such revenues are insufficient, the City will be required to assess an ad valorem tax to pay the difference. See Table 10 – “Self-Supporting Debt.”

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TABLE 2 – TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2026		2025		2024	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 844,101,689	41.18%	\$ 828,166,282	41.63%	\$ 805,874,752	41.23%
Real, Residential Multi-Family	52,841,699	2.58%	41,236,650	2.07%	41,729,431	2.14%
Real, Vacant Platted Lots/Tracts	17,302,404	0.84%	18,326,076	0.92%	17,513,490	0.90%
Real Acreage (Land Only)	8,106,067	0.40%	7,751,403	0.39%	8,069,008	0.41%
Real, Farm and Ranch Improvements	28,972,400	1.41%	29,329,894	1.47%	26,888,583	1.38%
Real, Commercial and Industrial	541,443,710	26.41%	549,272,924	27.61%	545,593,420	27.92%
Real and Intangible Personal, Utilities	61,605,966	3.01%	55,415,171	2.79%	47,867,299	2.45%
Tangible Personal, Business & Other	261,893,604	12.78%	280,971,041	14.12%	281,006,337	14.38%
Tangible Personal Mobile Homes	4,929,142	0.24%	3,235,811	0.16%	3,426,855	0.18%
Real, Inventory	19,678	0.00%	19,678	0.00%	19,678	0.00%
Special Inventory	12,482,383	0.61%	11,051,178	0.56%	10,894,539	0.56%
Totally Exempt	216,296,236	10.55%	164,519,581	8.27%	165,466,434	8.47%
Total Appraised Value Before Exemptions	\$2,049,994,978	100.00%	\$1,989,295,689	100.00%	\$1,954,349,826	100.00%
Less: Total Exemptions/Reductions	360,345,433		354,181,583		392,411,770	
Taxable Assessed Value	<u>\$1,689,649,545</u>		<u>\$1,635,114,106</u>		<u>\$1,561,938,056</u>	

Category	2023		2022	
	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 641,384,622	43.85%	\$ 521,445,089	41.49%
Real, Residential Multi-Family	40,616,148	2.78%	31,851,863	2.53%
Real, Vacant Platted Lots/Tracts	15,102,426	1.03%	9,805,809	0.78%
Real Acreage (Land Only)	4,598,373	0.31%	4,855,613	0.39%
Real, Farm and Ranch Improvements	19,390,954	1.33%	15,141,402	1.20%
Real, Commercial and Industrial	453,016,263	30.97%	416,515,941	33.14%
Real and Intangible Personal, Utilities	45,183,099	3.09%	42,424,185	3.38%
Tangible Personal, Business & Other	229,197,666	15.67%	203,086,572	16.16%
Tangible Personal Mobile Homes	2,886,506	0.20%	2,408,618	0.19%
Real, Inventory	39,317	0.00%	98,047	0.01%
Special Inventory	11,241,406	0.77%	9,084,768	0.72%
Total Exempt	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$1,462,656,780	100.00%	\$1,256,717,907	100.00%
Less: Total Exemptions/Reductions	222,445,754		186,209,933	
Taxable Assessed Value	<u>\$1,240,211,026</u>		<u>\$1,070,507,974</u>	

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

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TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Net Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾⁽⁴⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2022	18,756	\$ 1,070,507,974	\$ 57,075	\$49,384,880	4.61%	\$ 2,633
2023	18,981	1,240,211,026	65,340	47,917,867	3.86%	2,525
2024	19,583	1,561,938,056	79,760	46,148,559	2.95%	2,357
2025	19,583	1,635,114,106	83,497	44,347,654	2.71%	2,265
2026	19,583	1,689,649,545	86,281	62,329,464 ⁽⁵⁾	3.69% ⁽⁵⁾	3,183 ⁽⁵⁾

(1) Source: City Staff.

(2) As reported by the Anderson County Appraisal District on the City’s annual Certified Rolls; subject to change during the ensuing year.

(3) Includes self-supporting debt. See Table 1 – “Assessed Valuation and Exemptions” and Table 10 – “Self-Supporting Debt” for additional information on self-supporting debt.

(4) Includes Capital Leases. See Table 1 – “Assessed Valuation and Exemptions” for additional information on Capital Leases.

(5) Includes the Certificates. Preliminary, subject to change.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2022	\$ 0.6838	\$ 0.5538	\$ 0.1300	\$ 7,374,471	98.08%	99.63%
2023	0.6738	0.6486	0.0252	8,026,882	98.99%	100.42%
2024	0.5943	0.5621	0.0321	9,216,038	97.51%	98.73%
2025	0.5943	0.5686	0.0257	9,694,236	95.41% ⁽¹⁾	97.75% ⁽¹⁾
2026	0.6143	0.5830	0.0313	9,828,423	34.39% ⁽²⁾	35.05% ⁽²⁾

(1) Unaudited.

(2) Collections as of December 31, 2025.

TABLE 5 – TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2025/26 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Sanderson Farms Inc	Processing Plant	\$ 150,460,751	8.90%
Wal-Mart Stores	Retail	29,897,976	1.77%
MPT of Palestine-Lima LLC	Retail	24,376,735	1.44%
Atmos Energy/Mit-Tex Distribution	Utilities	18,447,578	1.09%
Oncor Electric Delivery Co	Utilities	18,173,100	1.08%
Union Pacific Railroad Co	Railroad	16,822,779	1.00%
Wal-Mart Stores East LP	Retail	13,043,165	0.77%
Overlook Lifestyle Apt Homes LLC	Apartments	10,628,557	0.63%
Willow Creek Apartments LLC	Apartments	9,746,230	0.58%
Wal-Mart Real Estate Business Trust	Real Estate	9,511,529	0.56%
		<u>\$ 301,108,400</u>	<u>17.82%</u>

Source: Anderson County Appraisal District

GENERAL OBLIGATION DEBT LIMITATION. . . No general obligation debt limitation is imposed on the City under current State law (see “THE CERTIFICATES – Tax Rate Limitation”).

TABLE 6 – TAX ADEQUACY ⁽¹⁾⁽²⁾

Net Principal and Interest Requirements, FY 2026	\$ 1,436,365
\$0.0868 Tax Rate at 98% Collection Produces	1,437,283
Average Net Principal and Interest Requirements, FY 2026-2056 ⁽³⁾	\$ 2,155,723
\$0.1302 Tax Rate at 98% Collection Produces	2,155,925
Maximum Net Principal and Interest Requirements, FY 2027 ⁽³⁾	\$ 2,341,732
\$0.1415 Tax Rate at 98% Collection Produces	2,343,037

- (1) Excludes self-supporting debt. See Table 1 – “Assessed Valuation and Exemptions” and Table 10 – “Self-Supporting Debt” for additional information on self-supporting debt.
(2) Includes Capital Leases. See Table 1 – “Assessed Valuation and Exemptions” for additional information on Capital Leases.
(3) Includes a portion of the Certificates. Preliminary, subject to change.

TABLE 7 – ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2025/26	2025/26	Total	Estimated	City's
	Taxable				G.O. Tax
	Assessed	Tax	Debt	%	G.O.
	Value	Rate	1/15/2026	Applicable	Tax Debt
					1/15/2026
City of Palestine	\$ 1,689,649,545	\$ 0.6143	\$ 64,034,124 ⁽¹⁾⁽²⁾	100.00%	\$ 64,034,124 ⁽¹⁾⁽²⁾
Anderson County	4,640,288,287	0.4978	16,385,000	33.96%	5,564,346
Elkhart ISD	446,870,118	0.9911	10,341,000	0.80%	82,728
Palestine Independent School District	1,648,540,450	1.0378	47,265,000	61.13%	28,893,095
Westwood Independent School District	778,230,267	1.0016	33,595,000	46.82%	15,729,179
Total Direct and Overlapping Tax-supported Debt ⁽¹⁾⁽²⁾					\$ 114,303,472
Ratio of Direct and Overlapping Tax-supported Debt to Taxable Assessed Valuation ⁽¹⁾⁽²⁾					6.76%
Per Capita Overlapping Tax-supported Debt ⁽¹⁾⁽²⁾					\$ 5,837

- (1) Includes self-supporting debt. See Table 1 – “Assessed Valuation and Exemptions” and Table 10 – “Self-Supporting Debt” for additional information on self-supporting debt. Includes the Certificates. Preliminary; subject to change.
(2) Includes Capital Leases. See Table 1 – “Assessed Valuation and Exemptions” for additional information on Capital Leases.

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DEBT INFORMATION

TABLE 8 – PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt Service ⁽¹⁾			The Certificates ⁽²⁾			Less Self- Supporting Debt ⁽³⁾	Total Net Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total			
	2026	\$ 1,793,190	\$ 1,602,294	\$ 3,395,484	\$ -	\$ -			
2027	1,838,805	1,548,838	3,387,644	-	1,442,741	1,442,741	2,488,652	2,341,732	
2028	1,886,139	1,489,037	3,375,176	125,000	976,850	1,101,850	2,302,460	2,174,566	
2029	1,464,533	1,432,888	2,897,421	205,000	968,600	1,173,600	1,895,825	2,175,196	
2030	1,506,988	1,380,616	2,887,604	220,000	957,975	1,177,975	1,891,950	2,173,629	14.10%
2031	1,074,000	1,329,413	2,403,413	450,000	941,225	1,391,225	1,620,475	2,174,163	
2032	1,204,000	1,284,088	2,488,088	390,000	920,225	1,310,225	1,622,375	2,175,938	
2033	1,249,000	1,240,613	2,489,613	410,000	900,225	1,310,225	1,625,200	2,174,638	
2034	1,294,000	1,196,863	2,490,863	425,000	879,350	1,304,350	1,623,075	2,172,138	
2035	1,339,000	1,151,413	2,490,413	450,000	857,475	1,307,475	1,624,575	2,173,313	27.02%
2036	1,384,000	1,104,263	2,488,263	475,000	834,350	1,309,350	1,624,575	2,173,038	
2037	1,439,000	1,055,263	2,494,263	495,000	810,100	1,305,100	1,623,150	2,176,213	
2038	1,484,000	1,004,413	2,488,413	525,000	784,600	1,309,600	1,625,175	2,172,838	
2039	1,534,000	951,763	2,485,763	550,000	757,725	1,307,725	1,620,575	2,172,913	
2040	1,594,000	896,650	2,490,650	580,000	729,475	1,309,475	1,623,888	2,176,238	42.71%
2041	1,649,000	838,969	2,487,969	610,000	699,725	1,309,725	1,624,881	2,172,813	
2042	1,714,000	776,000	2,490,000	635,000	669,394	1,304,394	1,621,619	2,172,775	
2043	1,784,000	707,400	2,491,400	670,000	638,400	1,308,400	1,623,869	2,175,931	
2044	1,854,000	636,000	2,490,000	700,000	605,863	1,305,863	1,623,713	2,172,150	
2045	1,924,000	561,800	2,485,800	740,000	571,663	1,311,663	1,621,150	2,176,313	61.86%
2046	2,009,000	484,500	2,493,500	765,000	535,919	1,300,919	1,621,081	2,173,338	
2047	2,084,000	404,000	2,488,000	140,000	514,250	654,250	969,200	2,173,050	
2048	2,169,000	320,300	2,489,300	145,000	507,125	652,125	966,200	2,175,225	
2049	2,254,000	233,200	2,487,200	155,000	499,625	654,625	966,900	2,174,925	
2050	2,344,000	142,600	2,486,600	160,000	491,750	651,750	966,200	2,172,150	80.92%
2051	2,444,000	48,200	2,492,200	165,000	483,625	648,625	969,000	2,171,825	
2052	34,000	-	34,000	1,705,000	436,875	2,141,875	-	2,175,875	
2053	-	-	-	1,825,000	348,625	2,173,625	-	2,173,625	
2054	-	-	-	1,920,000	255,000	2,175,000	-	2,175,000	
2055	-	-	-	2,020,000	156,500	2,176,500	-	2,176,500	96.69%
2056	-	-	-	2,120,000	53,000	2,173,000	-	2,173,000	100.00%
	<u>\$ 44,347,654</u>	<u>\$ 23,821,380</u>	<u>\$ 68,169,034</u>	<u>\$ 19,775,000</u>	<u>\$ 20,228,253</u>	<u>\$ 40,003,253</u>	<u>\$ 41,344,881</u>	<u>\$ 66,827,407</u>	

- (1) Includes the Capital Leases which the City currently pays for with revenue generated from ad valorem taxes. Capital Leases consists of 2 equipment leases that the City has entered into in 2017 and 2020. See Table 1 - "Assessed Valuation and Exemptions" for additional information on Capital Leases. The City budgeted repayment for such lease out of I&S debt service funds but expects to repay the Enterprise Fleet payments out of other lawfully available funds. The annual future payment is unknown until terms and vehicle leases are negotiated on an annual basis. See Table 11- "Other Obligations".
- (2) Preliminary; subject to change.
- (3) The amount shown is anticipated to be self-supported from the Water and Sewer System Fund Net Revenues. If such revenues are insufficient, the City will be obligated to assess an ad valorem tax to pay the difference. See Table 10 - "Self-Supporting Debt" for additional information on self-supporting debt. Includes a portion of the Certificates. Preliminary; subject to Change.

TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION

Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/2026 ⁽¹⁾		\$ 1,436,365
Interest and Sinking Fund, Fiscal Year Ended 9/30/2025 ⁽²⁾	\$ 36,195	
Budgeted Interest and Sinking Fund Tax Collections, Fiscal Year 2026	447,204	
Budgeted Transfer from Other Funds	1,054,225	
Budgeted Delinquent Tax Revenue and Penalty & Interest	47,909	<u>\$ 1,585,533</u>
Estimated Fund Balance, Fiscal Year Ending 9/30/2026		\$ 149,168

(1) Excludes Self-Supporting Debt. See Table 10 – “Self-Supporting Debt.” Includes Capital Leases. See Table 1 – “Assessed Valuations and Exemptions” for additional information on Capital Leases.

(2) Unaudited.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS... The City has no authorized but unissued general obligation bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT. . . The City does not anticipate issuing any additional general obligation tax supported debt within the next twelve months.

TABLE 10 – SELF-SUPPORTING DEBT

Water & Wastewater General Obligation Debt

	FY 2026 Outstanding Principal ⁽¹⁾⁽²⁾	FY 2026 Debt Service (P+I)
Combination Tax and Revenue Certificates of Obligation, Series 2013	\$ 785,000	\$ 259,244
Combination Tax and Revenue Refunding Bonds, Series 2020	2,370,000	711,363
Combination Tax and Revenue Certificates of Obligation, Series 2021	4,245,000	199,713
Combination Tax and Revenue Certificates of Obligation, Series 2022	12,425,000	788,800
The Certificates ⁽³⁾	7,440,000	-
TOTAL	<u><u>\$ 27,265,000</u></u>	<u><u>\$ 1,959,119</u></u>
Water and Wastewater Revenue Available for Debt Service (FYE 2024)		\$ 4,596,183
Less: Water and Wastewater Revenue Bonds Debt Service (FY 2026)		<u>-</u>
Net Revenue Available for Water and Wastewater System GO Bonds		<u><u>\$ 4,596,183</u></u>

(1) Principal outstanding at the beginning of the Fiscal Year.

(2) The amount shown is anticipated to be self-supported from the Water and Sewer System Fund Net Revenues. If such revenues are insufficient, the City will be required to assess an ad valorem tax to pay the difference.

(3) Includes a portion of the Certificates. Preliminary, subject to change.

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TABLE 11 – OTHER OBLIGATIONS

The City has entered into multiple arrangements to finance the purchase of equipment. The City retains title to the underlying equipment during and after the duration of the agreements. The arrangements are direct borrowings and are secured by the financed assets. Details on the arrangements outstanding as of September 30, 2024, are as follows:

Governmental Activities	Issue	Maturity	Rate	Balance
	Amount			
Southside Bank - PD Equipment	\$ 598,579	2026	3.20%	\$ 131,224
Leasing 2, Inc. - Fire, Road & Utility Equipment	1,558,865	2029	2.50%	695,671
Total Financing Arrangements				\$ 826,895

Leases Payable

The City has entered into a master lease agreement with Enterprise Fleet Services to acquire fleet vehicles for various City departments. Each vehicle is structured as an individual noncancelable lease beginning when the City takes delivery. All agreements are 60 months in duration and include both fixed monthly payments and coverage charges for exceeding mileage limits. For the year ended September 30, 2024, payments amounted to \$454,559, including \$24,608 of interest expense.

During fiscal year 2024, the City acquired 19 additional vehicles under the master lease agreement. The leases were recognized each over their 60-month term with a combined discounted value of \$1,208,658.

Details of the leases payable as of September 30, 2024, are as follows:

Governmental Activities	Issue Amount	Number of Agreements	Maturities	Fixed Monthly Payments	Rates	Balance
Fleet vehicles	\$ 2,640,299	68	2025-2029	\$298-\$1,429	1.35%-6.38%	\$ 1,236,724

PENSION FUND . . . All qualified employees of the City are members of the Texas Municipal Retirement System. For additional information see the City’s financial statements for the fiscal year ended September 30, 2024 which are attached hereto as Appendix B, including Note J – “Retirement Plan” under Section III – Detailed Notes on All Funds.

OTHER POST-EMPLOYMENT BENEFITS . . . See the City’s financial statements for the fiscal year ended September 30, 2024, which are attached hereto as Appendix B, including Note B – “Other Post-Employment Benefit Plans” under Section III – Detailed Notes on All Funds for a description of the City’s Other Post-Employment Benefits.

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FINANCIAL INFORMATION

TABLE 12 – GENERAL FUND REVENUE AND EXPENDITURE HISTORY

	Fiscal Years Ended September 30,				
	2024	2023	2022	2021	2020
Revenues:					
Taxes	\$ 16,009,820	\$ 15,101,982	\$ 13,396,212	\$ 12,003,856	\$ 12,108,464
Permits, Licenses and Fees	357,082	162,657	116,877	227,485	143,109
Intergovernmental	2,218,327	1,937,846	774,187	117,272	1,473,620
Charges for Services	49,941	58,869	262,811	142,987	118,631
Fines and Forfeitures	329,915	341,272	299,973	371,283	399,599
Contributions	15,996	40,649	102,879	40,569	23
Investment Earnings	601,292	508,799	76,477	18,205	73,235
Miscellaneous	32,235	63,377	115,447	52,069	47,868
Total Revenues	\$ 19,614,608	\$ 18,215,451	\$ 15,144,863	\$ 12,973,726	\$ 14,364,549
Expenditures:					
General Government	\$ 2,153,660	\$ 2,235,623	\$ 1,824,649	\$ 2,928,706	\$ 1,867,167
Public Safety	11,743,469	9,842,316	8,779,488	8,343,328	7,688,699
Community Services	6,106,923	5,822,253	3,735,409	2,931,984	3,115,353
Community Development	520,611	475,004	547,824	523,193	738,082
Total Expenditures	\$ 20,524,663	\$ 18,375,196	\$ 14,887,370	\$ 14,727,211	\$ 13,409,301
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	\$ (910,055)	\$ (159,745)	\$ 257,493	\$ (1,753,485)	\$ 955,248
Other Financing Sources (Uses):					
Transfers In	\$ 2,420,444	\$ 2,328,563	\$ 4,321,388	\$ 1,816,272	\$ 1,893,263
Transfers Out	(2,276,465)	(1,074,792)	(380,852)	(19,245)	(47,022)
Proceeds from sale of Capital Assets	65,481	27,545	42,105	177,960	23,170
Insurance Proceeds	131,000	30,641	36,404	24,993	57,173
Total Other Financing Sources (Uses)	340,460	1,311,957	4,019,045	1,999,980	1,926,584
Beginning Fund Balance	11,412,031	10,259,819	5,983,281	5,736,786	2,854,954
Ending Fund Balance	\$ 10,842,436	\$ 11,412,031	\$ 10,259,819	\$ 5,983,281	\$ 5,736,786

Source: The City's audited financial statements.

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TABLE 13 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽¹⁾
2022	\$8,204,027	111.25%	\$ 0.7664	\$437.41
2023	8,125,360	101.23%	0.6552	428.08
2024	8,286,427	89.91%	0.5305	423.14
2025	8,784,584	90.62%	0.5372	448.58
2026	3,137,870 ⁽²⁾	31.93%	0.1857	160.23

(1) Source: Texas Comptroller Website. Excludes the portion collected for the Type 4A Corporation.

(2) Collections as of January 2026.

FINANCIAL MANAGEMENT POLICIES

Basis of Accounting . . . Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental fund types and fiduciary fund types are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available to finance the operations of the current year. Sale tax receipts are considered measurable and available when directly deposited by the State and notification is received by the City. Interest on investments is recorded on the accrual basis in all funds at year end with licenses and fees, permits, fines and forfeitures, rentals and leases, charges for service and miscellaneous revenue recorded as revenue when received in cash since they are generally not measurable until actually received. Inter-governmental revenues received as reimbursements for specific purposes or projects are recognized based upon the expenditures recorded. Inter-governmental revenues received but not earned are recorded as deferred revenues.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Interest on general long-term debt is not accrued but is recorded as an expenditure when due.

All proprietary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

General Fund Balance . . . It is the City's objective to maintain an unencumbered fund balance equal to 20% (55 days) of expenditures. 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 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 . . . Formal budgetary accounting is employed as a management control for the funds of the City. Budgets are adopted on a basis consistent with generally accepted accounting principles for General, Special Revenue, Debt Service, and Capital Projects Funds. For monitoring and management purposes, the City also adopts a non-GAAP basis budget for each Enterprise Fund and the Internal Service Funds. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required.

Budget amendments require the approval of the City Council.

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 . . . 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 City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity

of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, 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, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service, if the City Council authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The City may also contract with an investment management firm registered (x) under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.), or (y) 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 ordinance, order or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES. . . Under State law, the City is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The City adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, 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, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

TABLE 14 – CURRENT INVESTMENTS

As of December 31, 2025, the City’s investable funds were invested in the following categories:

Description	Market Value	% of Investments
Certificates of Deposit	\$ 12,066,895	33.68%
TexStar	18,659,609	52.09%
Bank Accounts	5,098,768	14.23%
Totals	<u>\$ 35,825,272</u>	<u>100.00%</u>

TAX MATTERS

THE FOLLOWING DISCUSSION OF CERTAIN FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. EACH PROSPECTIVE PURCHASER OF THE CERTIFICATES SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE CERTIFICATES.

TAX EXEMPTION

In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Certificates is (i) excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) not an item of tax preference for purposes of the alternative minimum tax on individuals.

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

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Certificates from gross income for federal income tax purposes and, in addition, will rely on representations by the City and other parties involved with the issuance of the Certificates with respect to matters solely within the knowledge of the City and such parties, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if such representations are determined to be inaccurate or incomplete, interest on the Certificates could become includable in gross income from the date of delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

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

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

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Certificates should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Certificates.

An "applicable corporation" (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its "adjusted financial statement income" (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Certificates, is included in a corporation's "adjusted financial statement income," ownership of the Certificates could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued

indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Certificates.

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

Tax Accounting Treatment of Original Issue Premium

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

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

Tax Accounting Treatment of Original Issue Discount

If the issue price of a maturity of the Certificates is less than the stated redemption price payable at maturity of such Certificates (the “OID Certificates”), the difference between (i) the amount payable at the maturity of each OID Certificate, and (ii) the initial offering price to the public of such OID Certificate constitutes original issue discount with respect to such OID Certificate in the hands of any owner who has purchased such OID Certificate in the initial public offering of the Certificates. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such OID Certificate equal to that portion of the amount of such original issue discount allocable to the period that such OID Certificate continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Certificates under the captions “TAX MATTERS – Tax Exemption” and “TAX MATTERS – Additional Federal Income Tax Considerations – Collateral Tax Consequences” and “—Tax Legislative Changes” generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the Underwriter has purchased the Certificates for contemporaneous sale to the public and (ii) all of the OID Certificates have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the OID Certificates will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each OID Certificate accrues 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 Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner’s basis for such OID Certificate 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 (i) 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 (ii) the amounts payable as current interest during such accrual period on such Certificate.

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

with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such OID Certificates.

Tax Legislative Changes

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. 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"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system to make such continuing disclosure available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the Tables numbered 1 through 6 and 8 through 14. The City will update and provide this information in the numbered tables within six (6) months after the end of each fiscal year and audited financial statements within twelve (12) months after the end of each fiscal year when and if available. If the audit of such financial statements is not complete within such time frame after any such fiscal year end, then the City shall file unaudited financial statements within such time period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The 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 SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, updated unaudited information included in the above-referenced Tables must be provided 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 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

NOTICES OF CERTAIN EVENTS . . . The City will file with the MSRB notice of any of the following events with respect to the Certificates in a timely manner (and not more than 10 business days after 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 Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the MSRB.

For these purposes, (A) any event described in the immediately preceding clause (12) 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 of business of the City, and (B) the City intends the words used in clauses (15) and (16) in the immediately preceding paragraph and in the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. The Ordinance defines “Financial Obligation” as (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) 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 FROM MSRB . . . All information and documentation filings required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided by the MSRB, without charge to the general public, at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of 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 Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . Except as described below, during the last five years, the City believes it has complied in all material respects with its prior continuing disclosure agreements made in accordance with the Rule.

In connection with the City’s outstanding debt obligations, the City has entered into undertakings to provide certain updated financial information and operating data within six months of the end of the City’s fiscal year, and in certain undertakings audited financial statements, if then available, along with notices of specified material events at required times. If audited financial statements are not available by such time, in connection with certain of those outstanding obligations, the City has agreed to provide audited financial statements within 12 months of the end of the fiscal year, when and if they become available. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, the City agreed to file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available. During the last five years, the City timely filed certain updated financial information and operating data in the form of certain tables identified for each of the respective debt issuances within six months after the end of each fiscal year (March 31). The respective tables included certain unaudited financial statements and financial information, but such tables were not complete unaudited financial statements. The audited financial statements for the fiscal year ended September 30, 2023 were not available within the 12-month period after the end of such fiscal year. The City filed the audited financial statements for the fiscal year ended September 30, 2023 on November 12, 2024, which is more than 12 months after the end of such fiscal year. The City failed to file unaudited financial statements within 12 months of the fiscal year ended September 30, 2023 as it agreed to do. For the fiscal year ended September 30, 2024, the City timely filed the audited financial statement for such fiscal year within 12 months after the end of such fiscal year.

OTHER INFORMATION

RATINGS

The Certificates will be rated "AA" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") by virtue of a municipal bond insurance policy to be issued by BAM upon delivery of the Certificates to the Underwriter. In addition, the Certificates are also rated "A+" (Stable outlook) by S&P without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflects only the view of such organization and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, may have an adverse effect on the market price of the Certificates.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

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

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments and investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency (see "OTHER INFORMATION - Ratings" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

No representation is made that the Certificates will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Certificates for such purposes.

LEGAL OPINIONS

The delivery of the Certificates is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Certificates are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and from a pledge of the surplus revenues of the System as described in the Ordinance, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bracewell LLP, Bond Counsel to the City ("Bond Counsel"), to like effect and to the effect that the interest on the

Certificates will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as APPENDIX C.

Though it represents the Municipal Advisor and investment banking firms such as the Underwriter from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in the issuance of the Certificates. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Preliminary Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. Bracewell LLP also serves as disclosure counsel to the City. Certain legal matters will be passed upon for the Underwriter by its counsel, Jackson Walker LLP, Houston, Texas.

The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. The legal opinion to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of 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 ordinance 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 Certificates. The Municipal Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. 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 Certificates, 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.

UNDERWRITER FOR THE CERTIFICATES

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City, at a price equal to the initial offering price to the public, as shown on page 2 herein, less an underwriting discount of \$ _____. The Underwriter will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates and such public offering prices may be changed, from time to time, by the Underwriter.

TD Financial Products LLC, the Underwriter for the Certificates, has entered into two negotiated dealer agreements (the "TD Dealer Agreements") with Charles Schwab & Co., Inc. ("CS&Co.") and Revere Securities LLC ("Revere") for the retail distribution of certain securities offerings, including the offered Certificates at the original issue prices. Pursuant to the TD Dealer Agreements, CS&Co. and Revere may purchase Certificates from TD Financial Products LLC at the original issues prices less a negotiated portion of the selling concession applicable to any of the Certificates CS&Co. and Revere sells.

The Underwriter and its respective affiliates comprise a full-service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and its respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City, for which they received or will receive customary fees and expenses.

In the ordinary course of its various business activities, the Underwriter and its respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps)

and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

The Underwriter and its respective affiliate may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities, and instruments.

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.

AUTHORIZATION OF THE OFFICIAL STATEMENT

The Ordinance authorizing the issuance of the Certificates will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Underwriter.

Mayor
City of Palestine, Texas

ATTEST:

City Secretary
City of Palestine, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION AND SIZE. . . The City of Palestine was incorporated in 1871 and is one of the oldest and most historical cities in Texas. It is the county seat of Anderson County (the “County”) and, as the largest city in the county, serves as the retail and medical service hub for the County and surrounding areas. The City has a land area of 17 square miles and is located 50 miles south of Tyler, 110 miles southeast of Dallas, 150 miles northwest from Houston. U.S. Highways 84, 79 and 287 and Texas 155 intersect in the City and provide ready access to Interstate Highways 20 and 45 and links to the major metropolitan areas.

MAJOR AREA EMPLOYERS. . . The Texas Department of Corrections, which houses over 12,000 inmates in the County, provides 21% of the County work force. The Wal-Mart SuperCenter and distribution center and the medical center are also significant employers. Major area employers are:

Name	Nature of Business	Number of Employees
Wal-Mart Distribution	Retail Distribution	1,295
Sanderson Farms	Poultry Producer	1,130
Palestine Independent School District	School	585
Palestine Regional Medical & Rehabilitation Center	Medical	510
Wal-Mart Retail	Retail	365
Westwood ISD	School	280
Anderson County	County/Government	250
City of Palestine	City/Government	200
Legacy	Commercial	170
MKS Services	Wholesaler	130

TRANSPORTATION. . . The City is served by Union-Pacific Railroad, six truck lines, and Greyhound bus line. The City has a Class III Municipal Airport with a 5,000 foot paved and lighted runway, hangars and an Administration Building.

EDUCATION . . . Palestine is presently served by two public school districts, Palestine Independent School District and Westwood Independent School District. There are 5,204 students enrolled in seven elementary schools, two middle schools and two high schools. Higher education opportunities include the University of Texas at Palestine and Trinity Valley Community College.

MEDICAL FACILITIES . . . Palestine Regional Medical Center serves the City. The hospital has 244 beds with 90 medical doctors on staff and provides medical, surgical, psychiatric and rehabilitation services.

RECREATION FACILITIES . . . The City has an extensive park system which includes four public lakes, a community forest, tennis courts, walking and bike trails, and an athletic complex with baseball, football and soccer fields. In 1998, a new 21 acre park and adjacent state of the art YMCA facility were completed which added wetland trails, athletic fields, picnic areas and a modern outdoor swimming center.

Gus Engeling Wildlife Management Area, a 11,000 acre game refuge, and Texas State Railroad, a 25 mile rail line with steam powered railroad and park area, both are located in Anderson County. Two large recreational lakes, Lake Palestine and Richland-Chambers Reservoir, are within an hour drive of the City.

FINANCIAL INSTITUTIONS . . . Six banks are located in the City: The East Texas National Bank, established 1971; Regions Bank, a successor to First National Bank, established 1887; Capital One Bank, Prosperity Bank, Austin Bank and First Convenience Bank.

LABOR FORCE STATISTICS . . . Employment statistics for Anderson County are as follows:

	2025 ⁽¹⁾	Average Annual				
		2024	2023	2022	2021	2020
Civilian Labor Force	19,924	19,510	19,352	19,549	19,847	19,502
Total Employment	19,060	18,659	18,558	18,771	18,701	18,182
Total Unemployment	864	851	794	778	1,146	1,320
Percent Unemployment	4.3%	4.4%	4.1%	4.0%	5.8%	6.8%

Source: Texas Workforce Commission Local Area Unemployment Statistics (LAUS).

(1) As of September 2025.

APPENDIX B

EXCERPTS FROM THE
CITY OF PALESTINE, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2024

The information contained in this Appendix consists of excerpts from the City of Palestine, Texas, Annual Financial Report for the Year Ended September 30, 2024, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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ANNUAL COMPREHENSIVE FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2024**

ANNUAL COMPREHENSIVE FINANCIAL REPORT

OF THE

CITY OF PALESTINE, TEXAS

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2024**

OFFICIALS ISSUING REPORT

Teresa Herrera
City Manager

Andrew Sibai
Director of Finance

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CITY OF PALESTINE, TEXAS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

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INTRODUCTORY SECTION

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City of Palestine
504 North Queen Street
Palestine, Texas 75801

June 30, 2025

Letter of Transmittal

Honorable Mayor, City Council Members, and Citizens of Palestine, Texas:

The Annual Comprehensive Financial Report, for the fiscal year that ended September 30, 2024, is hereby submitted. This report was prepared through the cooperative effort of the finance department and the city's independent auditor, in accordance with Section 103.001 of the Texas Local Government Code and Article VII, Section 7.15 of the Charter of the City of Palestine. The purpose of the report is to provide the city council, management, staff, the public, and other interested parties with detailed information reflecting the city's financial condition.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control. In developing and maintaining the city's accounting system, consideration is given to the adequacy of the internal control structure. Internal controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements that are free of any material misstatements. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the city's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Pattillo, Brown and Hill, LLP certified public accountants, have issued an unmodified ("clean") opinion on the City of Palestine's financial statements for the year ended September 30, 2024. In addition to meeting City Charter requirements, the goal of the independent audit was to provide reasonable assurance that the financial statements of the city are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on the city's financial statements for the fiscal year ended September 30, 2024, and that the financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

Also included in the financial section is Management's Discussion and Analysis (MD&A), which provides users of the basic financial statements a narrative introduction, overview, and analysis of the basic financial statements. The basic financial statements, including the accompanying notes, represent the core of the financial section. These financial statements present the financial condition of the city as a single entity, as well as the individual funds that account for the city's various governmental and business-type activities. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it.

City Profile

The City of Palestine, Texas was created by the Texas Legislature in 1846 as the county seat for Anderson County. The City of Palestine is where five major highways converge and then go out in a pentagon. This makes it possible to head in any direction and reach major metros such as Dallas-Fort Worth, Houston, Austin, Oklahoma City, Jackson, New Orleans, and Kansas City in less than a day. The city, encompassing approximately 19.5 square miles, has an estimated population of 18,981. Palestine is a designated a Main Street City and features architecture from the early 1800's through the 1950's. Palestine developed as a railroad community and has preserved its historic charm with classic brick buildings and walkways, gas lanterns illuminating the sidewalks, quaint shops, and intimate dining establishments.

The city is a home rule city operating under the council-manager form of government. The home rule corporation status is granted under the Constitution and laws of the State of Texas. The city council is comprised of the mayor and six council members who function as the policy-making body of the city's government, determining the overall goals, objectives, and direction for city services, and adopting the annual operating budgets for all city departments. The city manager is appointed by the city council and is responsible for the daily management and implementation of policy of the city including appointing the various key leaders and department heads. The mayor and council members serve two- year terms, with general council elections occurring each year based on district. The mayor is elected at large; the remaining council members are elected by district.

For financial reporting purposes, the city is a primary government. As previously mentioned, the city's governing body is elected by the citizens of Palestine. This report includes all organizations and activities for which the elected officials exercise financial control. The city is legally responsible for the Palestine Economic Development Corporation (PEDC) which is reported separately within the government wide financial statements of the city.

The city is a full-service municipality including general government, public safety (police and fire), streets, parks and recreation, planning and zoning, code enforcement, a public library, and business-type activities, such as water and sewer utilities, and sanitation.

The City Charter provides that the city council shall adopt an annual budget prepared by the city manager. This budget is presented to the city council and opportunities are provided for public comment during a series of public hearings before adoption. The individual fund level is the legal level of control for budget expenditures. Budgetary reporting is provided at the department level within the individual fund. Transfers of budget appropriations within funds may occur with the approval of the city manager provided there is no increase in overall expenditures. Transfers of budget appropriations between funds, as well as any increase in total appropriations, require a formal budget amendment adopted by the city council. Unless otherwise noted, except for capital projects funds, all appropriations lapse at year-end, encumbrances are recorded as a reservation of fund balance, and then re-appropriated in the subsequent year.

Local Economy

The information presented in the budget document is perhaps best understood when it is considered from the broader perspective of the specific environment within which the city operates. The chief industries in and around Palestine include logistics and distribution, health care services, food processing, energy and alternative energy, retail, and tourism. This diversification is evident in the fact that no single taxpayer represents more than 10.1% of assessed valuation in the city. Sales tax revenues has remained the same from FY 2023 to FY 2024. Unemployment has remained low at 4.2%, small increase from FY 2023.

Educationally, the University of Texas at Tyler operates a campus within Palestine and Trinity Valley Community College-Palestine provides two locations for service. The city is also served by Palestine Independent School District (3,500 students), Westwood Independent School District (1,700 students), and UT-Tyler University Academy a public charter school (165 students) that incorporates Science, Technology, Engineering, and Math (STEM) education into daily classroom curriculum.

Palestine is also the medical center of Anderson County. The Palestine Regional Medical Center and Palestine Regional Rehabilitation Hospital is renowned for providing advanced diagnostic, therapeutic and rehabilitative services. Employing over 500 people, including 80 physicians representing 28 different specialties, these facilities feed and draw from auxiliary doctors and dentist offices and assisted living centers

Additionally, Palestine has many tourist attractions and is home to over 1,800 historic sites. With a classic railroad that operates both steam and diesel excursions through the forests of East Texas between Palestine and Rusk year-round, and constant festivals and events, Palestine has become a top travel destination in Texas and the southern United States. It was recently named among the top 10 'Texas Towns that Look Like Something from a Hallmark Movie' according to travel site, Only in your State.

The city actively works with the PEDC and local industries to encourage expansions and relocations to our community. The PEDC's 352-acre Willow Creek Business Park features landscaped streetscapes, fully functional utilities, access to high-speed communication technologies, and is just a few steps away from award-winning restaurants, hotels, and shopping. Shovel-ready sites are available, and the PEDC offers incentives and relocation assistance. The PEDC recently purchased land to work with the Texas State Railroad and create rail access for companies looking to develop businesses next to rail infrastructure which gives the city a strategic advantage in that area for companies interested in rail access to transport products

Long-term Financial Planning

The city's fund balance policy sets the target reserve at 25% for the general fund, which is above the Government Finance Officers Association of the United States and Canada (GFOA) recommended best practice minimum of 15%. GFOA recommends that "general-purpose governments, regardless of size, maintain unassigned fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." This policy allows the city to better weather economic downturns and strategically handle contingencies and unforeseen emergencies. The city's general fund's unassigned fund balance is approximately \$11 million or 67.5% of general fund operating expenditures as of September 30, 2024. In addition, the City uses a five-year forecast in its budget process to guide decisions and assist in policy. The long-range view allows the city to plan appropriately for the future impact of current decisions.

The city maintains a five-year capital improvement program (CIP), with all planned capital projects reviewed annually by the city staff. This annual review allows the city to change and adjust priorities by responding to changing growth patterns, economic conditions, or federal and state mandates. The CIP is used exclusively as a planning tool, and therefore does not commit the city to any project or project funding. The intent of the CIP is for the city staff to identify specific capital improvements needed during the subsequent five years and to project affordability (five-year forecast). The CIP is not a capital budget, and as such provides only recommended projects and the means of financing the improvements. Recommended improvements are not approved until official action has been taken by the city council.

Awards and Acknowledgements

This will be the sixth consecutive year that the city has made application to the GFOA to be considered for the Certificate of Achievement for Excellence in Financial Reporting (COA) Program for our financial report for the fiscal year ended September 30, 2024. The city was awarded the COA for our FY 2018, FY 2019, FY 2020, FY 2021, FY 2022, and FY 2023 financial reports. To be awarded a COA, the city must publish an easily readable and efficiently organized financial report. This report must satisfy both GAAP and applicable legal requirements. We believe that our financial report will meet the COA Program's requirements, and we are submitting it to the GFOA to determine its eligibility for the award.

The city has a history of submitting annual budgets to the GFOA to be considered for the Distinguished Budget Presentation Award, the FY 2020-2021, and FY 2021-2022 budgets were not submitted, but the budget for FY 2022-2023 was submitted for the Distinguished Budget Presentation Award and awarded and the budget for FY 2023-2024 has been awarded, the city strives to participate in the awards program but also to provide an extra level of communication and transparency for citizens and other stakeholders.

The preparation of this report could not be accomplished without the dedicated services of the entire staff of the finance department. Many individuals devoted extra hours and exhibited dedicated effort in ensuring the accuracy and timeliness of this report. Appreciation is expressed to the city employees throughout the organization, especially those responsible for the maintenance of records upon which this report is based.

Acknowledgment and appreciation are also given to representatives of Pattillo, Brown and Hill, L.L.P, certified public accountants, for their dedicated assistance and input into the preparation of this report. Finally, our appreciation is extended to the mayor and the members of the city council for their interest and support in planning and conducting the financial operations of the city in a responsible and progressive manner.

Respectfully submitted,



Andrew Sibai
Finance Director

CITY OF PALESTINE, TEXAS

CITY OFFICIALS

MAYOR

MITCHELL JORDAN

CITY COUNCIL

SEAN CONNER

AVA HARMON

JAMES SMITH

KENNETH DAVIDSON

ANGELA WOODARD

CHRISTOPHER GIBBS

CITY MANAGER

TERESA HERRERA

DIRECTOR OF FINANCE

ANDREW SIBAI

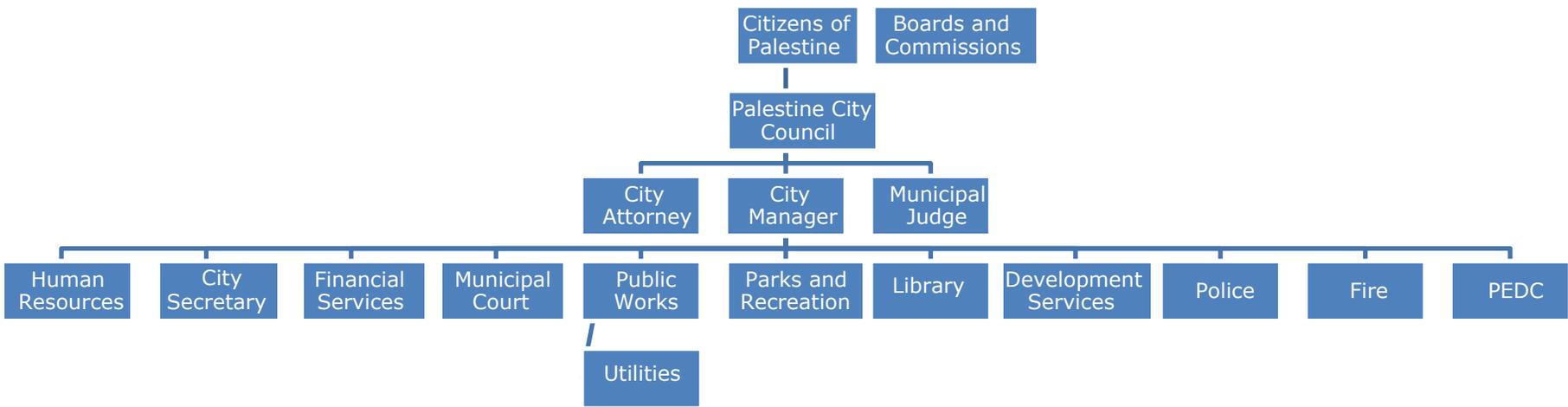
CITY ATTORNEY

REZZIN PULLUM

CITY OF PALESTINE, TEXAS

ORGANIZATIONAL CHART

SEPTEMBER 30, 2024





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Palestine
Texas**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

September 30, 2023

Christopher P. Morill

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
and Members of City Council
City of Palestine, 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 Palestine, Texas, 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, 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.

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Comprehensive Financial Report

Management is responsible for the other information included in the annual comprehensive financial report (ACFR). The other information comprises the introductory section and statistical section but does not include the financial statements and our auditor’s report thereon. Our opinions on the 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 financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the 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 June 30, 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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
June 30, 2025

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Palestine, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Palestine for the fiscal year ended September 30, 2024. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

Financial Highlights

The assets and deferred outflows of the City of Palestine exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$47,642,467 (net position). Of this amount, \$6,211,445 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net position increased by \$5,132,848. The primary reason for this increase was an increase in property tax and water/sewer revenues. Continued economic growth in the City has increased assessed values as well as demand for water and sewer services. Additionally, water and wastewater rates have increased as a result of a long-term rate study.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$35,721,758, a decrease of \$935,633 in comparison with the prior year. The primary cause of this decrease was the spending down of bond funds acquired in prior years for projects in the current year.

At the end of the fiscal year, the combined total of the General Fund assigned and unassigned fund balances was \$10,164,874 which is 49.53% of the general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements 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 of the City's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the former two and latter two 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 of Palestine is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City of Palestine that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Palestine include general government, public safety, community services and community development. The business-type activities of the City of Palestine include water and wastewater, sanitation, and retail.

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 of Palestine, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City of Palestine can be divided into two categories: governmental and proprietary.

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

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

The City of Palestine maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund, all of which are considered to be major funds. Data from the other 11 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.

Proprietary funds. The City of Palestine maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Palestine uses enterprise funds to account for its water and wastewater department, as well as its sanitation department. The City also maintains an internal service fund to account for equipment replacement to departments or agencies of the City on a cost-reimbursement basis.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and wastewater fund and for the sanitation fund, both of which are considered to be major funds of the City of Palestine, as well as the retail fund and internal service fund.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's general fund budgetary schedule. The City of Palestine adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Palestine, assets and deferred outflows exceeded liabilities and deferred inflows by \$47,642,467 at the close of the most recent fiscal year. The largest portion of the City's total net position (82%) reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding, plus bond proceeds that have not yet been spent. The City of Palestine uses these capital assets to provide services to citizens; consequently, these assets are not available for operational type of 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 total net position (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$6,211,445, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Palestine is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

**City of Palestine's Net Position
Government-Wide**

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Current and other assets	\$ 38,603,873	\$ 41,382,963	\$ 17,083,586	\$ 19,840,265	\$ 55,687,459	\$ 61,223,228
Capital assets	<u>26,080,736</u>	<u>20,835,174</u>	<u>32,180,184</u>	<u>29,827,763</u>	<u>58,260,920</u>	<u>50,662,937</u>
Total assets	<u>64,684,609</u>	<u>62,218,137</u>	<u>49,263,770</u>	<u>49,668,028</u>	<u>113,948,379</u>	<u>111,886,165</u>
Deferred outflows of resources	<u>2,957,496</u>	<u>4,231,990</u>	<u>519,858</u>	<u>733,425</u>	<u>3,477,354</u>	<u>4,965,415</u>
Current liabilities	3,783,363	5,234,690	2,745,080	3,010,853	6,528,443	8,245,543
Long-term liabilities	<u>38,255,486</u>	<u>39,839,855</u>	<u>23,867,630</u>	<u>25,217,726</u>	<u>62,123,116</u>	<u>65,057,581</u>
Total liabilities	<u>42,038,849</u>	<u>45,074,545</u>	<u>26,612,710</u>	<u>28,228,579</u>	<u>68,651,559</u>	<u>73,303,124</u>
Deferred inflows of resources	<u>970,333</u>	<u>894,768</u>	<u>161,374</u>	<u>144,069</u>	<u>1,131,707</u>	<u>1,038,837</u>
Net position:						
Net investment in capital assets	17,361,550	13,880,345	21,754,529	20,130,376	39,116,079	34,010,721
Restricted	1,897,323	1,910,234	417,620	403,811	2,314,943	2,314,045
Unrestricted	<u>5,374,050</u>	<u>4,690,235</u>	<u>837,395</u>	<u>1,494,618</u>	<u>6,211,445</u>	<u>6,184,853</u>
Total net position	<u>\$ 24,632,923</u>	<u>\$ 20,480,814</u>	<u>\$ 23,009,544</u>	<u>\$ 22,028,805</u>	<u>\$ 47,642,467</u>	<u>\$ 42,509,619</u>

The City's net position increased by \$5,132,848 during the current fiscal year. The primary factors causing this increase are as follows:

- Property tax revenues increased due increased assessed values from growth within the city, which outpaced a slight decrease in the tax rate.
- Water and wastewater charges for services increased due to increased demand, as well as a rate increase resulting from a comprehensive rate study conducted by the City.

Additionally, expenses influenced the change in net position from the following notable factors:

- Salary expenses increased all functions due to across the board salary increases to maintain competitive wages. This primarily affected the public safety function, which includes police and fire services.
- Public environment expenses increased from increased noncapital costs in conjunction with bond-funded street and infrastructure projects.

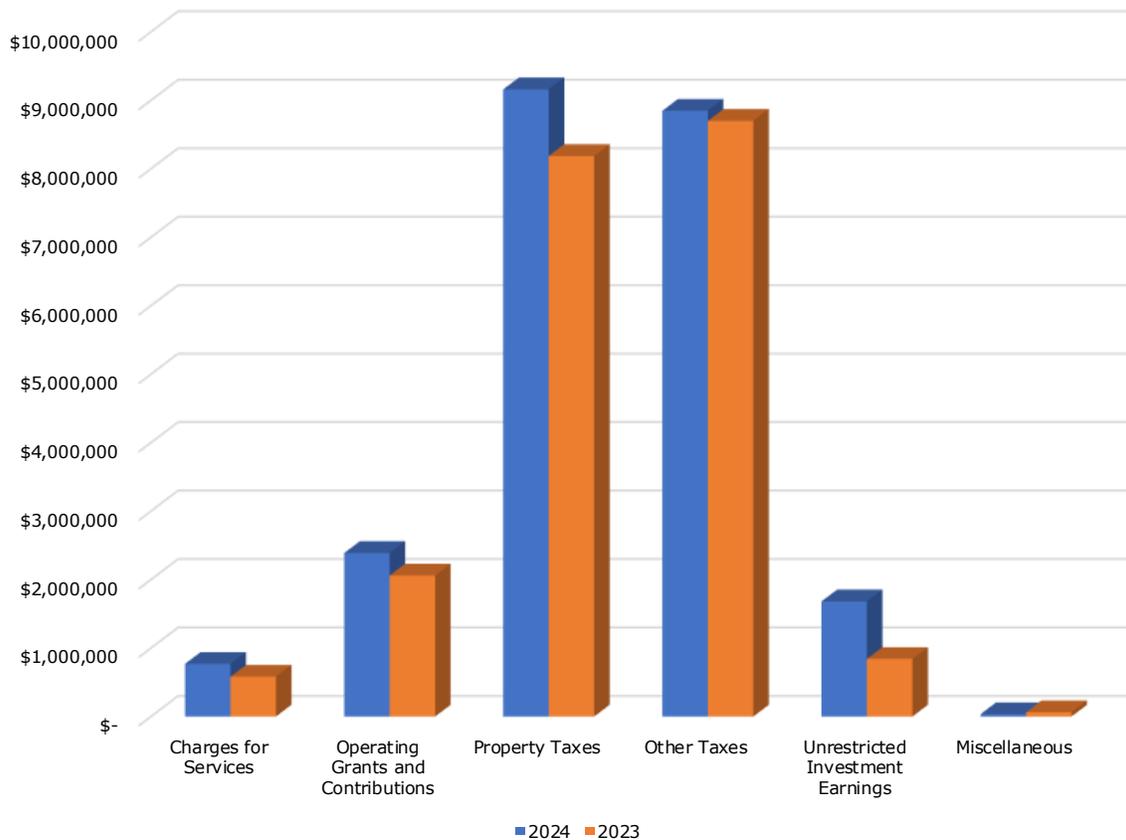
In the business-type activities, net position decreased despite the rate increases mentioned above, primarily due to depreciation expense on capital assets.

The following table indicates changes in net position for governmental and business-type activities followed by graphs displaying total revenues and expenses by type:

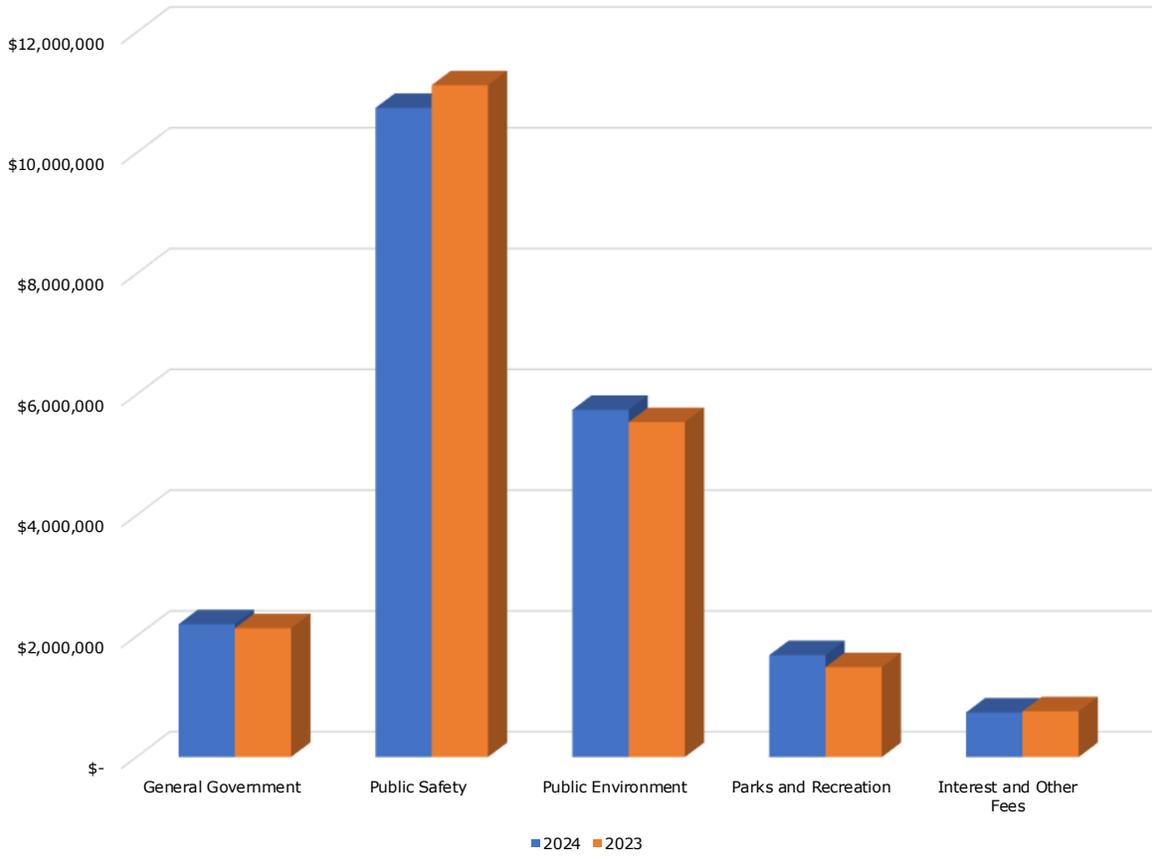
**City of Palestine's Changes in Net Position
Government-Wide**

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Revenues:						
Program revenues:						
Charges for services	\$ 770,100	\$ 582,630	\$ 14,888,047	\$ 14,146,467	\$ 15,658,147	\$ 14,729,097
Operating grants & contributions	2,388,624	2,059,085	-	-	2,388,624	2,059,085
General revenues:						
Property taxes	9,159,997	8,186,401	-	-	9,159,997	8,186,401
Other taxes	8,847,640	8,699,749	-	-	8,847,640	8,699,749
Investment earnings	1,682,241	841,501	187,449	156,008	1,869,690	997,509
Miscellaneous	34,092	63,377	35,521	55,186	69,613	118,563
Total revenues	22,882,694	20,432,743	15,117,517	14,357,661	38,000,211	34,790,404
Expenses:						
General government	2,200,428	2,132,875	-	-	2,200,428	2,132,875
Public safety	10,746,134	11,123,301	-	-	10,746,134	11,123,301
Public environment	5,748,258	5,544,582	-	-	5,748,258	5,544,582
Parks and recreation	1,685,923	1,487,401	-	-	1,685,923	1,487,401
Interest and other fees	738,914	756,673	-	-	738,914	756,673
Water and sewer	-	-	8,535,526	9,152,778	8,535,526	9,152,778
Sanitation	-	-	3,212,179	3,528,846	3,212,179	3,528,846
Retail	-	-	-	-	-	-
Total expenses	21,119,658	21,044,832	11,747,705	12,681,624	32,867,363	33,726,456
change in net position before transfers	1,763,036	(612,089)	3,369,812	1,676,037	5,132,848	1,063,948
Transfers	2,389,073	2,297,191	(2,389,073)	(2,297,191)	-	-
Change in net position	4,152,109	1,685,102	980,739	(621,154)	5,132,848	1,063,948
Net position - beginning of year	20,480,814	18,795,712	22,028,805	22,649,959	42,509,619	41,445,671
Net position - end of year	\$ 24,632,923	\$ 20,480,814	\$ 23,009,544	\$ 22,028,805	\$ 47,642,467	\$ 42,509,619

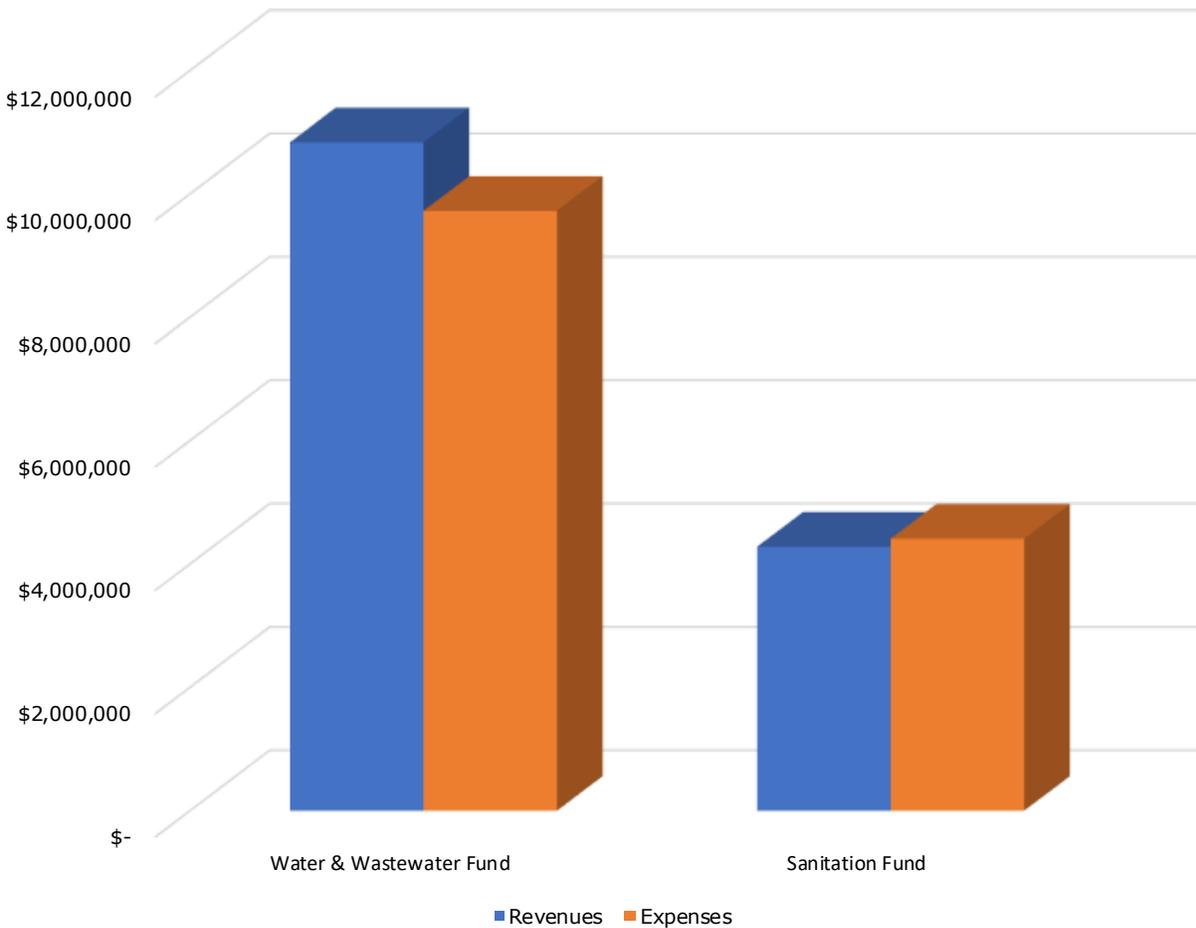
TOTAL REVENUES – GOVERNMENTAL ACTIVITIES



TOTAL EXPENSES – GOVERNMENTAL ACTIVITIES



REVENUES AND EXPENSES – ENTERPRISE FUNDS



Financial Analysis of the City's Funds

As noted earlier, the City of Palestine uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$35,721,758. Of this total amount, \$10,164,874 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable, restricted, committed, or assigned to indicate that it is not available for new spending because it has already been committed to pay debt service, for capital improvement projects, and other assigned purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$10,164,874, while total fund balance was \$10,842,436, an decrease of \$569,595 from the prior year. The primary cause of this decrease was a budgeted transfer to the Community Forest Fund, a nonmajor governmental fund. Otherwise, revenues exceeded expenditures primarily due to an increase in property tax revenues discussed previously.. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 49.53% of total general fund expenditures, not including capital outlay.

The debt service fund has a total fund balance of \$174,246, all of which is restricted for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$137,002. The primary cause of this decrease was an increase in debt service expenditures that offset an increase in property tax revenues.

The capital projects fund has a total fund balance of \$20,465,112, a decrease of \$1,784,487. This was caused by spending down of bond funds that were issued in the prior year. Fund balance will decrease as bond proceeds are spent in future years. Capital outlays on projects amounted to \$2.8 million.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the water and wastewater fund at the end of the year amounted to \$992,850 and those for the sanitation fund amounted to a deficit of (\$155,455), which are 12% and 5% of fund operating costs, respectively.

The water and wastewater fund reported an increase in net position of \$1,110,151. This increase primarily resulted from increased water rates as part of a comprehensive rate study that raises rates over several years.

The sanitation fund decreased net position by \$129,412. This decrease was primarily the result of an increased transfer to the General Fund for administrative cost reimbursement and payments in lieu of franchise fees.

General Fund Budgetary Highlights

The general fund expenditures were \$93,953 less than the \$20,618,616 budget. This was the result of cost savings across most of the General Fund, as well as unspent contingency funds. Revenues were \$538,984 more than budgeted, primarily due to the sales tax revenue increases discussed previously. Overall, ending fund balance in the general fund was \$710,121 higher than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2024, amounts to \$58,260,920 (net of accumulated depreciation), including several projects in progress from voter approved bonds.

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Nondepreciable	\$ 4,697,878	\$ 2,113,873	\$ 3,234,703	\$ 3,152,118	\$ 7,932,581	\$ 5,265,991
Depreciable, net of accumulated depreciation	<u>21,382,858</u>	<u>18,721,301</u>	<u>28,945,481</u>	<u>26,675,645</u>	<u>50,328,339</u>	<u>45,396,946</u>
TOTALS	<u>\$ 26,080,736</u>	<u>\$ 20,835,174</u>	<u>\$ 32,180,184</u>	<u>\$ 29,827,763</u>	<u>\$ 58,260,920</u>	<u>\$ 50,662,937</u>

Significant capital asset activity for the year included the following:

- Construction in progress costs for bond-funded projects amounted to \$2.8 million in the governmental activities and \$2.7 million in the business-type activities.
- Additions to water and sewer infrastructure was completed amounting to \$2.6 million.
- 18 new fleet vehicles were acquired through lease arrangements totaling \$1.2 million.

Additional information on the City's capital assets can be found in Note II.F to the basic financial statements.

LONG TERM DEBT

At the end of the current fiscal year, the City of Palestine had total long-term debt outstanding of \$53,741,175. The related principal and interest payment for the bonds are backed by an annual ad valorem tax levied against all taxable property within the City, as well as a limited pledge of water and sewer revenues.

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
General obligation bonds	\$ 1,370,000	\$ 1,585,000	\$ -	\$ -	\$ 1,370,000	\$ 1,585,000
Certificates of obligation	22,709,245	22,906,000	21,085,000	22,320,000	43,794,245	45,226,000
Financing arrangements	1,113,202	1,113,202	-	-	1,113,202	1,113,202
Leases	458,017	458,017	-	-	458,017	458,017
Premium on bonds	2,887,639	3,137,686	2,022,125	2,242,850	4,909,764	5,380,536
Compensated absences	1,936,663	1,735,233	159,284	161,897	2,095,947	1,897,130
TOTALS	\$ 30,474,766	\$ 30,935,138	\$ 23,266,409	\$ 24,724,747	\$ 53,741,175	\$ 55,659,885

Total debt decreased by \$1.9 million. The City incurred approximately \$1.2 million of new fleet vehicle leases during the year, with the City also making continued principal payments on existing debt. The remainder of the change is caused by changes to the City's compensated absences liability.

Additional information on the City's long-term debt can be found in Note II.G to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2025 budget, tax rates, and fees that will be charged for the business-type activities. Property values increased approximately 15% for fiscal year 2025, total property tax revenue is expected to continue to experience moderate growth in future years. The Texas State Legislature passed Senate Bill 2 in 2019 which imposed a revenue cap on the amount of property tax that can be levied by the City. Due to the passage of Senate Bill 2, there is some uncertainty that the City would be able to raise the revenue needed to fund critical operations. Considering current inflation of 2.4%, Senate Bill 2 remains a strain on the City to fund operations properly. Conversely, sales tax revenue remained steady but very strong for the fiscal year ended September 30, 2025 and continues to be increased over prior years due in part to inflation and in part to economic growth.

The general fund's largest single revenue source is property taxes followed by sales taxes. The property tax rate for FY 2025 is \$0.594285 per \$100 valuation. This rate has dropped by almost 8 cents and is significant because of the large growth in property values across the state of Texas. Of this rate, 84.1% is utilized for general fund activities. The remaining 15.9% is used for paying the city's outstanding debt. The general fund's portion of total property tax revenue for FY 2025 is estimated to be \$8,892,848. Sales tax revenue for FY 2025 is forecasted to be \$5,834,261.

The largest revenue source for the utility fund is water sales, with projected sales of \$5,474,905 in FY 2025. Water revenue is expected to increase in the future. FY 2024 was the final year of a five-year water meter replacement project. The new meters capture water usage with a higher degree of accuracy than the old meters. The City also performed a water rate study in 2022 and the results from the study led to a need to increase rates to keep up with inflation and aging infrastructure. The second largest revenue source for the water and sewer fund is sewer service charges with projected collections of \$4,280,840 in FY 2025. The city is planning an upgrade for the Southview Lift Station to increase size and capacity as the south end of the City continues to see development and commercial growth.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Palestine, 504 N. Queen Street, Palestine, Texas 75801.

**BASIC
FINANCIAL STATEMENTS**

CITY OF PALESTINE, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2024

	Primary Government	
	Governmental Activities	Business-Type Activities
ASSETS		
Cash and cash equivalents	\$ 34,232,195	\$ 14,797,080
Receivables, net of allowances	2,444,068	1,970,223
Due from other governments	67,262	-
Prepays	254,671	91,831
Due from component unit	2,509	-
Internal balances	193,168	(193,168)
Restricted cash and cash equivalents	1,410,000	417,620
Capital assets:		
Nondepreciable	4,697,878	3,234,703
Depreciable, net of accumulated depreciation	<u>21,382,858</u>	<u>28,945,481</u>
Total Assets	<u>64,684,609</u>	<u>49,263,770</u>
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related	360,872	63,434
Pension related	<u>2,596,624</u>	<u>456,424</u>
Total Deferred Outflows of Resources	<u>2,957,496</u>	<u>519,858</u>
LIABILITIES		
Accounts payable	952,440	1,199,051
Accrued wages payable	598,474	100,709
Due to primary government	-	-
Due to other governments	41,961	3,976
Unearned revenue	415,377	-
Accrued interest payable	117,842	106,982
Customer deposits	-	199,410
Noncurrent liabilities:		
Due within one year:		
Long-term debt	1,657,269	1,134,952
Due in more than one year:		
Long-term debt	29,309,897	22,295,212
Net pension liability	7,989,429	1,404,348
Total OPEB liabilities	<u>956,160</u>	<u>168,070</u>
Total Liabilities	<u>42,038,849</u>	<u>26,612,710</u>
DEFERRED INFLOWS OF RESOURCES		
Lease related	52,266	-
OPEB related	602,771	105,952
Pension related	<u>315,296</u>	<u>55,422</u>
Total Deferred Inflows of Resources	<u>970,333</u>	<u>161,374</u>
NET POSITION		
Net investment in capital assets	17,361,550	21,754,529
Restricted for:		
Debt service	97,067	417,620
Public safety	313,041	-
Economic development	1,227,294	-
Community services	259,921	-
Unrestricted	<u>5,374,050</u>	<u>837,395</u>
Total Net Position	<u>\$ 24,632,923</u>	<u>\$ 23,009,544</u>

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

<u>Primary Government</u>		<u>Component Unit</u>	
<u>Total</u>		<u>PEDC</u>	
\$	49,029,275	\$	3,669,982
	4,414,291		572,538
	67,262		-
	346,502		29,135
	2,509		-
	-		-
	1,827,620		-
	7,932,581		3,338,045
	<u>50,328,339</u>		<u>2,181,461</u>
	<u>113,948,379</u>		<u>9,791,161</u>
	424,306		6,331
	<u>3,053,048</u>		<u>45,550</u>
	<u>3,477,354</u>		<u>51,881</u>
	2,151,491		84,262
	699,183		-
	-		2,509
	45,937		-
	415,377		-
	224,824		32,879
	199,410		-
	2,792,221		565,329
	51,605,109		2,506,569
	9,393,777		140,149
	<u>1,124,230</u>		<u>16,772</u>
	<u>68,651,559</u>		<u>3,348,469</u>
	52,266		-
	708,723		10,574
	<u>370,718</u>		<u>5,531</u>
	<u>1,131,707</u>		<u>16,105</u>
	39,116,079		2,465,244
	514,687		-
	313,041		-
	1,227,294		4,013,224
	259,921		-
	<u>6,211,445</u>		<u>-</u>
\$	<u>47,642,467</u>	\$	<u>6,478,468</u>

CITY OF PALESTINE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,200,428	\$ 34,329	\$ 2,105,871	\$ -
Public safety	10,746,134	644,041	6,740	-
Community services	5,748,258	91,730	276,013	-
Community development	1,685,923	-	-	-
Interest on long-term debt	738,914	-	-	-
Total Governmental Activities	<u>21,119,658</u>	<u>770,100</u>	<u>2,388,624</u>	<u>-</u>
Business-type activities:				
Water and wastewater	8,535,526	10,609,072	-	6,500
Sanitation	3,212,179	4,278,975	-	-
Total Business-Type Activities	<u>11,747,705</u>	<u>14,888,047</u>	<u>-</u>	<u>6,500</u>
Total Primary Government	<u>\$ 32,867,363</u>	<u>\$ 15,658,147</u>	<u>\$ 2,388,624</u>	<u>\$ 6,500</u>
Component Unit:				
PEDC	\$ 1,279,802	\$ 548,142	\$ -	\$ -

General revenues:

 Taxes:

 Ad valorem

 Sales

 Franchise fees

 Hotel/motel

 Mixed drink

 Unrestricted investment earnings

 Miscellaneous

Transfers

 Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	PEDC
\$ (60,228)	\$ -	\$ (60,228)	\$ -
(10,095,353)	-	(10,095,353)	-
(5,380,515)	-	(5,380,515)	-
(1,685,923)	-	(1,685,923)	-
(738,914)	-	(738,914)	-
<u>(17,960,934)</u>	<u>-</u>	<u>(17,960,934)</u>	<u>-</u>
-	2,080,046	2,080,046	-
-	<u>1,066,796</u>	<u>1,066,796</u>	-
-	<u>3,146,842</u>	<u>3,146,842</u>	-
<u>(17,960,934)</u>	<u>3,146,842</u>	<u>(14,814,092)</u>	<u>-</u>
			<u>(731,660)</u>
9,159,997	-	9,159,997	-
6,916,337	-	6,916,337	1,383,267
1,121,295	-	1,121,295	-
765,181	-	765,181	-
44,827	-	44,827	-
1,682,241	187,449	1,869,690	137,681
34,092	35,521	69,613	34,074
<u>2,389,073</u>	<u>(2,389,073)</u>	<u>-</u>	<u>-</u>
<u>22,113,043</u>	<u>(2,166,103)</u>	<u>19,946,940</u>	<u>1,555,022</u>
<u>4,152,109</u>	<u>980,739</u>	<u>5,132,848</u>	<u>823,362</u>
<u>20,480,814</u>	<u>22,028,805</u>	<u>42,509,619</u>	<u>5,655,106</u>
\$ <u>24,632,923</u>	\$ <u>23,009,544</u>	\$ <u>47,642,467</u>	\$ <u>6,478,468</u>

CITY OF PALESTINE, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2024

	<u>General</u>	<u>Debt Service</u>
ASSETS		
Cash and cash equivalents	\$ 10,402,360	\$ 109,955
Restricted cash and cash equivalents	-	-
Prepaid items	185,162	7,333
Receivables (net of allowance for uncollectibles)	2,050,389	49,022
Due from other governments	66,909	-
Due from component unit	2,509	-
Due from other funds	<u>265,188</u>	<u>54,627</u>
Total Assets	<u>12,972,517</u>	<u>220,937</u>
LIABILITIES		
Accounts payable and accrued liabilities	640,307	1,556
Accrued wages payable	579,035	-
Unearned revenue	19,377	-
Due to other governments	-	-
Due to other funds	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,238,719</u>	<u>1,556</u>
DEFERRED INFLOWS OF RESOURCES		
Lease related	52,266	-
Unavailable revenue - property taxes	361,749	45,135
Unavailable revenues - fines	<u>477,347</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>891,362</u>	<u>45,135</u>
FUND BALANCES		
Nonspendable for:		
Prepaid items	185,162	7,333
Restricted for:		
Economic development	-	-
Debt service	-	166,913
Capital projects	-	-
Public safety	-	-
Community services	-	-
Committed for:		
Community forest	-	-
Cemetery	-	-
Community development	-	-
Assigned for:		
Next year's budget	492,400	-
Unassigned	<u>10,164,874</u>	<u>-</u>
Total Fund Balances	<u>10,842,436</u>	<u>174,246</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 12,972,517</u>	<u>\$ 220,937</u>

Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ 19,384,420	\$ 4,322,342	\$ 34,219,077
1,410,000	-	1,410,000
3,792	48,569	244,856
150,003	174,138	2,423,552
-	353	67,262
-	-	2,509
-	-	319,815
<u>20,948,215</u>	<u>4,545,402</u>	<u>38,687,071</u>
87,103	181,806	910,772
-	9,651	588,686
396,000	-	415,377
-	41,961	41,961
-	72,020	72,020
<u>483,103</u>	<u>305,438</u>	<u>2,028,816</u>
-	-	52,266
-	-	406,884
-	-	477,347
<u>-</u>	<u>-</u>	<u>936,497</u>
3,792	48,569	244,856
-	1,227,294	1,227,294
-	-	166,913
20,461,320	-	20,461,320
-	313,041	313,041
-	259,921	259,921
-	985,156	985,156
-	188,062	188,062
-	1,217,921	1,217,921
-	-	492,400
-	-	10,164,874
<u>20,465,112</u>	<u>4,239,964</u>	<u>35,721,758</u>
\$ <u>20,948,215</u>	\$ <u>4,545,402</u>	\$ <u>38,687,071</u>

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CITY OF PALESTINE, TEXAS

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

SEPTEMBER 30, 2024

Total Fund Balances - Governmental Funds	\$	35,721,758
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		24,002,737
Bonds payable and accrued compensated absences will not be liquidated with current financial resources and, therefore, have not been included in the fund financial statements.		(26,711,579)
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due.		(114,981)
Premiums on bond issuances and deferred losses on bond refunding are recorded as other financing sources and uses when paid in the fund financial statements but are capitalized and amortized in the government-wide financial statements over the life of the bonds. Premiums		(2,887,639)
Receivables from grants, property taxes and fines and fees are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the fund financial statements.		884,231
Included in the items related to debt is the recognition of the City's net pension liability, total OPEB liability, and related deferred outflows and inflows of resources. Net pension liability		(7,989,429)
Deferred outflows related to pensions		2,596,624
Total OPEB liabilities		(956,160)
Deferred outflows related to OPEB		360,872
Deferred inflows related to OPEB		(602,771)
The City uses an internal service fund to charge the costs of its group health insurance to appropriate departments in other funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.		<u>644,556</u>
Net Position of Governmental Activities	\$	<u>24,632,923</u>

CITY OF PALESTINE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	<u>General</u>	<u>Debt Service</u>
REVENUES		
Taxes		
Property	\$ 8,626,179	\$ 507,145
Sales	6,269,530	-
Franchise	1,114,111	-
Licenses, permits, and fees	357,082	-
Intergovernmental	2,218,327	-
Charges for services	49,941	-
Fines and forfeitures	329,915	-
Contributions and donations	15,996	-
Investment earnings	601,292	8,377
Miscellaneous	32,235	-
Total Revenues	<u>19,614,608</u>	<u>515,522</u>
EXPENDITURES		
Current:		
General government	2,153,660	-
Public safety	11,743,469	-
Community services	6,106,923	-
Community development	520,611	-
Capital outlay	-	-
Debt service:		
Principal	-	642,044
Interest and fiscal charges	-	960,015
Total Expenditures	<u>20,524,663</u>	<u>1,602,059</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(910,055)</u>	<u>(1,086,537)</u>
OTHER FINANCING SOURCES (USES)		
Insurance recoveries	131,000	-
Sale of capital assets	65,481	-
Transfers in	2,420,444	949,535
Transfers out	<u>(2,276,465)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>340,460</u>	<u>949,535</u>
NET CHANGE IN FUND BALANCE	(569,595)	(137,002)
FUND BALANCES - BEGINNING	<u>11,412,031</u>	<u>311,248</u>
FUND BALANCES - ENDING	<u>\$ 10,842,436</u>	<u>\$ 174,246</u>

<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 9,133,324
-	1,456,815	7,726,345
-	-	1,114,111
-	-	357,082
16,798	130,763	2,365,888
-	53,295	103,236
-	36,532	366,447
-	-	15,996
995,685	76,887	1,682,241
-	505	32,740
<u>1,012,483</u>	<u>1,754,797</u>	<u>22,897,410</u>
-	105,229	2,258,889
-	1,527	11,744,996
-	271,684	6,378,607
-	1,116,465	1,637,076
2,796,970	-	2,796,970
-	-	642,044
-	-	960,015
<u>2,796,970</u>	<u>1,494,905</u>	<u>26,418,597</u>
<u>(1,784,487)</u>	<u>259,892</u>	<u>(3,521,187)</u>
-	-	131,000
-	-	65,481
-	1,326,930	4,696,909
-	(31,371)	(2,307,836)
-	1,295,559	2,585,554
(1,784,487)	1,555,451	(935,633)
<u>22,249,599</u>	<u>2,684,513</u>	<u>36,657,391</u>
<u>\$ 20,465,112</u>	<u>\$ 4,239,964</u>	<u>\$ 35,721,758</u>

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CITY OF PALESTINE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Net Changes in Fund Balances - Governmental Funds	\$ (935,633)
Amounts reported for governmental activities in the statement of activities are different because:	
<p>Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, that cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	6,366,592
Depreciation expense	(1,467,784)
<p>The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, or donations) is to decrease net position.</p>	
	(184,901)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Property taxes	(58,389)
Court fines	26,673
<p>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 debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.</p>	
Repayment of principal of long-term debt	885,576
<p>Current year changes in certain long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Compensated absences	(201,430)
Net pension liability	(72,042)
Total OPEB liability	16,183
<p>Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due.</p>	
	1,598
<p>The City uses an internal service fund to charge the costs of group health insurance to the appropriate departments in other funds. The change in net position of the internal service fund is reported with governmental activities.</p>	
	<u>(224,334)</u>
Change in Net Position of Governmental Activities	<u>\$ 4,152,109</u>

CITY OF PALESTINE, TEXAS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

SEPTEMBER 30, 2024

	Business-Type Activities	
	Enterprise Funds	
	Water & Wastewater	Sanitation
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,797,080	\$ -
Accounts receivable, net of allowance	1,442,955	527,268
Prepays	<u>91,831</u>	<u>-</u>
Total Current Assets	<u>16,331,866</u>	<u>527,268</u>
Noncurrent assets:		
Restricted cash and cash equivalents	417,620	-
Capital assets:		
Nondepreciable	3,214,422	20,281
Depreciable, net	<u>28,676,774</u>	<u>268,707</u>
Total Noncurrent Assets	<u>32,308,816</u>	<u>288,988</u>
Total Assets	<u>48,640,682</u>	<u>816,256</u>
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related	63,434	-
Pension related	<u>456,424</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>519,858</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 714,258	\$ 484,793
Accrued wages payable	99,915	794
Accrued interest payable	106,982	-
Due to other governments	8	3,968
Due to other funds	-	193,168
Customer deposits	199,410	-
Current portion of long-term liabilities:		
Compensated absences	47,785	-
Leases and financing arrangements	-	-
Bonds payable	<u>1,087,167</u>	<u>-</u>
Total Current Liabilities	<u>2,255,525</u>	<u>682,723</u>
Noncurrent liabilities:		
Compensated absences	111,499	-
Total OPEB liabilities	168,070	-
Net pension liability	1,404,348	-
Leases and financing arrangements	-	-
Bonds payable	<u>22,183,713</u>	<u>-</u>
Total Noncurrent Liabilities	<u>23,867,630</u>	<u>-</u>
Total Liabilities	<u>26,123,155</u>	<u>682,723</u>
DEFERRED INFLOWS OF RESOURCES		
OPEB related	<u>105,952</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>161,374</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	21,465,541	288,988
Restricted for debt service	417,620	-
Unrestricted	<u>992,850</u>	<u>(155,455)</u>
Total Net Position	<u>\$ 22,876,011</u>	<u>\$ 133,533</u>

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

Total Enterprise Funds	Governmental Activities
	Internal Service Fund
\$ 14,797,080	\$ 13,118
1,970,223	20,516
<u>91,831</u>	<u>9,815</u>
<u>16,859,134</u>	<u>43,449</u>
417,620	-
3,234,703	-
<u>28,945,481</u>	<u>2,077,999</u>
<u>32,597,804</u>	<u>2,077,999</u>
<u>49,456,938</u>	<u>2,121,448</u>
63,434	-
<u>456,424</u>	<u>-</u>
<u>519,858</u>	<u>-</u>
\$ 1,199,051	\$ 41,668
100,709	9,788
106,982	2,861
3,976	-
193,168	54,627
199,410	-
47,785	-
-	424,577
<u>1,087,167</u>	<u>-</u>
<u>2,938,248</u>	<u>533,521</u>
111,499	-
168,070	-
1,404,348	-
-	943,371
<u>22,183,713</u>	<u>-</u>
<u>23,867,630</u>	<u>943,371</u>
<u>26,805,878</u>	<u>1,476,892</u>
<u>105,952</u>	<u>-</u>
<u>161,374</u>	<u>-</u>
21,754,529	710,051
417,620	-
<u>837,395</u>	<u>(65,495)</u>
<u>\$ 23,009,544</u>	<u>\$ 644,556</u>

CITY OF PALESTINE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Business-Type Activities	
	Enterprise Funds	
	Water & Wastewater	Sanitation
OPERATING REVENUES		
Intergovernmental	\$ 6,500	\$ -
Charges for services	10,624,422	4,278,975
Other operating revenue	35,521	-
Total operating revenues	10,666,443	4,278,975
OPERATING EXPENSES		
Cost of sales and services	3,942,933	3,170,482
Personnel	2,312,836	-
Depreciation	1,766,383	41,697
Total operating expenses	8,022,152	3,212,179
Operating income (loss)	2,644,291	1,066,796
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	185,509	1,940
Gain/(loss) on sale or disposal of capital assets	(15,350)	-
Interest expense and fiscal charges	(513,374)	-
Total non-operating revenues (expenses)	(343,215)	1,940
Income before transfers	2,301,076	1,068,736
Transfers out	(1,190,925)	(1,198,148)
CHANGE IN NET POSITION	1,110,151	(129,412)
NET POSITION - BEGINNING	21,765,860	262,945
NET POSITION - END OF YEAR	\$ 22,876,011	\$ 133,533

Total Enterprise Funds	Governmental Activities <u>Internal Service Fund</u>
\$ 6,500	\$ -
14,903,397	1,530,254
<u>35,521</u>	<u>559</u>
<u>14,945,418</u>	<u>1,530,813</u>
7,113,415	862,700
2,312,836	208,419
<u>1,808,080</u>	<u>676,999</u>
<u>11,234,331</u>	<u>1,748,118</u>
<u>3,711,087</u>	<u>(217,305)</u>
187,449	-
(15,350)	17,579
<u>(513,374)</u>	<u>(24,608)</u>
<u>(341,275)</u>	<u>(7,029)</u>
3,369,812	(224,334)
<u>(2,389,073)</u>	<u>-</u>
980,739	(224,334)
<u>22,028,805</u>	<u>868,890</u>
<u>\$ 23,009,544</u>	<u>\$ 644,556</u>

CITY OF PALESTINE, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Business-Type Activities	
	Enterprise Funds	
	Water & Wastewater	Sanitation
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 10,545,245	\$ 4,193,938
Cash paid to suppliers and service providers	(4,033,201)	(3,190,898)
Cash paid to employees for services	(2,266,140)	-
Net cash provided (used) by operating activities	4,245,904	1,003,040
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(1,190,925)	(1,198,148)
Net cash provided (used) in non-capital financing activities	(1,190,925)	(1,198,148)
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(4,197,786)	-
Proceeds from sale of capital assets	-	-
Interest paid on long-term debt	(737,296)	-
Principal paid on long-term debt	(1,071,245)	-
Net cash provided (used) in capital and related financing activities	(6,006,327)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment earnings	185,509	1,940
Net cash provided (used) by investing activities	185,509	1,940
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,765,839)	(193,168)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR:		
Cash and cash equivalents	17,576,728	123,824
Restricted cash and cash equivalents	403,811	-
	17,980,539	123,824
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and cash equivalents	14,797,080	-
Restricted cash and cash equivalents	417,620	-
	\$ 15,214,700	\$ -

Total Enterprise Funds	Governmental Activities
	Internal Service Fund
\$ 14,739,183	\$ 1,539,997
(7,224,099)	(848,881)
<u>(2,266,140)</u>	<u>(205,784)</u>
5,248,944	485,332
<u>(2,389,073)</u>	<u>-</u>
(2,389,073)	-
(4,197,786)	-
-	17,579
(737,296)	(24,608)
<u>(1,071,245)</u>	<u>(492,480)</u>
<u>(6,006,327)</u>	<u>(499,509)</u>
<u>187,449</u>	<u>-</u>
187,449	-
(2,959,007)	(14,177)
17,700,552	27,295
403,811	-
<u>18,104,363</u>	<u>27,295</u>
14,797,080	13,118
417,620	-
<u>\$ 15,214,700</u>	<u>\$ 13,118</u>

CITY OF PALESTINE, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Business-Type Activities Enterprise Funds	
	Water & Wastewater Fund	Sanitation Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 2,644,291	\$ 1,066,796
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,766,383	41,697
Decrease (increase) in accounts receivable	(100,679)	(85,037)
Decrease (increase) in prepaid items	(16,612)	-
Increase (decrease) in deferred OPEB outflows	24,393	-
Decrease (increase) in deferred pension outflows	189,174	-
Increase (decrease) in accounts payable	(73,664)	(120)
Increase (decrease) in accrued liabilities	22,567	-
Increase (decrease) in customer deposits	(20,519)	-
Increase (decrease) in due to other governments	8	(20,296)
Increase (decrease) in compensated absences	(2,613)	-
Increase (decrease) in net pension liability	(218,007)	-
Increase (decrease) in deferred OPEB inflows	(38,117)	-
Increase (decrease) in deferred pension inflows	55,422	-
Increase (decrease) in total OPEB liability	<u>13,877</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 4,245,904</u>	<u>\$ 1,003,040</u>
SCHEDULE OF NON-CASH CAPITAL ACTIVITIES		
Right to use lease assets	<u>\$ -</u>	<u>\$ -</u>

Total Enterprise Funds	<u>Governmental Activities</u> Internal Service Fund
\$ 3,711,087	\$ (217,305)
1,808,080	676,999
(185,716)	9,184
(16,612)	406
24,393	-
189,174	-
(73,784)	13,413
22,567	2,635
(20,519)	-
(20,288)	-
(2,613)	-
(218,007)	-
(38,117)	-
55,422	-
13,877	-
<u>\$ 5,248,944</u>	<u>\$ 485,332</u>
<u>\$ -</u>	<u>\$ 1,208,654</u>

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CITY OF PALESTINE, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2024

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements of the City of Palestine have been prepared in conformity with general accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City is a municipal corporation governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit for which the City is considered to be financially accountable.

Discretely Presented Component Unit

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations; thus, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government. The City reports the following component unit:

The **Palestine Economic Development Corporation, Inc. (PEDC)** has been included in the reporting entity as a discretely presented component unit. PEDC is a governmental entity that promotes the creation of new and expanded industry and manufacturing activity within the City. PEDC's board of directors is appointed by and serves at the discretion of the City Council. City Council approval is required for the annual budget and the issuance of any debt. In the event of dissolution, any assets of PEDC will be transferred to the City. PEDC makes monthly payments to the City for payroll and other administrative costs. In addition, PEDC also assists the City for various project costs including appraisals, engineering fees, and park improvements. Separate financial statements of the PEDC are not prepared.

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 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.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise 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 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 thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Nonexchange revenues that are measurable but not available are recorded as unavailable revenue (a deferred inflow of resources). These revenues are generally property taxes and warrants outstanding. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, occupancy taxes, franchise taxes, licenses, and interest income 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund which 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 payment of interest and principal on all general obligation bonds and other long-term debt of the City.

The **Capital Projects Fund** accounts for revenue and expenditures related to capital improvements funded by bond proceeds.

The City reports the following major enterprise funds:

The **Water and Wastewater Fund** accounts for water distribution and wastewater collection and treatment provided to the citizens through user charges.

The **Sanitation Fund** accounts for solid waste collection and disposal services provided to the citizens through user charges.

Additionally, the City reports the following fund types:

The **Internal Service Fund** accounts for vehicle fleet leases to departments or agencies of the City on a cost-reimbursement basis.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this are charges between the City's general government function 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 applications for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes and investment earnings.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand demand deposits, and investments with an original maturity of 90 days or less from the purchase date.

For purposes of the statement of cash flows, the City considers cash and other investments with maturities of three months or less from the date of purchase to be cash and cash equivalents.

E. Investments

The City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated of not less than "AA" or its equivalent; (5) certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, or secured by obligations mentioned above; and (6) fully collateralized direct repurchase agreements having a defined termination date. In addition, the City is authorized to invest in local government investment pools. The investment pools operate in accordance with appropriate state laws and regulations and have regulatory oversight from the Texas Public Funds Investment Act Sec. 2256.0016.

Investments for the City are reported at fair value, except for the position in investment pools, which are reported at net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

The City categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quotes prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

F. Receivables and Payables

Activities between the funds that are representative of inter-fund loans outstanding at the end of the fiscal year are referred to 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".

Accounts receivable are reported net of allowances for uncollectible accounts. The allowance account represents management's estimate of uncollectible accounts based upon experience and historical trends.

Property taxes for the City are levied each October 1 on the taxable value as of the preceding January 1, the date a lien attaches, for all taxable real and personal property located in the City. Taxes are due by January 31 following the October 1 assessment date and become delinquent on February 1, at which time they begin accruing penalty and interest. The enforceable legal claim date for property taxes is the assessment date; therefore, the City did not record a receivable for accrual of future taxes at year end. Accordingly, no current taxes receivable is reported. Delinquent taxes have been reported in the financial statements net of the allowance for uncollectible taxes. Tax revenues are recognized as they become available. Accordingly, an amount equal to taxes not yet available has been reported as unavailable revenue (a deferred inflow of resources) at the government fund level.

G. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental-wide and fund financial statements and in the fund financial statements are offset by a nonspendable fund balance which indicates they do not represent "available spendable resources". The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

H. Restricted Assets

Certain proceeds from bonds, resources set aside for their repayment, and other restrictive agreements are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants and/or contractual arrangements.

I. Capital Assets

Capital assets, which include land, buildings and improvements, machinery, equipment, vehicles, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Capital assets are valued at cost where historical records are available and at an estimated cost where no records exist. Donated capital assets, donated works of art and similar items received as part of a service concession arrangement are reported at acquisition value, rather than fair value.

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

Capital assets are depreciated over their useful lives on a straight-line basis as follows:

<u>Assets</u>	<u>Use Lives (Years)</u>
Buildings and improvements	10 - 50
Machinery, equipment, and vehicles	2 - 20
Infrastructure	15 - 30
Right to use - equipment	5

J. Deferred Inflows/Outflows of Resources

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

- Deferred charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension and OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in expected and actual pension and OPEB experience - This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

- Changes in actuarial assumptions and other inputs – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

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

- Unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension and OPEB experience - This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions and other inputs – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

K. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment, retirement, or death. The estimated amount of compensation for vested or accumulated vacation, sick, and compensatory time that are not expected to be liquidated with expendable available financial resources are reported as long-term liabilities on the government-wide and proprietary fund financial statements. The estimated amount of compensation is calculation using the pay rates in effect at September 30, 2024 and includes additional amounts for the City's share of social security and Medicare taxes.

L. Pensions

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

M. Other Post-Employment Benefits (OPEB)

Supplemental Death Benefits Fund. For purposes of measuring the total Texas Municipal Retirement System Supplemental Death Benefit Fund (TMRS SDBF) OPEB liability, related deferred outflows and inflows of resources, and expense, City specific information about its total TMRS SDBF liability and additions to/deductions from the City's total TMRS SDBF liability have been determined on the same basis as they are reported by TMRS. The TMRS SDBF expense and deferred (inflows)/outflows of resources related to TMRS SDBF, primarily result from changes in the components of the total TMRS SDBF liability. Most changes in the total TMRS SDBF liability will be included in TMRS SDBF expense in the period of the change. For example, changes in the total TMRS SDBF liability resulting from current-period service cost, interest on the TOL, and changes of benefit terms are required to be included in TMRS SDBF expense immediately. Changes in the total TMRS SDBF liability that have not been included in TMRS SDBF expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to TMRS SDBF.

Retiree Health Insurance. The City administers a single-employer defined benefit plan, known as the City Retiree Health Care Plan, that allows retirees to pay their premium for continuation of the medical and dental insurance coverage. Information regarding the City's total OPEB liability for this plan is obtained directly from GRS, which is also the City's consulting actuary. The City reports the liabilities for these plans on the government-wide and proprietary fund financial statements.

N. Long-Term Obligations

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

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

Leases

The City has entered into various lease agreements as either lessee and lessor. 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 interest rate charged by the lessor at the discount rate if available. 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 and purchase option price that the City is reasonably certain to exercise.

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

Lessee. The City is a lessee for noncancellable leases of equipment. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. At the commencement of a lease, the City initially measures the lease liability at the present value of payments 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 its useful life. Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Lessor. The City is a lessor in an arrangement allowing the placement of a cellular tower on City property, as well as for a building owned by the component unit. In both the government-wide financial statements and the governmental fund financial statements, the City initially measures the lease receivable and a deferred inflow of resources for the present value of payments expected to be made during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is recognized as revenue on a systematic basis over the life of the lease.

O. Fund Balance

Fund balances in governmental funds are classified as follows:

Nonspendable. Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

Restricted. Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed. Represents amounts that can only be used for a specific purpose because of a formal action by the government’s highest level of decision-making authority: an ordinance adopted by City Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned. Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council may make assignments through formal documentation in the minutes. The City Council authorized (by way of policy) the City Manager to also make assignments. The City Manager’s assignments do not require formal action; however, the City Manager has not assigned any funds at this time.

Unassigned. Represents the residual balance that may be spent on any other purpose of the City. Only the General Fund reports positive unassigned fund balances; if another fund were to have unassigned fund balance, it would be in the event of a deficit.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second, and assigned third.

P. Net Position

Net position represents the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed by creditors, grantors, or laws or regulations of other governments.

Q. Estimates

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

II. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Cash, Cash Equivalents, and Investments

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

	<u>Reported Value</u>	<u>Weighted Average Maturity (days)</u>
Investment type:		
TexSTAR	\$ 17,143,797	24
Certificates of deposit	6,777,884	144
US agency securities	<u>4,962,500</u>	38
Subtotal	28,884,181	
Plus: depository and petty cash	<u>25,642,696</u>	
Total cash and investments	<u>\$ 54,526,877</u>	

The investment in US Agencies are valued at fair value using documented trade in exact security measurements (level 1). Investments in TexSTAR are recorded as cash equivalents in the financial statements. TexSTAR has a redemption notice period of one day and may redeem daily. The investment pools’ authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pools’ liquidity.

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 the City's investment portfolio to highly liquid investments to meet unanticipated cash requirements, and/or to redeploy cash into other investments expected to outperform current holdings.

Credit Risk - State law limits investments in certificates of deposit to guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union Share Insurance Fund, or its successor and investment pools continuously rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. The City's investment policy does not further limit its investment choices. As of September 30, 2024, the City's investments in the pooled investment funds were rated AAAM by Standard & Poor's. The City has also invested in debt securities provided by the Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Banks, and U.S Treasury Notes.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. As of September 30, 2024, the City's cash and cash equivalents (including certificates of deposit, and component unit holdings) were fully collateralized by the City's depository by a combination of pledged collateral and FDIC insurance. All collateral is held in the City's name.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the government securities owned by the City are held by its agent in the City's name.

Restricted Cash - Cash is restricted in the Proprietary fund for debt service sinking funds that bond covenants require to be kept intact while debt is outstanding. In the governmental funds, restricted cash represents the grant and loan proceeds from the Texas Water Development Board (TWDB) that are only available for spending when approved by TWDB.

B. Property Taxes

Taxes are levied on and payable as of October 1. The City has contracted with the Guadalupe County Tax Assessor-Collector to collect taxes on its behalf. Current taxes become delinquent February 1. Current year delinquent taxes not paid by July 1 are turned over to attorneys for collection action. The total taxable value as of October 1, 2023, upon which the fiscal year 2024 levy was based, was \$1,561,938,056 (i.e., market value less exemptions).

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt for the year ended September 30, 2024, was \$0.594285 per \$100 of assessed value, which means that the City has a tax margin of \$1.905715 for each \$100 value and could increase its annual tax levy by approximately \$29,766,088 based upon the present assessed valuation before the limit is reached.

However, the City may not adopt a tax rate that exceeds the tax rate calculated in accordance with the Texas Property Tax Code without holding a public hearing. The Property Tax Code subjects an increase in the effective tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's effective tax rate.

Property taxes are recorded as receivables and unearned revenues at the time the taxes are assessed. In governmental funds, revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in the time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. In the government-wide financial statements, the entire levy is recognized as revenue, net of estimated uncollectible amounts (if any), at the levy date.

C. Receivables

Receivables as September 30, 2024, for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities					Total
	General	Debt Service	Capital Projects	Nonmajor Governmental	Internal Service	
Receivables:						
Property taxes	\$ 684,602	\$ 81,703	\$ -	\$ -	\$ -	\$ 766,305
Sales tax	1,062,577	-	-	118,064	-	1,180,641
Occupancy taxes	-	-	-	56,074	-	56,074
Franchise taxes	290,453	-	-	-	-	290,453
Customers	-	-	-	-	20,516	20,516
Court fines	1,744,058	-	-	-	-	1,744,058
Leases	53,512	-	-	-	-	53,512
Other	4,911	-	150,003	-	-	154,914
Gross receivables	3,840,113	81,703	150,003	174,138	20,516	4,266,473
Less: allowance for uncollectible accounts	(1,789,724)	(32,681)	-	-	-	(1,822,405)
Net receivables	<u>\$ 2,050,389</u>	<u>\$ 49,022</u>	<u>\$ 150,003</u>	<u>\$ 174,138</u>	<u>\$ 20,516</u>	<u>\$ 2,444,068</u>

	Business-type Activities			Component Unit
	Water & Wastewater	Sanitation	Total	
Receivables:				
Sales tax	\$ -	\$ -	\$ -	\$ 236,128
Customers	1,438,655	524,261	1,962,916	-
Other	8,835	15,930	24,765	336,410
Gross receivables	1,447,490	540,191	1,987,681	572,538
Less: allowance for uncollectible accounts	(4,535)	(12,923)	(17,458)	-
Net receivables	<u>\$ 1,442,955</u>	<u>\$ 527,268</u>	<u>\$ 1,970,223</u>	<u>\$ 572,538</u>

D. Deferred Inflows and Outflows of Resources

The proprietary funds and governmental activities statements of net position report various deferred outflows and inflows of resources, primarily due to pensions and OPEB, that are summarized by column. The following table presents the disaggregated amounts.

	Governmental Activities	Business-type Activities		Component Unit
		Water & Wastewater	Total	PEDC
Deferred outflows:				
Related to pensions	\$ 2,596,624	\$ 456,424	\$ 3,053,048	\$ 45,550
Related to OPEB - SDBF	61,887	10,879	72,766	1,086
Related to OPEB - Retiree Health Plan	298,985	52,555	351,540	5,245
Total deferred outflow	<u>\$ 2,957,496</u>	<u>\$ 519,858</u>	<u>\$ 3,477,354</u>	<u>\$ 51,881</u>
Deferred inflows:				
Leases	\$ 52,266	\$ -	\$ 52,266	\$ -
Related to pensions	315,296	55,422	370,718	5,531
Related to OPEB - SDBF	160,424	28,198	188,622	2,814
Related to OPEB - Retiree Health plan	442,347	77,754	520,101	7,760
Total deferred inflow	<u>\$ 970,333</u>	<u>\$ 161,374</u>	<u>\$ 1,131,707</u>	<u>\$ 16,105</u>

E. Interfund Balances and Transfers

The composition of interfund balances as of September 30, 2024, is as follows:

Due From	Due To	Amount	Purpose
Internal service	Debt Service	\$ 54,627	Short-term pool cash loan
Sanitation fund	General	193,168	Short-term pool cash loan
Nonmajor governmental	General	<u>72,020</u>	Short-term pool cash loan
		<u>\$ 319,815</u>	

The following schedule briefly summarizes the City's transfer activity for the year ending September 30, 2024:

Transfer From	Transfer To	Amount	Purpose
Nonmajor governmental	General	\$ 31,371	Supplement funds sources
Water & wastewater fund	General	1,190,925	Payment in lieu of franchise fees
Sanitation fund	General	1,198,148	Payment in lieu of franchise fees
General	Debt Service	949,535	Fund lease debt service
General	Nonmajor governmental	<u>1,326,930</u>	Funding for capital projects
		<u>\$ 4,696,909</u>	

F. Capital Assets

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

	Beginning Balance	Additions	Reclassifications/ Retirements	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,777,545	\$ -	\$ -	\$ 1,777,545
Construction in progress	<u>336,328</u>	<u>2,796,970</u>	<u>(212,965)</u>	<u>2,920,333</u>
Total capital assets not being depreciated	<u>2,113,873</u>	<u>2,796,970</u>	<u>(212,965)</u>	<u>4,697,878</u>
Capital assets being depreciated:				
Buildings	3,575,194	76,159	-	3,651,353
Improvements	13,853,160	2,643,102	-	16,496,262
Machinery and equipment	13,693,289	1,063,326	-	14,756,615
Infrastructure	33,947,598	-	(988,009)	32,959,589
Right to use - vehicles	<u>1,431,641</u>	<u>1,208,658</u>	<u>(327,862)</u>	<u>2,312,437</u>
Total assets being depreciated	<u>66,500,882</u>	<u>4,991,245</u>	<u>(1,315,871)</u>	<u>70,176,256</u>
Less accumulated depreciation for:				
Buildings	(2,266,407)	(59,262)	-	(2,325,669)
Improvements	(9,134,860)	(974,927)	-	(10,109,787)
Machinery and equipment	(10,184,600)	(736,183)	-	(10,920,783)
Infrastructure	(25,198,518)	-	803,108	(24,395,410)
Right to use - vehicles	<u>(995,196)</u>	<u>(374,415)</u>	<u>327,862</u>	<u>(1,041,749)</u>
Total accumulated depreciation	<u>(47,779,581)</u>	<u>(2,144,787)</u>	<u>1,130,970</u>	<u>(48,793,398)</u>
Total capital assets being depreciated, net	<u>18,721,301</u>	<u>2,846,458</u>	<u>(184,901)</u>	<u>21,382,858</u>
Governmental activities capital assets, net	<u>\$ 20,835,174</u>	<u>\$ 5,643,428</u>	<u>\$ (397,866)</u>	<u>\$ 26,080,736</u>

	Beginning Balance	Additions	Reclassifications/ Retirements	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 63,306	\$ -	\$ -	\$ 63,306
Construction in progress	<u>3,088,812</u>	<u>2,751,582</u>	<u>(2,668,997)</u>	<u>3,171,397</u>
Total capital assets, not being depreciated	<u>3,152,118</u>	<u>2,751,582</u>	<u>(2,668,997)</u>	<u>3,234,703</u>
Capital assets being depreciated:				
Buildings	8,386,908	-	-	8,386,908
Machinery and equipment	2,788,265	3,636,011	(63,249)	6,361,027
Infrastructure	<u>57,760,089</u>	<u>457,255</u>	<u>(244,801)</u>	<u>57,972,543</u>
Total capital assets being depreciated	<u>68,935,262</u>	<u>4,093,266</u>	<u>(308,050)</u>	<u>72,720,478</u>
Less accumulated depreciation for:				
Buildings	(7,905,612)	(146,523)	-	(8,052,135)
Machinery and equipment	(1,342,842)	(222,837)	63,249	(1,502,430)
Infrastructure	<u>(33,011,163)</u>	<u>(1,438,720)</u>	<u>229,451</u>	<u>(34,220,432)</u>
Total accumulated depreciation	<u>(42,259,617)</u>	<u>(1,808,080)</u>	<u>292,700</u>	<u>(43,774,997)</u>
Total capital assets being depreciated, net	<u>26,675,645</u>	<u>2,285,186</u>	<u>(15,350)</u>	<u>28,945,481</u>
Business-type activities capital assets, net	<u>\$ 29,827,763</u>	<u>\$ 5,036,768</u>	<u>\$ (2,684,347)</u>	<u>\$ 32,180,184</u>

	Beginning Balance	Additions	Reclassifications/ Retirements	Ending Balance
Component unit:				
Capital assets, not being depreciated:				
Land - developed	\$ 623,129	\$ -	\$ -	\$ 623,129
Land - undeveloped	<u>330,916</u>	<u>2,384,000</u>	<u>-</u>	<u>2,714,916</u>
Total capital assets, not being depreciated	<u>954,045</u>	<u>2,384,000</u>	<u>-</u>	<u>3,338,045</u>
Capital assets being depreciated:				
Buildings	4,342,299	-	-	4,342,299
Machinery and equipment	<u>108,646</u>	<u>-</u>	<u>-</u>	<u>108,646</u>
Total capital assets being depreciated	<u>4,450,945</u>	<u>-</u>	<u>-</u>	<u>4,450,945</u>
Less accumulated depreciation for:				
Buildings	(2,062,385)	(98,454)	-	(2,160,839)
Machinery and equipment	<u>(107,168)</u>	<u>(1,477)</u>	<u>-</u>	<u>(108,645)</u>
Total accumulated depreciation	<u>(2,169,553)</u>	<u>(99,931)</u>	<u>-</u>	<u>(2,269,484)</u>
Total capital assets being depreciated, net	<u>2,281,392</u>	<u>(99,931)</u>	<u>-</u>	<u>2,181,461</u>
Component unit capital assets, net	<u>\$ 3,235,437</u>	<u>\$ 2,284,069</u>	<u>\$ -</u>	<u>\$ 5,519,506</u>

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

Governmental activities:	
General government	\$ 145,688
Public safety	864,210
Community services	1,082,905
Community development	<u>51,984</u>
Total	<u>\$ 2,144,787</u>
Business-type activities:	
Water & wastewater fund	\$ 1,766,383
Sanitation fund	<u>41,697</u>
Total	<u>\$ 1,808,080</u>
Total Depreciation	<u>\$ 3,952,867</u>

G. Long-Term Debt

Changes in long-term debt for the City for the year ending September 30, 2024 are as follows:

	Beginning Balance	Issued	Refunded/ Retired	Ending Balance	Amount Due Within One Year
Governmental activities:					
General Obligation Bonds	\$ 1,585,000	\$ -	\$ (215,000)	\$ 1,370,000	\$ 220,000
Certificates of Obligation	21,925,000	-	(163,755)	21,761,245	172,833
Private Placement COs	981,000	-	(33,000)	948,000	33,000
Unamortized Premium	3,137,686	-	(250,047)	2,887,639	-
Financing Arrangements	1,113,202	-	(286,307)	826,895	290,424
Leases	458,017	1,208,658	(429,951)	1,236,724	360,013
Compensated Absences	1,735,233	722,000	(520,570)	1,936,663	580,999
Total governmental	\$ 30,935,138	\$ 1,930,658	\$ (1,898,630)	\$ 30,967,166	\$ 1,657,269
Business-type activities:					
Certificates of Obligation	\$ 22,320,000	\$ -	\$ (1,071,245)	\$ 21,248,755	\$ 1,087,167
Unamortized Premium	2,242,850	-	(220,725)	2,022,125	-
Compensated Absences	161,897	45,956	(48,569)	159,284	47,785
Total business-type	\$ 24,724,747	\$ 45,956	\$ (1,340,539)	\$ 23,430,164	\$ 1,134,952

General Obligation Bonds and Certificates of Obligation

The City has issued various bonds and certificates of obligation to construct and improve City property including buildings, streets and sidewalks, water and wastewater infrastructure, and park facilities. The bonds and certificates are funded by Interest and Sinking property tax revenues and a pledge of excess revenues of the Water & Wastewater Fund. For the year ended September 30, 2024, Water & Wastewater Fund net revenues were approximately \$3.0 million (excluding depreciation expense) compared to debt service of \$1,805,344.

The bonds and certificates contain various covenants and indentures. Management has indicated that the City is substantially in compliance with these restrictions. Certain obligations have been marked as private placements. However, the terms of these obligations are not significantly different than the City's other debt. The obligations do not contain substantive acceleration clauses; in the event of default, any registered owner of the obligations may seek a writ of mandamus from a court of proper jurisdiction requiring the City to make payment.

A summary of bonds and certificates outstanding as of September 30, 2024, is as follows:

	Issue Amount	Maturity	Rate	Balance
Governmental Activities				
General Obligation Bonds				
Series 2020	\$ 2,215,000	2030	1.75%-2.05%	\$ 1,370,000
Certificates of Obligation				
Series 2022 I&S	21,930,936	2041	4.00%-5.00%	21,761,245
Series 2022A	1,014,000	2052	0.00%	948,000
Total Governmental Long-Term Obligations				\$ 24,079,245
Business-type Activities				
Certificates of Obligation				
Series 2013	\$ 2,600,000	2028	2.15%	\$ 1,010,000
Series 2020	5,490,000	2030	1.75%-2.00%	3,030,000
Series 2021	4,585,000	2041	3.00%	4,345,000
Series 2022 W&S	12,964,064	2041	4.00%-5.00%	12,863,755
Total Business-Type Long-Term Obligations				\$ 21,248,755

Financing Arrangements

The City has entered into multiple arrangements to finance the purchase of equipment. The City retains title to the underlying equipment during and after the duration of the agreement. The arrangements are direct borrowings and are secured by the financed assets.

Details on the arrangements outstanding as of September 30, 2024, is as follows:

	Issue Amount	Maturity	Rate	Balance
Governmental Activities				
Southside Bank - PD Equipment	598,579	2026	3.20%	\$ 131,224
Leasing 2, Inc. - Fire, Road, & Utility Equipment	1,558,865	2029	2.50%	<u>695,671</u>
Total Financing Arrangements				<u>\$ 826,895</u>

Leases Payable

The City has entered into a master lease agreement with Enterprise Fleet Services to acquire fleet vehicles for various City departments. Each vehicle is structured as an individual noncancelable lease beginning when the City takes delivery. All agreements are 60 months in duration and include both fixed monthly payments and overage charges for exceeding mileage limits. For the year ended September 30, 2024, payments amounted to \$454,559, including \$24,608 of interest expense.

During fiscal year 2024, the City acquired 19 additional vehicles under the master lease agreement. The leases were recognized each over their 60-month term with a combined discounted value of \$1,208,658.

Details of leases payable as of September 30, 2024, is as follows:

	Issue Amount	Number of Agreements	Maturities	Fixed Monthly Payments	Rates	Balance
Governmental Activities						
Fleet vehicles	\$ 2,640,299	68	2025-2029	\$298-\$1,429	1.35%-6.38%	\$ 1,236,724

Future Maturities of Long-term Debt

Annual future debt service requirements of bonded debt as of September 30, 2024, are as follows:

Governmental activities:

Year Ended September 30,	General Obligation Bonds		Certificates of Obligation		COs - Private Placement		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2025	\$ 220,000	\$ 24,510	\$ 172,833	\$ 888,817	\$ 33,000	\$ -	\$ 1,339,160
2026	220,000	20,110	241,966	878,447	33,000	-	1,393,523
2027	225,000	15,660	292,245	865,092	33,000	-	1,430,997
2028	230,000	11,398	348,808	849,066	33,000	-	1,472,272
2029	235,000	7,153	358,236	831,390	34,000	-	1,465,779
2030-2034	240,000	2,460	2,611,349	3,840,538	170,000	-	6,864,347
2035-2039	-	-	3,437,806	3,214,064	170,000	-	6,821,870
2040-2044	-	-	4,877,032	2,413,377	170,000	-	7,460,409
2045-2049	-	-	6,454,527	1,259,354	170,000	-	7,883,881
2050-2053	-	-	2,966,443	89,622	102,000	-	3,158,065
Total	<u>\$ 1,370,000</u>	<u>\$ 81,291</u>	<u>\$ 21,761,245</u>	<u>\$ 15,129,767</u>	<u>\$ 948,000</u>	<u>\$ -</u>	<u>\$ 39,290,303</u>

Year Ended September 30,	Financing Arrangements			Leases		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 290,424	\$ 310,154	\$ 600,578	\$ 360,013	\$ 18,865	\$ 378,878
2026	155,190	167,166	322,356	278,582	11,754	290,336
2027	90,805	100,506	191,311	248,742	7,301	256,043
2028	93,139	100,506	193,645	249,826	1,226	251,052
2029	95,532	100,506	196,038	99,561	-	99,561
2030-2034	101,805	-	101,805	-	-	-
Total	<u>\$ 826,895</u>	<u>\$ 778,838</u>	<u>\$ 1,605,733</u>	<u>\$ 1,236,724</u>	<u>\$ 39,146</u>	<u>\$1,275,870</u>

Business-type Activities:

Year Ended September 30,	Certificates of Obligation		
	Principal	Interest	Total
2025	\$ 1,087,167	\$ 713,642	\$ 1,800,809
2026	1,143,034	689,596	1,832,630
2027	1,197,755	658,386	1,856,141
2028	1,181,192	621,207	1,802,399
2029	741,764	589,373	1,331,137
2030-2034	3,208,651	2,586,075	5,794,726
2035-2039	3,572,194	2,053,047	5,625,241
2040-2044	3,547,968	1,441,642	4,989,610
2045-2049	3,815,473	744,446	4,559,919
2050-2051	1,753,557	52,978	1,806,535
Total	<u>\$ 21,248,755</u>	<u>\$ 10,150,392</u>	<u>\$ 31,399,147</u>

Discretely Presented Component Unit Debt

Changes in long-term debt of the Palestine Economic Development Corporation for the year ending September 30, 2024, are as follows:

	Beginning Balance	Issued	Refunded/ Retired	Ending Balance	Amount Due Within One Year
Revenue Bonds	\$ 720,687	\$ -	\$ (305,000)	\$ 415,687	\$ 315,000
Sales Tax Note	-	2,030,000	(82,233)	1,947,767	149,694
Note Payable	786,904	-	(96,096)	690,808	98,680
Compensated Absences	6,519	13,072	(1,955)	17,636	1,955
Total Component Unit	<u>\$ 1,514,110</u>	<u>\$ 2,043,072</u>	<u>\$ (485,284)</u>	<u>\$ 3,071,898</u>	<u>\$ 565,329</u>

Revenue bonds were issued for refunding debt and the purchase of a commercial office building. The note payable was issued to finance the construction of fiber internet infrastructure. Both obligations are classified as direct borrowings. The sales tax note was issued for paying the costs to acquire certain real property to be designated as an industrial park and is secured by the proceeds of the Economic Development Sales and Use Tax. The note payable is secured by the financed asset. In the event of default, the debtholders may seek a writ of mandamus from a court of proper jurisdiction requiring the Corporation to make payment.

On February 16, 2024, the Component Unit issued \$2,030,000 of its 2024 Sales Tax Note. The Note matures in stages through 2034 with an interest rate of 7.10%. Proceeds from the Note will be used for acquiring certain real property to be designated as an industrial park and is secured by the proceeds of the Economic Development Sales and Use Tax.

A summary of the terms of long-term debt outstanding at September 30, 2024, is as follows:

	Issue Amount	Maturity	Rate	Balance
Revenue Bonds				
Series 2012B	\$ 2,865,000	2026	3.35%	\$ 355,687
Series 2016	525,000	2026	3.63%	60,000
Sales Tax Note				
Sales Tax Note	2,030,000	2034	7.10%	<u>1,947,767</u>
Total Component Unit				<u>\$ 2,363,454</u>

Annual future debt service requirements of bonded debt as of September 30, 2024, are as follows:

Year Ended September 30,	Revenue Bonds		Sales Tax Note		Notes		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2025	\$ 315,000	\$ 15,076	\$ 149,694	\$ 135,681	\$ 98,680	\$ 17,797	\$ 731,928
2026	100,687	4,355	160,511	124,864	101,333	15,144	506,894
2027	-	-	172,110	113,265	104,058	12,419	401,852
2028	-	-	184,546	100,829	106,856	9,621	401,852
2029	-	-	197,882	87,493	109,729	6,748	401,852
2030-2034	-	-	1,083,024	201,163	170,152	4,565	1,458,904
Total	<u>\$ 415,687</u>	<u>\$ 19,431</u>	<u>\$ 1,947,767</u>	<u>\$ 763,295</u>	<u>\$ 690,808</u>	<u>\$ 66,294</u>	<u>\$ 3,903,282</u>

H. **Net Pension and Total OPEB Liabilities and Expenses**

Amounts are aggregated into a single net pension liability and total OPEB liability, and expenses for certain columns. Below is the detail of net pension liability and total OPEB liability and expenses for governmental and business-type activities.

	Business-type Activities		Totals	Component Unit
	Governmental Activities	Water & Wastewater		PEDC
Net pension liability	<u>\$ 7,989,429</u>	<u>\$ 1,404,348</u>	<u>\$ 9,393,777</u>	<u>\$ 140,149</u>
Total OPEB liabilities:				
TMRS SDBF	608,348	106,933	715,281	10,671
Retiree health plan	<u>347,812</u>	<u>61,137</u>	<u>408,949</u>	<u>6,101</u>
Total OPEB liability	<u>\$ 956,160</u>	<u>\$ 168,070</u>	<u>\$ 1,124,230</u>	<u>\$ 16,772</u>
	Business-type Activities		Totals	Component Unit
	Governmental Activities	Water & Wastewater		PEDC
Pension expense	<u>\$ 1,408,115</u>	<u>\$ 247,512</u>	<u>\$ 1,655,627</u>	<u>\$ 24,701</u>
OPEB expense:				
TMRS SDBF	15,428	2,712	18,140	271
Retiree Health Plan	<u>19,116</u>	<u>3,360</u>	<u>22,476</u>	<u>336</u>
Total OPEB expense	<u>\$ 34,544</u>	<u>\$ 6,072</u>	<u>\$ 40,616</u>	<u>\$ 607</u>

III. OTHER INFORMATION

A. Retirement Plan

Plan Description

The City participates as one of 934 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency 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 municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Service Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

At retirement, the member’s benefit is calculated based on the sum of the member’s contributions with interest, the city-financed monetary credits with interest, and their age at retirement and other actuarial factors. 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.

The City grants monetary credits for service rendered of a theoretical amount equal to two times what would have been contributed by the employee, with interest. Monetary credits, also known as the matching ratio, are 200% of the employee’s accumulated contributions and are only payable in the form of an annuity.

Beginning in 2008, the City granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee’s accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 2008, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

Employee deposit rate	6%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated service credit	100% repeating transfers
Annual increase to retirees	70% of CIP, repeating

Employees covered by benefit terms

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	175
Inactive employees entitled to but not yet receiving benefits	207
Active employees	176
Total	<u>558</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, 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 for the City and Component Unit were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City and Component unit were 14.18% and 14.49% in calendar years 2023 and 2024, respectively. The City's and Component Unit's contributions to TMRS for the year ended September 30, 2024 totaled \$1,562,067 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. The net pension liability is typically liquidated through the General Fund and Enterprise Funds.

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
Salary Increases	3.60% to 11.85% including inflation
Investment rate of return	6.75% net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% 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 is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale 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 the 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 post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	6.7%
Core Fixed Income	6.0%	4.7%
Non-Core Fixed Income	20.0%	8.0%
Other Public and Private Markets	12.0%	8.0%
Real Estate	12.0%	7.6%
Hedge Funds	5.0%	6.4%
Private Equity	10.0%	11.6%
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 employee contributions will remain at the current 6% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

As of September 30, 2024, the City reported the following changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2022	\$ 54,181,472	\$ 43,247,778	\$ 10,933,694
Changes for the year:			
Service cost	1,386,469	-	1,386,469
Interest	3,617,133	-	3,617,133
Difference between expected and actual experience	1,022,683	-	1,022,683
Change in assumptions	(591,383)	-	(591,383)
Contributions - employer	-	1,400,732	(1,400,732)
Contributions - employee	-	611,228	(611,228)
Net investment income	-	4,994,924	(4,994,924)
Benefit payments, including refunds of employee contributions	(2,575,095)	(2,575,095)	-
Administrative expense	-	(31,844)	31,844
Other changes	-	(221)	221
Net changes	<u>2,859,807</u>	<u>4,399,724</u>	<u>(1,539,917)</u>
Balance at 12/31/2023	<u>\$ 57,041,279</u>	<u>\$ 47,647,502</u>	<u>\$ 9,393,777</u>

As of September 30, 2024, the Component Unit reported the following changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/2022	\$ 808,350	\$ 645,227	\$ 163,123
Changes for the year:			
Service cost	20,685	-	20,685
Interest	53,965	-	53,965
Difference between expected and actual experience	15,258	-	15,258
Change in assumptions	(8,823)	-	(8,823)
Contributions - employer	-	20,898	(20,898)
Contributions - employee	-	9,119	(9,119)
Net investment income	-	74,521	(74,521)
Benefit payments, including refunds of employee contributions	(38,419)	(38,419)	-
Administrative expense	-	(475)	475
Other changes	-	(4)	4
Net changes	<u>42,666</u>	<u>65,640</u>	<u>(22,974)</u>
Balance at 12/31/2023	<u>\$ 851,016</u>	<u>\$ 710,867</u>	<u>\$ 140,149</u>

Sensitivity of the Net Pension Liability

The following presents the net pension liability/(asset) of the City and Component Unit, calculated using the discount rate of 6.75%, as well as what the City and Component Unit's net pension liabilities 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 in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 17,314,712	\$ 9,393,777	\$ 2,934,806
Component Unit's net pension liability	<u>258,324</u>	<u>140,149</u>	<u>43,785</u>
Total	<u>\$ 17,573,036</u>	<u>\$ 9,533,926</u>	<u>\$ 2,978,591</u>

Pension 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, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2024, the City and Component Unit recognized pension expenses of \$1,655,627 and \$24,701, respectively.

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

	City	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 708,268	\$ -
Changes in actuarial assumptions	-	370,718
Difference between projected and actual investment earnings	1,207,075	-
Contributions subsequent to the measurement date	<u>1,137,705</u>	<u>-</u>
Total	<u>\$ 3,053,048</u>	<u>\$ 370,718</u>

As of September 30, 2024, the Component Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 10,567	\$ -
Changes in actuarial assumptions		5,531
Difference between projected and actual investment earnings	18,009	-
Contributions subsequent to the measurement date	<u>16,974</u>	<u>-</u>
Total	<u>\$ 45,550</u>	<u>\$ 5,531</u>

The City and Component Unit reported \$1,137,705 and \$16,974, respectively, as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ended September 30,	City	Component Unit
2025	\$ 544,777	\$ 8,128
2026	493,569	7,364
2027	921,420	13,747
2028	(415,141)	(6,194)

B. Other Post-Employment Benefits

The City participates in two defined-benefit other post-employment benefit (OPEB) plans: the Texas Municipal Retirement System Supplemental Death Benefits Fund (TMRS SDBF), and its own single-employer retiree health plan. Both are described in detail below.

The total OPEB liabilities of both plans are typically liquidated through the General Fund and Enterprise Funds.

TMRS Supplemental Death Benefits Fund

Plan Description

The City voluntarily participates in a single-employer other postemployment benefit (OPEB) plan administered by TMRS. The Plan is a group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identical to the City's pension plan. SDBF includes coverage for both active and retired members, and assets are commingled for the payment of such benefits. Therefore, the Plan does not qualify as an OPEB Trust in accordance with paragraph 4 of GASB Statement No. 75.

Benefits Provided

The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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 another employment benefit and is a fixed amount of \$7,500.

The number of employees currently covered by the benefit terms is as follows:

Inactive employees or beneficiaries currently receiving benefits	128
Inactive employees entitled to but not yet receiving benefits	36
Active employees	<u>176</u>
Total	<u>340</u>

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.42% for 2024 and 0.43% for 2023, of which 0.25% and 0.26%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. 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 prefund retiree term life insurance during employees’ entire careers. The City and Component Unit’s contributions to the SDBF for the years ended September 30, 2024, and 2023 were \$27,392 and \$25,727 respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Actuarial Assumptions

The Total OPEB Liability in the December 31, 2023, actuarial valuation was determined using the following actuarial assumptions and inputs:

Measurement year ended December 31,	2023
Inflation rate	2.50% per annum
Discount rate	3.77%
Actuarial cost method	Entry Age Normal Method
Projected salary increases	3.60% to 11.85% including inflation
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 by scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

Discount Rate

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees, and the assets are not segregated for these groups. As such, a single discount rate of 3.77% was used to measure the total OPEB liability. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of December 31, 2023.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the total OPEB liability if the discount rate used was 1% less than (2.77%) and 1% greater than (4.77%) the discount rate that was used (3.77%) in measuring the total OPEB liability.

	1% Decrease in Discount Rate (2.77%)	Discount Rate (3.77%)	1% Increase in Discount Rate (4.77%)
City's SDBF OPEB Liability	\$ 844,864	\$ 715,281	\$ 613,509
Component Unit's SDBF OPEB Liability	<u>12,605</u>	<u>10,671</u>	<u>9,153</u>
Total	<u>\$ 857,469</u>	<u>\$ 725,952</u>	<u>\$ 622,662</u>

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

At September 30, 2024, the City and the Component Unit reported a liability of \$715,281 and \$10,671, respectively, for its Total OPEB Liability. The Total OPEB Liability was determined by an actuarial valuation as of December 31, 2023. For the year ended September 30, 2024, the City and Component Unit recognized an OPEB expense of \$18,140 and \$271, respectively. There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

Changes in the Total OPEB Liability

	City Total OPEB Liability	Component Unit Total OPEB Liability
Balance at 12/31/2022	\$ 656,299	\$ 9,792
Changes for the year:		
Service cost	16,300	243
Interest	26,374	393
Difference between expected and actual experience	6,888	103
Changes of assumptions or other inputs	35,907	535
Benefit payments, including refunds of employee contributions	<u>(26,487)</u>	<u>(395)</u>
Net changes	<u>58,982</u>	<u>879</u>
Balance at 12/31/2023	<u>\$ 715,281</u>	<u>\$ 10,671</u>

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

	City	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,308	\$ 18,028
Changes in actuarial assumptions	47,829	170,594
Contributions subsequent to the measurement date	<u>19,629</u>	<u>-</u>
Total	<u>\$ 72,766</u>	<u>\$ 188,622</u>

	Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 79	\$ 269
Changes in actuarial assumptions	714	2,545
Contributions subsequent to the measurement date	<u>293</u>	<u>-</u>
Total	<u>\$ 1,086</u>	<u>\$ 2,814</u>

The City and the Component Unit reported \$19,629 and \$293, respectively, as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB liability for the year ending September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to the TMRS OPEB will be recognized in OPEB expense as follows:

For the Year Ended September 30,	City	Component Unit
2025	\$ (49,945)	\$ (745)
2026	(62,622)	(934)
2027	(26,452)	(395)
2028	3,534	53

Retiree Health Other Post-Employment Benefit Plan

Plan Description

The City administers a single employer defined benefit Other Post-Employment Benefits (OPEB) plan that allows retirees to pay their premium for continuation of the medical insurance coverage. The plan is known as the City Retiree Health Care Plan. In order to be eligible for this benefit, the retiree must separate from service as a current recipient of retirement benefits from the TMRS and with at least five years of service with the City or PEDC at age 60 or at least 20 years of service at any age. The health care benefit of the plan is available to the spouse if they were enrolled in the plan immediately before retirement or disability. No assets are accumulated in a trust in accordance with paragraph 4 of GASB Statement No. 75.

Benefits and Contributions

Employees and spouses who are enrolled in the City-sponsored health plan immediately before retirement or disability are eligible to continue coverage for the following periods of time.

Participant	Length of Coverage
Retiree	Retirees are eligible to continue medical coverage until age 65. If coverage is voluntarily waived, it cannot be reinstated.
Spouse	Spouses are eligible to continue medical coverage until age 65. If spouse coverage is voluntarily waived, it cannot be reinstated.
Children	Eligible dependent children may continue medical coverage while the retiree is covered. If child coverage is voluntarily waived, it cannot be reinstated.
Surviving Spouse Retiree	Surviving spouse are eligible to continue medical coverage until age 65. If coverage is voluntarily waived, it cannot be reinstated.

Retirees and their dependents are not eligible to remain on the health plan after they become eligible for Medicare. Retirees are required to pay the City for their health insurance premiums on the City-sponsored health insurance plan. The fully-insured premiums the City pays its insurance carrier are blended rates based on the combined experience of active and retired members. Because the average cost of providing the health care benefits to retirees under 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is considered an employer contribution and was valued at \$23,176 and \$346 for the City and Component Unit, respectively, in the September 30, 2024 measurement.

The number of employees currently covered by the benefit terms is as follows:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	0
Active employees	168
Total	<u>170</u>

Actuarial Methods and Assumptions

Significant methods and assumptions were as follows:

Actuarial Valuation Date	September 30, 2023
Actuarial Cost Method	Individual Entry-Age, Normal
Inflation Rate	2.50%
Salary Increases	3.60% to 11.85%, including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2023 as conducted for the Texas Municipal Retirement System (TMRS).
Mortality	For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used, with male rates multiplied by 103% and female rates multiplied by 105%. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP-2021 table to account for future mortality improvements.
Health care cost trend rates	Initial rate of 7.00% declining to an ultimate rate of 4.25% after 15 years.
Participation rates	0% for employees retiring before age 50; 5% for employees retiring at ages 50-54; 15% for employees retiring at ages 55-59; 20% for employees retiring at ages 60-64.
Discount rate	The discount rate changed from 4.63% as of September 30, 2023 to 3.81% as of September 30, 2024.

A Single Discount Rate of 3.81% was used to measure the total OPEB liability. This Single Discount Rate was based on the municipal bond rates as of the measurement date. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2023.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the total OPEB liability if the discount rate used was 1% less than (2.81%) and 1% greater than (4.81%) the discount rate that was used (3.81%) in measuring the total OPEB liability.

	1% Decrease in Discount Rate (2.81%)	Discount Rate (3.81%)	1% Increase in Discount Rate (4.81%)
City's total OPEB liability - retiree health	\$ 444,535	\$ 408,949	\$ 377,038
Component Unit's total OPEB liability - retiree health	<u>6,632</u>	<u>6,101</u>	<u>5,625</u>
Total	<u>\$ 451,167</u>	<u>\$ 415,050</u>	<u>\$ 382,663</u>

Healthcare Cost Trend Rate Sensitivity Analysis

The following schedule shows the impact of the total OPEB liability if the Healthcare Cost Trend Rate used was 1% less than and 1% greater than what was used in measuring the total OPEB liability.

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
City's total OPEB liability - retiree health	\$ 366,227	\$ 408,949	\$ 459,693
Component Unit's total OPEB liability - retiree health	<u>5,464</u>	<u>6,101</u>	<u>6,858</u>
Total	<u>\$ 371,691</u>	<u>\$ 415,050</u>	<u>\$ 466,551</u>

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources Related to OPEBs

At September 30, 2024, the City and Component Unit reported a total OPEB liability of \$408,949 and \$6,101, respectively. The total OPEB liability was determined by an actuarial valuation as of September 30, 2024. For the year ended September 30, 2024, the City and Component Unit recognized an OPEB expense of \$22,477 and \$355, respectively. There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

Changes in the total OPEB liability for the City and component unit for the year ended September 30, 2024, is as follows:

	City Total OPEB Liability	Component Unit Total OPEB Liability
Balance at 9/30/2023	\$ 382,862	\$ 5,712
Changes for the year:		
Service cost	23,851	356
Interest	17,742	265
Difference between expected and actual experience	1,138	17
Changes of assumptions or other inputs	6,532	97
Benefit payments, including refunds of employee contributions	<u>(23,176)</u>	<u>(346)</u>
Net changes	<u>26,087</u>	<u>389</u>
Balance at 9/30/2024	<u>\$ 408,949</u>	<u>\$ 6,101</u>

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

	City	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 318,592	\$ 176,143
Changes in actuarial assumptions	<u>32,948</u>	<u>343,958</u>
Total	<u>\$ 351,540</u>	<u>\$ 520,101</u>
	Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,753	\$ 2,628
Changes in actuarial assumptions	<u>492</u>	<u>5,132</u>
Total	<u>\$ 5,245</u>	<u>\$ 7,760</u>

Amounts reported as deferred outflows and inflows of resources related to the City’s Retiree Health OPEB will be recognized in OPEB expense as follows:

For the Year Ended September 30,	City	Component Unit
2025	(16,000)	(239)
2026	(15,450)	(231)
2027	(37,836)	(564)
2028	(43,108)	(643)
2029	(33,906)	(506)
Thereafter	(22,261)	(332)

C. Commitments and Contingencies

Tax Abatements

The City entered into property tax abatement agreements with local business under the Texas Tax Code Chapter 312. As required by the Act, the City includes its own guidelines and criteria in granting abatements. Under the City’s program, projects must do one of the following: (1) increase property valuation, (2) provide additional new full-time equivalent jobs, or (3) increase payroll annually. Abatements are granted for up to 100% over a specified time period not to exceed 10 years and may be extended to either new or expanding business. Uses available for tax abatement include manufacturing, distribution centers, corporate or regional office parks, research facilities, and small entrepreneurs. If the agreement is terminated, all taxes which otherwise would have been paid to the City without the benefit of abatement will become a debt to the City and shall be due to the City within 60 days after termination. At yearend, the City’s tax abatements are as follows:

<u>Name of Business</u>	<u>Criteria</u>	<u>Terms of Abatement</u>	<u>Anderson County Applied Value</u>	<u>Taxes Abated Fiscal Year 2024</u>
Sanderson Farms	Provide jobs	85% of value	\$ 120,299,880	\$ 699,192

Notes Receivable

In December of 2018, PEDC, the component unit, entered into an economic development incentive performance agreement with a Minnesota corporation (Company) in which the Company agreed to develop, maintain, and open a facility within the City; continuously employ, staff, and maintain at least 20 full-time employees at the facility by December 31, 2018 and 30 full-time employees at the facility by December 31, 2019 and thereafter for 10 years; and certify to PEDC, every 90 days, that the Company is in compliance with the terms of the performance agreement, beginning with the issuance of a certificate of occupancy for the facility. As part of the agreement, PEDC remitted a cash incentive grant in the amount of \$100,000 to the Company in December 2018. PEDC agreed to forgive the Company’s obligation to repay the economic incentive for the Company’s facility in two equal amounts each occurring on the first two annual anniversary dates of the issuance of the facility’s certificate of occupancy, if the Company is not in default under the performance agreement. The Company did not certify to PEDC that it was in compliance with the terms of the performance agreement during the year ended September 30, 2024, so no amount of the note was forgiven. In addition, no repayments were received either. The balance of the note receivable as of September 30, 2024 is \$100,000.

In April of 2021, PEDC entered into an economic development performance agreement with a domestic limited liability company (Company) in which the Company agreed to relocate its whiskey distillery to the rehabilitated Coors brewing facility in Palestine. As part of the agreement, PEDC provided a loan to the Company in the amount of \$150,000 for the Company’s expenditures for improvements that are (1) for the creation or retention of primary jobs and (2) required or suitable for the development, retention, or expansion of the Company’s manufacturing operation, including costs associated with the rehabilitation of the old Coors brewing facility into a whiskey distillery, and other expense related to the project that promote economic development. The note shall be due and payable in sixty monthly payments of \$2,796 beginning on July 1, 2021 and continuing on the first day of each month thereafter through May 1, 2026. The interest rate on the note is 4.5%. The note is secured by kettles owned by the Company and valued at \$201,747. The balance of the note receivable as of September 30, 2024 is \$96,226.

Construction Commitments

The City has active construction projects as of September 30, 2024. The projects include construction of a generator for the water treatment plant, water meter replacements across the City, renovation of the Carnegie Library, and waterline replacements. At yearend, the City’s commitments with contractors are follows:

Project	Spent to Date	Estimated Remaining Commitment
Meter Replacement Project	\$ 2,135,583	\$ 200,000
Water/Sewer Line Replacements	2,757,202	12,280,995
Decanter Centrifuge	239,496	260,000
Downtown Revitalization	33,306	9,966,694

Litigation

The City is the subject of various claims and litigation that have arisen in the course of its operations. Management is of the opinion that the City’s liability in these cases, if decided adversely to the City, will not have a material effect on the City’s financial position.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City contracts with the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program providing insurance coverage in the following areas: general liability, automobile liability and physical damage, law enforcement liability, worker’s compensation, real and personal property, mobile equipment, and errors and omissions liability. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts. There were no significant increases or decreases in coverage from the prior year. For the past three fiscal years, no claims or settlements have exceeded deductible amounts.

D. New Accounting Standards

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the City include the following:

GASB Statement No. 101, *Compensated Absences* – 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. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

GASB Statement No. 102, *Certain Risk Disclosures* – The objective of this Statement is to provide users of government financial statements with information about risks related to a government’s vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2024, and the impact has not yet been determined.

GASB Statement No. 103, *Financial Reporting Model Improvements* – 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. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be presented separately in the note disclosures, including right-to-use assets related to leases, Subscription-Based Information Technology Arrangements, and public-private or public-public partnerships. Other intangible assets are also required to be presented separately by major class. Additional disclosures have also been required for capital assets held for sale. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF PALESTINE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUES				
Taxes				
Property	\$ 8,892,848	\$ 8,892,848	\$ 8,626,179	\$ (266,669)
Sales	5,834,260	5,834,260	6,269,530	435,270
Franchise	1,045,450	1,045,450	1,114,111	68,661
Licenses, permits, and fees	119,505	119,505	357,082	237,577
Intergovernmental	2,307,993	2,307,993	2,218,327	(89,666)
Charges for services	42,280	42,280	49,941	7,661
Fines and forfeitures	387,288	387,288	329,915	(57,373)
Contributions and donations	10,000	10,000	15,996	5,996
Investment earnings	400,000	400,000	601,292	201,292
Miscellaneous	36,000	36,000	32,235	(3,765)
Total Revenues	<u>19,075,624</u>	<u>19,075,624</u>	<u>19,614,608</u>	<u>538,984</u>
EXPENDITURES				
General government:				
Administration	709,030	709,030	593,711	115,319
Human resources	325,310	325,310	304,789	20,521
Financial services	641,173	641,173	745,900	(104,727)
Nondepartmental	414,717	414,717	509,260	(94,543)
Total General Government	<u>2,090,230</u>	<u>2,090,230</u>	<u>2,153,660</u>	<u>(63,430)</u>
Public safety:				
Municipal court	355,173	355,173	347,159	8,014
Police administration	544,605	551,905	580,281	(28,376)
Police patrol	3,178,201	3,458,201	2,888,697	569,504
Police CID	788,194	788,194	948,117	(159,923)
Police support services	2,059,756	2,052,456	2,007,990	44,466
Fire administration	574,069	574,069	561,397	12,672
Fire suppression	3,490,108	4,130,508	4,409,828	(279,320)
Total Public Safety	<u>10,990,106</u>	<u>11,910,506</u>	<u>11,743,469</u>	<u>167,037</u>
Community services:				
Public works administration	557,033	557,033	431,625	125,408
Street maintenance	4,124,832	3,168,332	3,518,121	(349,789)
Parks and recreation	1,308,343	1,624,443	1,550,256	74,187
Library services	683,537	683,537	606,921	76,616
Total Community Services	<u>6,673,745</u>	<u>6,033,345</u>	<u>6,106,923</u>	<u>(73,578)</u>
Community development:				
Development services	569,035	569,035	510,779	58,256
Main street	15,500	15,500	9,832	5,668
Total Community Development	<u>584,535</u>	<u>584,535</u>	<u>520,611</u>	<u>63,924</u>
Total Expenditures	<u>20,338,616</u>	<u>20,618,616</u>	<u>20,524,663</u>	<u>93,953</u>
Excess of revenues over expenditures	<u>(1,262,992)</u>	<u>(1,542,992)</u>	<u>(910,055)</u>	<u>(632,937)</u>

CITY OF PALESTINE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
OTHER FINANCING SOURCES (USES)				
Insurance recoveries	\$ 10,000	\$ 10,000	\$ 131,000	\$ 121,000
Sale of capital assets	90,000	90,000	65,481	(24,519)
Transfers in	2,420,444	2,420,444	2,420,444	-
Transfers out	<u>(1,257,168)</u>	<u>(2,257,168)</u>	<u>(2,276,465)</u>	<u>(19,297)</u>
Total Other Financing Sources (Uses)	<u>1,263,276</u>	<u>263,276</u>	<u>340,460</u>	<u>77,184</u>
NET CHANGE IN FUND BALANCE	284	(1,279,716)	(569,595)	710,121
FUND BALANCE - BEGINNING	<u>11,412,031</u>	<u>11,412,031</u>	<u>11,412,031</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 11,412,315</u>	<u>\$ 10,132,315</u>	<u>\$ 10,842,436</u>	<u>\$ 710,121</u>

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CITY OF PALESTINE, TEXAS

NOTES TO BUDGETARY SCHEDULES

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Budgetary Information

The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. Annual budgets are adopted for the general fund, debt service fund, and all special revenue funds except for the Police Confiscated Money fund, Police Grants fund, and Emergency fund. Project-length financial plans are adopted for capital projects funds.

Budgetary preparation and control are exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level. Appropriations lapse at year-end.

Encumbrance accounting, in which appropriations are recorded as budgetary expenditures, is not utilized by the City.

Excess of Expenditures over Appropriations

Expenditures exceeded appropriations in the Perpetual Cemetery fund. This overage was funded with greater than anticipated revenues and existing fund balance.

CITY OF PALESTINE, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Measurement Date December 31,	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total pension liability				
Service cost	\$ 1,407,154	\$ 1,309,970	\$ 1,267,506	\$ 1,230,637
Interest on total pension liability	3,671,098	3,508,808	3,331,399	3,200,047
Difference between expected and actual experience	1,037,941	234,493	715,169	50,414
Change of assumptions	(600,206)	-	-	-
Benefit payments/refunds of contributions	<u>(2,613,514)</u>	<u>(2,781,623)</u>	<u>(2,632,427)</u>	<u>(2,474,705)</u>
Net Change in Total Pension Liability	2,902,473	2,271,648	2,681,647	2,006,393
Total Pension Liability, Beginning	<u>54,989,822</u>	<u>52,718,174</u>	<u>50,036,527</u>	<u>48,030,134</u>
Total Pension Liability, Ending (a)	<u>\$ 57,892,295</u>	<u>\$ 54,989,822</u>	<u>\$ 52,718,174</u>	<u>\$ 50,036,527</u>
Plan fiduciary net position				
Contributions - employer	\$ 1,421,630	\$ 1,303,623	\$ 1,284,969	\$ 1,211,895
Contributions - employee	620,347	572,183	551,489	535,447
Net investment income	5,069,445	(3,521,293)	5,661,083	3,117,079
Benefit payments/refunds of contributions	(2,613,514)	(2,781,623)	(2,632,427)	(2,474,705)
Administrative expenses	(32,319)	(30,519)	(26,224)	(20,190)
Other	<u>(225)</u>	<u>36,418</u>	<u>180</u>	<u>(787)</u>
Net Change in Fiduciary Position	4,465,364	(4,421,211)	4,839,070	2,368,739
Fiduciary Net Position, Beginning	<u>43,893,005</u>	<u>48,314,216</u>	<u>43,475,146</u>	<u>41,106,407</u>
Fiduciary Net Position, Ending (b)	<u>48,358,369</u>	<u>43,893,005</u>	<u>48,314,216</u>	<u>43,475,146</u>
Net pension liability = (a)-(b)	<u>\$ 9,533,926</u>	<u>\$ 11,096,817</u>	<u>\$ 4,403,958</u>	<u>\$ 6,561,381</u>
Fiduciary Net Position as a Percentage of Total Pension Liability	83.53%	79.82%	91.65%	86.89%
Covered Payroll	\$ 10,339,125	\$ 9,533,987	\$ 9,191,489	\$ 8,924,124
Net Pension Liability as a Percentage of Covered Payroll	92.21%	116.39%	47.91%	73.52%

2019	2018	2017	2016	2015	2014
\$ 1,163,653	\$ 1,173,593	\$ 1,162,638	\$ 1,147,723	\$ 997,344	\$ 938,602
3,107,606	3,019,410	2,916,862	2,800,125	2,808,849	2,720,857
(464,313)	(333,037)	(218,064)	65,763	(459,275)	(303,094)
103,169	-	-	-	154,385	-
<u>(2,673,526)</u>	<u>(2,423,263)</u>	<u>(2,272,078)</u>	<u>(2,311,195)</u>	<u>(2,127,959)</u>	<u>(2,129,464)</u>
1,236,589	1,436,703	1,589,358	1,702,416	1,373,344	1,226,901
<u>46,793,545</u>	<u>45,356,842</u>	<u>43,767,484</u>	<u>42,065,068</u>	<u>40,691,724</u>	<u>39,464,823</u>
<u>\$ 48,030,134</u>	<u>\$ 46,793,545</u>	<u>\$ 45,356,842</u>	<u>\$ 43,767,484</u>	<u>\$ 42,065,068</u>	<u>\$ 40,691,724</u>
\$ 1,132,430	\$ 1,170,053	\$ 1,195,913	\$ 1,147,962	\$ 1,152,496	\$ 1,185,438
506,303	512,778	507,702	494,708	442,936	454,154
5,643,128	(1,151,180)	4,751,422	2,214,224	49,110	1,828,420
(2,673,526)	(2,423,263)	(2,272,078)	(2,311,195)	(2,127,959)	(2,129,464)
(31,912)	(22,257)	(24,629)	(25,011)	(29,915)	(19,092)
<u>(958)</u>	<u>(1,162)</u>	<u>(1,248)</u>	<u>(1,348)</u>	<u>(1,478)</u>	<u>(1,570)</u>
4,575,465	(1,915,031)	4,157,082	1,519,340	(514,810)	1,317,886
<u>36,530,942</u>	<u>38,445,973</u>	<u>34,288,891</u>	<u>32,769,551</u>	<u>33,284,361</u>	<u>31,966,475</u>
<u>41,106,407</u>	<u>36,530,942</u>	<u>38,445,973</u>	<u>34,288,891</u>	<u>32,769,551</u>	<u>33,284,361</u>
<u>\$ 6,923,727</u>	<u>\$ 10,262,603</u>	<u>\$ 6,910,869</u>	<u>\$ 9,478,593</u>	<u>\$ 9,295,517</u>	<u>\$ 7,407,363</u>
85.58%	78.07%	84.76%	78.34%	77.90%	81.80%
\$ 8,438,379	\$ 8,504,298	\$ 8,461,704	\$ 8,245,139	\$ 7,382,264	\$ 7,569,229
82.05%	120.68%	81.67%	114.96%	125.92%	97.86%

CITY OF PALESTINE, TEXAS

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Fiscal Year Ended September 30,	2024	2023	2022	2021
Actuarially determined contribution	\$ 1,562,067	\$ 1,442,537	\$ 1,300,054	\$ 1,231,597
Contributions in relation to the actuarially determined contribution	<u>1,562,067</u>	<u>1,442,537</u>	<u>1,300,054</u>	<u>1,231,597</u>
Contribution deficiency (excess)	-	-	-	-
Covered payroll	10,841,772	10,211,766	9,446,491	8,876,760
Contributions as a percentage of covered payroll	14.41%	14.13%	13.76%	13.87%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31st and become effective on January 1st, 13 months and a day 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 (longest amortization ladder)
Asset valuation method	10 year smoothed fair value; 12% soft corridor
Inflation	2.50%
Salary increases	3.60% to 11.85% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2023 valuation pursuant to an 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 110% of the 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	There were no benefit changes during the year.

2020	2019	2018	2017	2016	2015
\$ 1,162,861	\$ 1,134,073	\$ 1,171,756	\$ 1,208,961	\$ 1,688,279	\$ 1,185,438
<u>1,162,861</u>	<u>1,134,073</u>	<u>1,171,756</u>	<u>1,208,961</u>	<u>1,688,279</u>	<u>1,185,438</u>
-	-	-	-	-	-
8,586,674	8,407,939	8,479,851	8,561,675	8,565,760	7,569,229
13.54%	13.49%	13.82%	14.12%	19.71%	15.66%

CITY OF PALESTINE, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TMRS SUPPLEMENTAL DEATH BENEFITS FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Measurement Date December 31,	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total OPEB liability				
Service cost	\$ 16,543	\$ 33,369	\$ 32,170	\$ 26,772
Interest on total OPEB liability	26,767	18,025	18,678	21,372
Differences in actuarial experience	6,991	(25,077)	(13,099)	(1,352)
Change of assumptions	36,442	(312,208)	28,930	121,354
Benefit payments	<u>(26,882)</u>	<u>(21,928)</u>	<u>(21,140)</u>	<u>(7,139)</u>
Net change in total OPEB liability	59,861	(307,819)	45,539	161,007
Total OPEB liability, beginning	<u>666,091</u>	<u>973,910</u>	<u>928,371</u>	<u>767,364</u>
Total OPEB liability, ending (a)	<u>\$ 725,952</u>	<u>\$ 666,091</u>	<u>\$ 973,910</u>	<u>\$ 928,371</u>
Covered-employee payroll	\$ 10,339,125	\$ 9,533,987	\$ 9,191,489	\$ 8,924,124
Total OPEB liability as a percentage of covered-employee payroll	7.02%	6.99%	10.60%	10.40%

Note: 10 years of data is required to be provided in this schedule. As of year-end, all years are not available. Additional years will be added in the future as the information becomes available.

Note: No assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB 75.

NOTES TO SCHEDULE

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31st and become effective on January 1st, 13 months and a day later.

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.50%
Salary increases	3.60% to 11.85% including inflation
Discount rate	3.77%
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 MIP-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 by the most recent Scale MP-2021 to account for future mortality improvements subject to the floor.
Other information	The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period December 31, 2022.

<u>2019</u>	<u>2018</u>	<u>2017</u>
\$ 19,408	\$ 22,962	\$ 19,462
24,913	21,552	21,343
(57,660)	28,407	-
121,842	(44,820)	49,868
<u>(5,907)</u>	<u>(5,953)</u>	<u>(5,923)</u>
102,596	22,148	84,750
<u>664,768</u>	<u>642,620</u>	<u>557,870</u>
<u>\$ 767,364</u>	<u>\$ 664,768</u>	<u>\$ 642,620</u>
\$ 8,438,379	\$ 8,504,298	\$ 8,461,704
9.09%	7.82%	7.59%

CITY OF PALESTINE, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
RETIREE HEALTH PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Measurement Date September 30,	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total OPEB liability				
Service cost	\$ 24,207	\$ 28,519	\$ 35,148	\$ 37,713
Interest on total OPEB liability	18,007	21,369	12,952	16,636
Difference in actuarial experience	1,155	(133,017)	3,470	(148,516)
Change of assumptions	6,629	11,271	(130,853)	22,196
Benefit payments	<u>(23,522)</u>	<u>(21,939)</u>	<u>(24,341)</u>	<u>(26,912)</u>
Net change in total OPEB liability	26,476	(93,797)	(103,624)	(98,883)
Total OPEB liability, beginning	<u>388,574</u>	<u>482,371</u>	<u>585,995</u>	<u>684,878</u>
Total OPEB liability, ending (a)	<u>\$ 415,050</u>	<u>\$ 388,574</u>	<u>\$ 482,371</u>	<u>\$ 585,995</u>
Covered-employee payroll	\$ 10,988,600	\$ 10,186,477	\$ 9,446,594	\$ 8,251,093
Total OPEB liability as a percentage of covered-employee payroll	3.78%	3.81%	5.11%	7.10%

Note: 10 years of data is required to be provided in this schedule. As of year-end, all years are not available. Additional years will be added in the future as the information becomes available.

Note: No assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB 75.

NOTES TO SCHEDULE

Valuation Date:	September 30, 2024
Methods and Assumptions Used to Determine Contribution Rates:	
Actuarial cost method	Individual Entry-Age Normal
Discount rate	3.81% as of September 30, 2024
Inflation	2.50%
Salary increases	3.60% to 11.85% including inflation
Demographic assumptions	Based on the 2023 experience study conducted for the Texas Municipal Retirement System (TMRS).
Health care trend rates	Initial rate of 7.00% declining to an ultimate rate of 4.25% after 15 years.
Participation rates	0% for employees retiring before age 50; 5% for employees retiring at ages 50-54; 15% for employees retiring at ages 55-59; 20% for employees retiring at ages 60-64.
Other information	The discount rate changed from 4.63% as of September 30, 2023 to 3.81% as of September 30, 2024. Additionally, the health care trend rates were updated.

<u>2020</u>	<u>2019</u>	<u>2018</u>
\$ 31,768	\$ 98,389	\$ 27,899
17,777	16,126	13,134
(717)	1,222,485	-
19,408	(1,010,597)	(26,625)
<u>(27,816)</u>	<u>(26,180)</u>	<u>(8,187)</u>
40,420	300,223	6,221
<u>644,458</u>	<u>344,235</u>	<u>338,014</u>
<u>\$ 684,878</u>	<u>\$ 644,458</u>	<u>\$ 344,235</u>
\$ 7,988,233	\$ 7,681,287	\$ 7,300,000
8.57%	8.39%	4.72%

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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BRACEWELL

February __, 2026

§ _____
CITY OF PALESTINE, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION
SERIES 2026

We have represented the City of Palestine, Texas (the “Issuer”), as its bond counsel in connection with an issue of certificates of obligation (the “Certificates”) described as follows:

CITY OF PALESTINE, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026, dated January 15, 2026, in the principal amount of \$ _____.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the Issuer on January 26, 2026 authorizing their issuance (the “Ordinance”).

We have represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; customary certificates of officers, agents and representatives of the Issuer and other public officials; and other certified showings relating to the authorization and issuance of the Certificates. We have also analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Certificate No. 1 of this issue. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Ordinance.

Bracewell LLP

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1445 Ross Avenue, Suite 3800, Dallas, Texas 75202-2724
bracewell.com

AUSTIN DALLAS DUBAI HOUSTON LONDON NEW YORK PARIS SAN ANTONIO SEATTLE WASHINGTON, DC

BRACEWELL

February __, 2026

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In providing the opinions set forth herein, we have relied on representations and certifications of the Issuer and other parties involved with the issuance of the Certificates with respect to matters solely within the knowledge of the Issuer and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance, including, but not limited to, covenants relating to the tax-exempt status of the Certificates.

BASED ON SUCH EXAMINATION AND IN RELIANCE ON SUCH REPRESENTATIONS, CERTIFICATIONS, AND ASSUPMTIONS, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the Issuer;
- (B) A continuing ad valorem tax upon all taxable property within the Issuer, necessary to pay the principal of and interest on the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law, and the total indebtedness of the Issuer, including the Certificates, does not exceed any constitutional, statutory or other limitations. In addition, the Certificates are further secured by a limited pledge of the surplus net revenues of the Issuer's waterworks and sewer system as provided in the Ordinance; and
- (C) Interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Certificates is not an item of tax preference for purposes of the alternative minimum tax on individuals, but we observe that such interest is taken into account in computing the alternative minimum tax on certain corporations.

The rights of the Owners of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

We express no opinion as to the amount or timing of interest on the Certificates or, except as stated above, to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Certificates. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations or certifications of the Issuer and other parties upon which we have relied are determined to be inaccurate or incomplete or the Issuer fails to comply with the covenants of the Ordinance, interest on the Certificates could become includable in gross

BRACEWELL

February __, 2026

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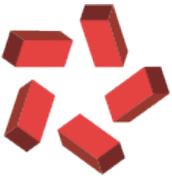
income for federal income tax purposes from the date of the original delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

APPENDIX D

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer 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, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

Municipal Advisory Services
Provided By

