NEW ISSUE	**PRELIMINARY OFFICIAL STATEMENT**	**Rating:**
BOOK-ENTRY-ONLY	**August 20, 2026**	**S&P: "A-"**
		(See "RATING" herein.)

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

THE CITY WILL NOT DESIGNATE THE BONDS AS QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS.

$7,650,000*
CITY OF VICTORIA, TEXAS
(A political subdivision in the State of Texas located in Victoria County)
VENUE PROJECT REVENUE BONDS (COMBINED VENUE TAX), SERIES 2026

Dated: August 15, 2026 (interest to accrue from the Delivery Date) **Due: August 15, as shown on inside cover**

The City of Victoria, Texas (the "City") Venue Project Revenue Bonds (Combined Venue Tax), Series 2026 (the "Bonds") are being issued by the City pursuant to the Constitution and the general laws of the State, particularly Chapter 334, as amended, Texas Local Government Code, an election held in the City on May 3, 2025, and an ordinance to be adopted by the City Council on September 1, 2026 authorizing the issuance of the Bonds (the "Ordinance"). See "THE BONDS – Authority for Issuance" herein.

The Bonds constitute special, limited obligations of the City, payable solely from and secured by a lien on and pledge of certain City revenues (as identified and described herein with respect to both source and priority, and herein referred to as the "Pledged Revenues"). Payment of the Bonds is secured primarily by (i) a first and prior lien on and pledge of the Venue Hotel Occupancy Tax Revenues (defined herein) and (ii) a first and prior lien on and pledge of the Motor Vehicle Rental Tax Revenues (defined herein).

The Bonds are being issued by the City to (i) fund the costs of the Venue Project (defined herein), (ii) fund a debt service reserve account, and (iii) pay the costs of their issuance.

The Bonds are payable solely from and secured by the lien on and pledge of the Pledged Revenues as provided in the Ordinance and not from any other revenues, properties, or income of the City. Neither the State of Texas (the "State") nor any political corporation, subdivision, or agency thereof (other than the City) will be obligated to pay the Bonds or interest thereon, and neither the faith and credit nor the ad valorem taxing power of the State, the City, or any political corporation, subdivision, or agency thereof is pledged to the payment of principal of or interest on the Bonds. No mortgage or deed of trust on any Venue Project or any other City property is created by the Ordinance.

Interest on the Bonds will accrue from the Delivery Date (defined below), will be payable February 15 and August 15 of each year, commencing February 15, 2027, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in beneficial denominations of $5,000 or any integral multiple thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is Wilmington Trust, N.A., Dallas, Texas.

Application has been made to municipal bond insurance companies to have the payment of principal of and interest on the Bonds insured by a municipal bond insurance policy. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.

SEE MATURITY SCHEDULE ON INSIDE COVER PAGE

The Bonds are offered when, as and if issued and, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The Bonds are expected to be available for initial delivery to the Underwriter through the services of DTC on or about September 24, 2026 (the "Delivery Date").

FROST BANK

*Preliminary, subject to change.

MATURITY SCHEDULE

$7,650,000*
CITY OF VICTORIA, TEXAS
VENUE PROJECT REVENUE BONDS (COMBINED VENUE TAX), SERIES 2026

Maturity Date (8/15)	Principal Amount*	Interest Rate	Yield	CUSIP No. [(1)]
2027	$ 150,000			
2028	125,000			
2029	130,000			
2030	140,000			
2031	145,000			
2032	155,000			
2033	160,000			
2034	170,000			
2035	180,000			
2036	185,000			
2037	195,000			
2038	205,000			
2039	220,000			
2040	230,000			
2041	240,000			
2042	255,000			
2043	265,000			
2044	280,000			
2045	295,000			
2046	310,000			
2047	325,000			
2048	340,000			
2049	360,000			
2050	380,000			
2051	400,000			
2052	420,000			
2053	440,000			
2054	465,000			
2055	485,000			

(Interest to accrue from the Delivery Date)

The City reserves the right, at its option, to redeem Bonds maturing August 15, ____ and thereafter, in whole or in part, in the principal amount of $5,000 or any integral multiple thereof (and if within a maturity by lot) on August 15, ____ or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see "THE BONDS - Optional Redemption" herein).

____

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Underwriter, or the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

* Preliminary, subject to change.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purpose of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this Preliminary Official Statement, as the same may be supplemented or corrected from time to time, may be treated as an official statement with respect to the Bonds described herein that has been "deemed final" by the City as of the date hereof (or of any supplement or correction) except for the omission of no more than the information permitted by Subsection (b)(1) of Rule 15c2-12.

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

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to the accuracy or completeness and is not to be construed as a representation by the Underwriter. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of the 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. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

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

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

NONE OF THE CITY, THE FINANCIAL ADVISOR, OR THE UNDERWRITER 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.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES AND 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 THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD- LOOKING STATEMENTS.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in Rule 15c-12.

CITY OF VICTORIA, TEXAS
700 Main Center
Victoria, Texas 77901

ELECTED OFFICIALS

CITY COUNCIL

Name	Years Served	Term Expires (May)	Occupation
Duane Crocker Mayor	3	2028	Attorney
Dr. Andrew Young Mayor Pro-Tem, Super District 5	12	2028	Doctor
Rafael De La Garza, III Council Member, District 1	9	2027	Instructor
Steven Kidder Council Member, District 2	2	2027	Attorney
April L. Butler Council Member, District 3	2	2027	Business Owner
Jan Scott Council Member, District 4	10	2027	Attorney
Mark Loffgren Council Member, Super District 6	6	2028	Retired

APPOINTED OFFICIALS

Name	Position	Years with the City	Length of Service in Current Position
Jesus A. Garza	City Manager	6 Years	6 years
Gilbert P. Reyna, Jr., C.P.A.	Assistant City Manager	31 Years	6 months
Wesley Janecek	Director of Finance	7 Years	1 year
April Hilbrich	City Secretary	17 Years	9 years

BOND COUNSEL AND ADVISORS

Bond Counsel
McCall, Parkhurst & Horton L.L.P.
600 Congress Ave., Suite 2150
Austin, Texas 78701

Certified Public Accountants
Harrison, Waldrop & Uherek, L.L.P.
101 S. Main, Suite 400
Victoria, Texas 77902

Municipal Advisor
RBC Capital Markets, LLC
303 Pearl Parkway, Suite 220
San Antonio, Texas 78215

TABLE OF CONTENTS

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OFFICIAL STATEMENT
relating to

CITY OF VICTORIA, TEXAS
(Victoria County)
$7,650,000* VENUE PROJECT REVENUE BONDS (COMBINED VENUE TAX), SERIES 2026

INTRODUCTORY STATEMENT

All financial and other information presented in this Official Statement has been provided by the City of Victoria, Texas (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 the financial position or other affairs of the City. No representation is made that past experience will necessarily continue or be repeated in the future.

There follow in this Official Statement a description of the City of Victoria, Texas, Venue Project Revenue Bonds (Combined Venue Tax), Series 2026 (the "Bonds") and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City and, during the offering period, from the Financial Advisor, upon payment of reasonable copying, handling, and delivery charges. Certain capitalized terms used in the Official Statement have meanings assigned to them in the ordinance authorizing the issuance of the Bonds (the "Ordinance"), except as otherwise indicated herein.

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

THE BONDS

General Description

The Bonds will be dated August 15, 2026, and will be issued in fully-registered form, in denominations of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the Delivery Date (as defined on the front cover hereof), and will be paid semiannually on February 15 and August 15 of each year, commencing February 15, 2027 until stated maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will mature on the dates and in the amounts as set forth on the inside cover page hereof.

The Bonds constitute special, limited obligations of the City, payable solely from and secured by a lien on and pledge of certain City revenues (as identified and described herein with respect to both source and priority, and herein referred to as the "Pledged Revenues"). Payment of the Bonds is secured primarily by (i) a first and prior lien on and pledge of the Venue Hotel Occupancy Tax Revenues (defined herein) and (ii) a first and prior lien on and pledge of the Motor Vehicle Rental Tax Revenues (defined herein).

The Bonds are payable solely from and secured by the lien on and pledge of the Pledged Revenues as provided in the Ordinance and not from any other revenues, properties, or income of the City. Neither the State of Texas (the "State") nor any political corporation, subdivision, or agency thereof (other than the City) will be obligated to pay the Bonds or interest thereon, and neither the faith and credit nor the ad valorem taxing power of the State, the City, or any political corporation, subdivision, or agency thereof is pledged to the payment of principal of or interest on the Bonds. No mortgage or deed of trust on any Venue Project or any other City property is created by the Ordinance.

Principal and interest will be paid by Wilmington Trust, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Subject to the requirements associated with the use of the Book-Entry Only System (see "BOOK-ENTRY-ONLY SYSTEM" herein), interest will be paid by check dated as of the interest payment date and mailed first class, postage paid, on or before each interest payment date by the Paying Agent/Registrar to the registered owners (the "Owners") appearing on the registration books of the Paying Agent/Registrar on the Record Date (herein defined), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense, of such Owner. Principal will be paid to the Owners at maturity or redemption upon presentation and surrender of the Bonds to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which 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 on which banking institutions are authorize to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The City will initially use the Book-Entry-Only System of The Depository Trust Company ("DTC"), New York, New York in regard to the issuance, payment and transfer of the Bonds. Such system will affect the timing and method of payment of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein).

* Preliminary, subject to change.

Purpose

The Bonds are being issued by the City to (i) fund the costs of the Venue Project (defined herein), (ii) fund a debt service reserve account, and (iii) pay the costs of their issuance.

Authority for Issuance

The Bonds are being issued by the City pursuant to the Constitution and the general laws of the State, particularly Chapter 334, as amended, Texas Local Government Code, an election held in the City on May 3, 2025, and the Ordinance.

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel (see "LEGAL MATTERS" herein.)

Security

The Bonds are special, limited obligations of the City, the principal and interest on which are payable solely from, and secured solely by a lien on and pledge of, certain City revenues, being the Pledged Revenues (as further described herein; see "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS" herein).

Venue Project and Venue Taxes

The Venue Project. The City is pursuing the planning, acquisition, construction, and equipping of the Victoria Community Center (the "Center"), a multipurpose event facility designed to accommodate livestock shows, rodeos, concerts, recreational athletic events, conventions, and a variety of community events, including festivals, weddings, and quinceañeras.

The proposed improvements to the Center include:

- A new covered event arena with up to 3,000 fixed seats, designed to accommodate rodeos, equestrian events, concerts, and other entertainment events, with the capacity to expand to approximately 4,500 seats for concerts;
- A new flex/stage barn for livestock and equipment;
- A maintenance building; and
- General site improvements, including parking, lighting, utility, and circulation improvements.

Pursuant to Chapter 334, the City Council adopted Resolution No. 2025-8 on January 15, 2025 (the "Resolution") providing for the planning, acquisition, establishment, development, construction renovation, and financing of an arena, coliseum, stadium, or other type of area or facility, together with related infrastructure (1) that is used or planned to be used for professional or amateur sports events, community events, or other sports events, including rodeos, livestock shows, agricultural expositions, promotional events, and other civic or charitable events, and (2) for which a fee for admission to the events is charged or is planned to be charged, including related improvements (the "Venue Project"), and to designate the Venue Project as a "sports and community venue project" within the City in accordance with and as defined by Chapter 334. The City then submitted the Resolution to the Texas Comptroller of Public Accounts, as required by Chapter 334, and received written confirmation by letter dated January 24, 2025, that approval and implementation of the Resolution would have no significant negative fiscal impact on revenues of the State of Texas ("Texas" or the "State"). The Resolution designated the following financing methods for the Venue Project:

(a) the imposition of a new short-term motor vehicle rental tax at a rate not to exceed 5.00%, as and to the extent authorized by Subchapter E of Chapter 334 (the "Motor Vehicle Rental Tax"); and

(b) the imposition of an additional hotel occupancy tax at a rate not to exceed 2.00%, as and to the extent authorized by Subchapter H of Chapter 334 (the "Venue Hotel Occupancy Tax" and, together with the Motor Vehicle Rental Tax, the "Venue Taxes")

On February 4, 2025, the City Council adopted Ordinance No. 2025-17 calling a special election to be held within the City on May 3, 2025 (the "Election") to permit qualified voters of the City to vote on the approval of the adoption and implementation of the Resolution. At the Election, qualified County voters approved the adoption and implementation of the Resolution, including designating the Venue Project as a "sports and community venue project", imposing and collecting the Venue Taxes, and issuing one or more series of bonds secured by and payable, in whole or in part, from the revenues derived by the City from imposing and collecting the Venue Taxes for purpose of financing the planning, acquisition, establishment, development, construction and renovation of the Venue Project as permitted under Chapter 334. The Bonds represented the first issuance of debt pursuant to this authorization.

Venue Taxes. On July 1, 2025, the City Council approved and adopted an ordinance imposing the Venue Hotel Occupancy Tax, and on August 5, 2025, the City Council approved and adopted an ordinance imposing the Motor Vehicle Rental Tax (these two ordinances are collectively referred to herein as the "Venue Tax Imposition Ordinances"). The City began collecting each of the Venue Taxes on October 1, 2025. As of June 30, 2026, the City had collected $236,445 in Venue Hotel Occupancy Tax Revenues (defined herein) and $146,019 in Motor Vehicle Rental Tax Revenues (defined herein). See "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS –

Pledged Revenues", "– The Venue Hotel Occupancy Tax" and "– The Motor Vehicle Rental Tax" for additional information regarding the Venue Hotel Occupancy Tax and Motor Vehicle Rental Tax, respectively.

Perfection of Security Interest

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of Pledged Revenues granted by the City as security therefor, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of Pledged Revenues granted by the City is to be subject to the filing requirements of Chapter 9, as amended, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in such pledge, the City has agreed to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, as amended, Texas Business & Commerce Code, and enable a filing to perfect the security interest in the Pledged Revenues to occur.

Additional Obligations

No Additional Parity Obligations for New Money Purposes. In the Ordinance, the City covenanted to not issue any additional obligations secured by a parity lien on and pledge of any revenues that constitute a part of Pledged Revenues; provided, however, that this covenant shall not prevent the City from issuing one or more series of bonds, notes, warrants, certificates of obligation or other debt that are payable, in whole or in part, from and equally and ratably secured by Pledged Revenues ("Additional Combined Venue Tax Bonds") if the purpose of such issuance is to (i) refund the Bonds, in part, if such refunding results in a net present value savings when comparing the debt service on the refunded Bonds to the debt service on such refunding Additional Combined Venue Tax Bonds or (ii) cure an event of default of the City under the Ordinance.

Junior Lien Obligations. The City may, at its option and from time to time for any lawful purpose, issue obligations payable from and secured by a junior lien on and pledge of all or part of any City revenues (including Pledged Revenues) theretofore pledged as security for the repayment of any Bonds to remain Outstanding after the issuance of the contemplated junior lien obligations. Such junior lien obligations shall have the characteristics and be subject to the terms and conditions as determined by the City. There are currently no junior lien obligations outstanding.

Optional Redemption

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, ____, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 15, ____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (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.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds prior to the giving of such notice of redemption, such notice may state that said redemption will, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds will not been redeemed. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provisions

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-

Entry-Only System, a redemption of such Bonds held for account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption 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 persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

Defeasance of Bonds

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, to mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased obligations, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any other then authorized securities or obligations under applicable state laws that may be issued to defease obligations such as the Bonds. City officials are authorized to further restrict the foregoing Defeasance Securities in connection with the sale and issuance of the Bonds. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, the Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call such Bonds for redemption or take any other action amending the terms of such Bonds are extinguished; provided, however, that the right to call Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

The City may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding 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 Bonds affected, no such amendment, addition, or rescission may (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal or maturity value of, or redemption premium, if any, payable on any outstanding Bonds; (4) modify the terms of payment or of interest or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment; (5) affect the rights of the holders of less than all of the Bonds then outstanding; or (6) change the minimum percentage amount of the Bonds necessary to be held by registered owners for consent to such amendment.

SOURCES AND USES PROCEEDS

The following table shows the estimated sources and uses of the proceeds of the Bonds:

Sources:		
	Principal Amount of the Bonds	
	[Net] Original Issue Premium/Discount	
	Total Sources of Funds	
Uses:		
	Deposit to Construction Fund	
	Debt Service Reserve Fund	
	Costs of Issuance and Underwriter's Discount	
	Total Uses of Funds	

ENFORCEMENT OF REMEDIES

The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due, defaults in the deposits and credits required to be made to the Interest and Sinking Fund, 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 30 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 may be sought if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

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

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

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) ("*Wasson*"), the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between governmental and proprietary functions is not clear, the *Wasson* opinion held that the Proprietary-Governmental Dichotomy applies in a contract-claims context. The Court reviewed *Wasson* again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship. Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgement, is justiciable against a municipality.

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

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial 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 cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or 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. Payments on the Bonds 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 depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds 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, Bonds will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement

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

Information concerning DTC and DTC's 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 Financial Advisor or the Underwriter.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is Wilmington Trust, N.A., Dallas, Texas. The Bonds are being issued in fully registered form in integral multiples of $5,000 of principal amount. Interest on the Bonds will be payable semiannually by the Paying Agent/Registrar by check mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the address as it appears on the Paying Agent/Registrar's books on the Record Date, as defined below, or by such other customary banking arrangement acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner.

Successor Paying Agent/Registrar

In the Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Bonds. If the Paying Agent/Registrar is replaced by the City, the Paying Agent/Registrar, promptly upon the appointment of its successor, is required to deliver the registration records to the successor Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank, trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City shall promptly cause a written notice of such change to be sent to each registered owner of the Bonds affected by the change, by United States mail, first class postage prepaid, which notice shall give the address for the new Paying Agent/Registrar.

Future Registration

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

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date is the last business day of the month next preceding such interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for thirty (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 Bond appearing on the 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.

Limitation on Transfer of Bonds

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

Mutilated, Destroyed, Lost, or Stolen Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the City and the Paying Agent/Registrar evidence satisfying to them that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the City and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

Payment Record

The City has never defaulted on the payment of its bonded indebtedness.

SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS

General

UNDER THE ORDINANCE, THE BONDS, INCLUDING PRINCIPAL THEREOF AND INTEREST PAYABLE THEREON, CONSTITUTE SPECIAL, LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM, AND SECURED SOLELY BY A LIEN ON AND PLEDGE OF, THE PLEDGED REVENUES, AS PROVIDED IN THE ORDINANCE AND AS DESCRIBED IN THIS OFFICIAL STATEMENT. THE BONDS DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE STATE OF TEXAS, AND THE HOLDERS THEREOF WILL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OUT OF ANY FUNDS RAISED OR TO BE RAISED BY AD VALOREM TAXATION. IN ADDITION, THE ORDINANCE DOES NOT CREATE A MORTGAGE OR DEED OF TRUST ON THE VENUE PROJECT OR ANY OTHER PROPERTY OF THE CITY.

Pledged Revenues

General. The "Pledged Revenues" consist of (i) a first and prior lien on and pledge of the Hotel Occupancy Tax Revenues, (ii) a first and prior lien on and pledge of the Motor Vehicle Rental Tax Revenues, and (iii) such other money, income, revenues or other property as may be specifically included in such term in any City ordinance supplemental to the Ordinance.

The Ordinance defines "Venue Hotel Occupancy Tax Revenues" to mean the revenues realized by the City from its imposition and collection of the Venue Hotel Occupancy Tax, including penalties and interest for late payments and other payment or reporting-related noncompliance, but excluding amounts withheld for payment of collection costs owed to third parties and rebates, exceptions, and reimbursements as may from time to time be required by applicable law, all pursuant and subject to, and in accordance with, the Venue Tax Imposition Ordinance.

The Ordinance defines "Motor Vehicle Rental Tax Revenues" to mean the revenues realized by the City from its imposition and collection of the Motel Vehicle Rental Tax, including penalties and interest for late payments and other payment or reporting-related noncompliance, but excluding amounts withheld for payment of collection costs owed to third parties and rebates, exceptions, and reimbursements as may from time to time be required by applicable law, all pursuant and subject to, and in accordance with, the Venue Tax Imposition Ordinance.

The Venue Hotel Occupancy Tax. Chapter 334 authorizes the City to impose the Venue Hotel Occupancy Tax on persons who, under a lease, concession, permit, right of access, license, contract, or agreement, pay for the use or possession of a Hotel room within the boundaries of the City that costs $2.00 or more each day and is ordinarily used for sleeping. The Venue Hotel Occupancy Tax equals 2.00% of the consideration paid to the Hotel for the right to use or possess the room. In the Ordinance, "Hotel" is defined to mean a building in which members of the public obtain sleeping accommodations for consideration, including a hotel, motel, tourist home, tourist house, tourist court, lodging house, inn, rooming house, or bed and breakfast; provided, however, that such term does not include (i) a hospital, sanitarium, or nursing home, (ii) a dormitory or other housing facility owned or leased and operated by an institution of higher education or a private or independent institution of higher education, as those terms are defined by Section 61.003, as amended, Texas Education Code, and used by the institution for the purpose of providing sleeping accommodations for persons engaged in an educational program or activity at the institution, or (iii) an oilfield portable unit, as defined by Section 152.001, as amended, Texas Tax Code, as amended; provided further, however, that the term does include a short-term rental in which the rental of all or part of a residential property to a person who is not a permanent resident under Section 156.101, as amended, Texas Tax Code. The consideration paid for a Hotel room, for purposes of Chapter 334, includes the cost of such Hotel room only if the Hotel room is one ordinarily used for sleeping, and does not include the cost of any food served or personal services rendered to the occupant of such Hotel room not related to the cleaning and readying of such Hotel room for occupancy.

To be subject to the Venue Hotel Occupancy Tax, the occupant's use, possession, or right to the use or possession of the sleeping room must be for a period of less than 30 consecutive days. In addition, (i) the United States, (ii) a governmental entity of the United States, (iii) an officer or employee of a governmental entity of the United States when traveling on or otherwise engaged in the course of official duties for such governmental entity and (iv) an officer or employee of the State, or any agency, institution, board or commission of the State (other than an Institution of Higher Education, as defined in Chapter 61, as amended, Texas Education Code) for whom a special provision or exception to the general rate of reimbursement under the General Appropriations Act applies and who is provided with photo identification verifying the identity and exempt status of such person are exempt from paying the Venue Hotel Occupancy Tax. The State, or any agency, institution, board or commission of the State (other than an Institution of Higher Education) and an officer or employee of any such governmental entities for whom a special provision or exception to the general rate of reimbursement under the General Appropriations Act does not apply are entitled to a refund of the Hotel Occupancy paid thereby.

In addition to the 2.00% Venue Hotel Occupancy Tax, a 13.00% occupancy tax is charged to all short-term (30 days or less) Hotel room rentals in a substantial portion of the City costing $2.00 or more per day. This tax is **not** pledged to payment of the Bonds. The combined 15.00% occupancy tax is composed of the following: (i) a 6% hotel occupancy tax imposed by the State, (ii) a 7% hotel occupancy tax imposed by the City, and (iii) the 2.00% Venue Hotel Occupancy Tax.

For a discussion of matters that may impact the City's prospective Venue Hotel Occupancy Tax Revenues, see "INVESTOR CONSIDERATIONS, MARKET FACTORS AND THE VENUE TAXES".

The City's share of collection costs will be paid by it directly if a third party vendor is used and will not be deducted from the Hotel Occupancy Tax collected and paid to the City. Hotels and other eligible vendors of sleeping accommodations are required to collect the Hotel Occupancy Tax at the time room charges are received from patrons and remit such taxes to the Finance Department of the City. Upon receipt of Hotel Occupancy Taxes paid, the City will pay or cause to be paid to the City such collections within two full business days of receipt thereof. The City has been collecting the Hotel Occupancy Tax since its inception.

The Motor Vehicle Rental Tax. Chapter 334 authorizes the City to impose the Motor Vehicle Rental Tax on the rental within the City of a Motor Vehicle designed principally to transport persons or property on a public roadway for which such rental is not longer than 30 days. The Motor Vehicle Rental Tax is equal to 5.00% of the gross rental receipts from the rental of a Motor Vehicle in the City. In the Ordinance, "Motor Vehicle" is defined to mean a self-propelled vehicle designed principally to transport persons or property on a public roadway and includes a passenger car, van, station wagon, sports utility vehicle, and truck; provided, however, the term does not include a (i) trailer, semitrailer, house trailer, truck having a manufacturer's rating of more than one-half ton, or road-building machine; (ii) device moved only by human power; (iii) device used exclusively on stationary rails or tracks; (iv) farm machine; or (v) mobile office. For the purposes of Chapter 334, "rental" means an agreement by the owner of a motor vehicle to authorize for not longer than 30 days the exclusive use of that vehicle to another for consideration. Auto rental establishments are required to collect the Motor Vehicle Rental Tax at the time the owner of the motor vehicle receives a rental payment.

The Motor Vehicle Rental Tax does not apply to the sale, rental or use of a motor vehicle (a) that is (i) owned by a motor vehicle dealer (as defined in Chapter 503, as amended, Texas Transportation Code), (ii) purchased in the State and (iii) is loaned free of charged by such motor vehicle dealer to a public school for use in an approved standard driving course; (b) if the motor vehicle is operated with an exempt license plate issued under Chapter 502, as amended, Texas Transportation Code, and is for use by (i) a public agency or (ii) commercial transportation company to provide transportation services under a contract with (A) a board of county school trustees or school district board of trustees under Chapter 34, as amended, Texas Education Code, or (B) the governing body of an open-enrollment charter school; (c) that is leased to a public agency of the State; (d) that will be or has been primarily driven or used by handicapped persons; (e) that is a fire truck, emergency medical services vehicle (as defined by Chapter 773, as amended, Texas Health and Safety Code, or other motor vehicle used exclusively for fire-fighting purposes or for emergency medical services that is purchased by (i) a volunteer fire department, (ii) nonprofit emergency medical service providers or (iii) an emergency medical service provider to which Chapter 52, as amended, Texas Transportation Code applies; (f) that is used for religious purposes; (g) that is purchased, used or rented by a qualified residential child-care facility (as defined in Chapter 152, as amended, Texas Tax Code) and intended for use primarily in transporting the children residing in such facility under a State license; and (h) that is rented for purposes of re-rental.

The State presently imposes a statewide 10.00% vehicle rental tax on all short-term motor vehicle rentals (30 days or less) and a 6.25% vehicle rental tax on long-term rentals (over 30 days but under 181 days).

For a discussion of matters that may impact the County's prospective Motor Vehicle Rental Tax Revenues, see "INVESTOR CONSIDERATIONS, MARKET FACTORS AND THE VENUE TAXES" herein.

The City has been collecting the Motor Vehicle Rental Tax since its inception.

Pursuant to the MVR Collection Contract, the City is required to submit to the Comptroller a list of businesses within its jurisdiction that are subject to collection of the Motor Vehicle Rental Tax ("MVR Businesses"). On or before the twentieth day of each month, (or the next business day if such twentieth day is not a business day), MVR Businesses are required to report and send to the Comptroller the Motor Vehicle Rental Taxes on behalf of the City for the preceding month. Upon receipt, the Comptroller deposits these collections into an interest bearing account established by the Comptroller for such purpose. Under the MVR Collection Contract, the Comptroller initiates payment to the City of Motor Vehicle Rental Taxes collected on its behalf on the first business day of each month following the month of collection of such Motor Vehicle Rental Taxes. The Comptroller is permitted to retain five percent of the amounts collected to cover insufficient checks and refunds due to MVR Businesses.

Venue Project Fund

The City has covenanted in the Ordinance that all Venue Hotel Occupancy Tax Revenues and the Motor Vehicle Rental Tax Revenues shall be deposited as received in the "Venue Project Fund", which Fund is to be kept separate and apart from all other funds of the City. Within the Venue Project Fund, the City has created special accounts, into which money deposited to the Venue Project Fund shall be further deposited, as specified in the Ordinance. These special accounts of the City within the Venue Project Fund include the following:

(1) Collection Account;
(2) Debt Service Account;
(3) Debt Service Reserve Account;
(4) Capital Improvement and Maintenance and Operations Account; and
(5) Construction Account.

See "Excerpts from the Ordinance" attached hereto as Appendix A for a more detailed description of the Venue Project Fund and the accounts created and held therein.

Collection Account. The City has established and caused to be created an account within the Venue Project Fund known as the "Collection Account" (the "Collection Account"), which account will be maintained with a Depository of the City. The City has covenanted to deposit, as received, Venue Tax revenues to the credit of the Collection Account, all of which money has been pledged and appropriated by the City to the extent required to accomplish the hereinafter-described uses. The City shall, after the Closing Date (unless another time is specified herein or in the Ordinance), transfer or cause to be transferred all amounts on deposit in the Collection Account on the 25th day of each month (or on the last business day prior thereto if such day is a Saturday, Sunday, or Legal Holiday), to the following accounts and in the following order of priority:

(1) *First*, to the Debt Service Account (1) an amount equal to 1/6th of the total interest payable on the Bonds on the next occurring Interest Payment Date, and (2) an amount equal to 1/12th of the principal of the Bonds coming due on the next principal payment date;

(2) *Second*, to the Debt Service Reserve Account, the amount, if any, specified in the Ordinance with respect to periodic payments to be made to such account (see "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Debt Service Reserve Account");

(3) *Third*, the amount necessary for payment of debt service on any junior lien obligations, or to maintain the requisite deposit to any debt service reserve established and maintained with respect thereto, in accordance with the provisions of the applicable order that authorizes the issuance of such junior lien obligations; and

(4) *Fourth*, all amounts remaining to the Capital Improvement and Maintenance Operations Account.

Debt Service Account. The City has established and caused to be created an account within the Venue Project Fund known as the "Debt Service Account" (the "Debt Service Account"), which account is kept and maintained by the Paying Agent/Registrar. Under the Ordinance, the Paying Agent/Registrar is authorized and directed by the City to make withdrawals from the Debt Service Account sufficient to pay the principal of and interest on the Bonds as the same become due and payable in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar by such time that interest on and principal of the Bonds is due and payable.

If, after payment of a scheduled payment obligation of the City for which funds have been deposited to the Debt Service Account in accordance with the transfers set forth above under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account", there remains excess proceeds in the Debt Service Account that were otherwise designated to satisfy such obligation, then such excess proceeds will be released from the Debt Service Account and further deposited in accordance with the provisions of, and in the order of priority specified above under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account".

Debt Service Reserve Account. The City has established and caused to be created an account within the Venue Project Fund known as the "Debt Service Reserve Account" (the "Debt Service Reserve Account"), which account is kept and maintained by the Paying Agent/Registrar. Money on deposit in the Debt Service Reserve Account shall be used solely and exclusively for the purposes of making transfers to the Debt Service Account in the event the money in such account is not sufficient to make transfers to the Paying Agent/Registrar on the dates and in the full amounts required by the Ordinance. The Debt Service Reserve Account will maintain a reserve for the payment of the Bonds equal to $______________ (the "Debt Service Reserve Requirements") as determined in accordance with the applicable provisions of the Ordinance. Income derived from the investment of amounts held for the credit of the Debt Service Reserve Account shall be retained therein. All funds deposited into the Debt Service Reserve Account shall be used solely for the payment of the principal of and interest on the Bonds, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last Stated Maturity or Stated Maturities of or interest on the Bonds.

When and for so long as the cash and investments in the Debt Service Reserve Account equal the Debt Service Reserve Requirements, no deposits need be made to the credit of the Debt Service Reserve Account; but, if and when the Debt Service Reserve Account at any time contains less than the Debt Service Reserve Requirements, the City has in the Ordinance covenanted and agreed that it shall cure the deficiency in the Debt Service Reserve Requirements by depositing to the credit of the Debt Service Reserve Account, on a monthly basis commencing in the month immediately succeeding the month in which the subject deficiency is identified and from the Pledged Revenues, at the times, and in the order of priority specified in the Ordinance (and as described above under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account"), an amount equal to not less than 1/60th of the amount of such deficiency. The City shall continue to make such monthly deposits until the balance of the Debt Service Reserve Account equals the Debt Service Reserve Requirements. The City has further covenanted and agreed that, subject only to the prior payments specified to be made in the Ordinance (and as primarily described above under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account"), the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Debt Service Reserve Requirements and to cure any deficiency in such amounts as required by the terms of the Ordinance.

During such time as the City maintains on deposit in the Debt Service Reserve Account the Debt Service Reserve Requirements, the City may, at its option, withdraw all surplus funds in the Debt Service Reserve Account in excess of the Debt Service Reserve Requirements and deposit such surplus in the Debt Service Account. In the event a Surety Policy or Policies (defined below) issued to satisfy all or a part of the Debt Service Reserve Requirements causes the amount then on deposit in the Debt Service Reserve Account to exceed the Debt Service Reserve Requirements, the City may transfer such excess amount to any fund or account established for the payment of or security for the Bonds (including any escrow established for the final payment of any such obligations pursuant to the provisions of applicable State law), or be used for any lawful purposes; provided, however, to the extent such excess amount represents Bond proceeds, then such amount will be transferred to the Debt Service Account or be otherwise used in accordance with applicable State law.

The City may acquire a debt service reserve surety policy or policies ("Surety Policy or Policies" or "Surety Policy") issued by an authorized provider under applicable Texas law in amounts equal to all or part of the Debt Service Reserve Requirements in lieu of depositing cash into the Debt Service Reserve Account. The City has reserved the right to use Pledged Revenues (subject to the prior payments specified to be made in the Ordinance and as primarily described above under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account") to fund the payment of (1) periodic premiums on a Surety Policy or Policies as a part of the payment of the Venue Project operating expenses, and (2) any repayment obligation incurred by the City (including interest) to the issuer of a Surety Policy or Policies, the payment of which will result in the reinstatement of such Surety Policy or Policies, prior to making payments required to be made to the Debt Service Reserve Account pursuant to the applicable provisions of the Ordinance to restore the balance in such account to the Debt Service Reserve Requirements.

Capital Improvement and Maintenance and Operations Account. The City has established and caused to be created an account within the Venue Project Fund known as the "Capital Improvement and Maintenance and Operations Account" (the "Capital Improvement and Maintenance and Operations Account"), which account will be maintained with a Depository of the City.

Funds held in the Capital Improvement and Maintenance and Operations Account shall be properly spent, at the City's option, for (a) payment of debt service on any bonds payable from all or part of the Venue Taxes, after first applying any funds on deposit in the debt service account relating to such series of bonds, (b) replenishing the Debt Service Reserve Requirement (or any Surety Policy or Policies acquired in the satisfaction of such requirement), (c) payment of any additional costs of completing the Venue Project, (d) costs of renovating, improving, or updating the Venue Project, (e) payment of Maintenance and Operations Expenses, and/or (f) any other lawful purpose. Such use of money on deposit in the Capital Improvement and Maintenance and Operations Account will be accomplished by, with respect to (a) in the preceding sentence, transfer of the amount of money determined by a Designated Financial Officer to the Debt Service Account; with respect to (b) in the preceding sentence, transfer of the amount of money determined by a Designated Financial Officer to the Debt Service Reserve Account; with respect to (c) in the preceding sentence, transfer of the amount of money determined by a Designated Financial Officer to the Construction Account; and with respect to (d) through (f) in the preceding sentence, payment of any such expenses, in the amount and in the manner determined by a Designated Financial Officer, directly from the Capital Improvement and Maintenance and Operations Account.

Until expended, money on deposit in the Capital Improvement and Maintenance and Operations Account will be invested pursuant to the Ordinance and all interest and income derived from deposits and investments in such account will be credited to, and any losses debited to, such account.

Construction Account. The City has established and caused to be created an account within the Venue Project Fund known as the "Construction Account" (the "Construction Account"), which account will be maintained by the City at a Depository. On the Closing Date, the City shall, to the credit of the Construction Account Bond proceeds in the amount of $____________.

Money on deposit in the Construction Account will be used solely for the purpose of paying the costs of the Venue Project. Money on deposit in the Construction Account will be disbursed as determined by a Designated Financial Officer.

Until expended, money on deposit in the Construction Account shall be invested pursuant to the Ordinance. See "Excerpts from the Ordinance" attached hereto as Appendix A. Any net income, interest or gain received and collected from investments in the Construction

Account may be used and applied by the City for the purpose of paying for costs and expenses incurred in connection with the development, financing, or construction of the Venue Project, as permitted by Chapter 334.

Upon final completion of the portion of the Venue Project for which the Bonds were issued (as determined by a Designated Financial Officer), and after payment of all amounts payable by the City therefor, any funds remaining in the Construction Account will be transferred to the Debt Service Account and any amounts required to be transferred to the Debt Service Account from Pledged Revenues (as set forth above under "SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS – Venue Project Fund – Collection Account") shall be offset to the extent of funds transferred to such account from the Construction Account.

INVESTOR CONSIDERATIONS, MARKET FACTORS AND THE VENUE TAXES

Each prospective investor in the Bonds should read this Official Statement in its entirety, including the Appendices hereto. The following is a discussion of certain investment considerations that should be considered by any prospective purchaser of the Bonds prior to an investment in the Bonds. Such discussion is not, and is not intended to be, exhaustive and should be read in conjunction with the other parts of this Official Statement, including the Appendices hereto. Particular attention should be given to the considerations described below which, among others, could affect the payment of debt service on the Bonds, and which could also affect the marketability of the Bonds to an extent that cannot be determined.

Hotel-Industry Related Risks

The City has limited ability to respond to changes in economic or other conditions with respect to the hotel market, thereby limiting its ability to impact the generation of revenues from the Venue Hotel Occupancy Tax toward payment of the debt service on the Bonds.

The hotel market is subject to all operating risks common to the hotel and motel industry. These risks include: changes in general economic conditions; the level of demand for rooms and related services; cyclical over-building in the hotel industry; competition from other hotels, motels, and recreational properties located outside the City and otherwise not contributing to the hotel occupancy tax collections within the City; the recurring need for renovations and refurbishment of hotel facilities; restrictive changes in zoning and similar land use laws and regulations or in health, safety, and environmental laws, rules and regulations; the inability to secure property and liability insurance to fully project against all losses or to obtain such insurance at reasonable rates; and changes in travel patterns.

The destination and marketing industry in the City, surrounding areas, and State is highly competitive. Counties and cities within the State, including the City, vie for the market share of the tourism industry, as the State's other large markets are continually making advances to attract visitors and large conventions. As the destination and marketing industry is evolving, some competitors have substantially greater marketing and financial resources to promote their respective destination when compared to the City. There is no assurance that the City's upward trend in hotel occupancy tax collections, as well as new hotel and overnight accommodation construction, will continue.

Changes in local economic conditions will directly affect demand for the hotel market and thus availability of hotel occupancy taxes. Such operations may be affected by casualty losses at hotels in the City or trends in hotel or tourism industries, which are further affected by political and economic events beyond the control of the City, such as business conditions affecting the area's largest employers.

Venue Taxes

Commencement and continuation of the collection of Venue Taxes is subject to a variety of factors, none of which are within the City's control. Collections can be adversely affected by (i) changes in State law and administrative practices governing the remittance and allocation of Motor Vehicle Rental Tax receipts, and (ii) changes in economic activity and conditions within the City and general geographic area. Many factors may affect the City's collection of the Venue Taxes, as many of these expenditures are not necessarily considered essential, including fuel prices, general costs of living, employment levels of employers within and outside the City, individual's discretionary spending on items that would produce revenues from the Venue Taxes, and the overall impact of the economy to individuals that would otherwise be contributing to the Venue Taxes base. The City is unable to predict what impact economic conditions such as the foregoing may have on its continued collection of revenues received from the Venue Taxes.

Venue Project Construction Risks

Construction Risks. As with all construction projects, the development and construction of the Venue Project is susceptible to various risks and uncertainties, such as: inflation of construction costs; general construction risks, including cost overruns, change orders and plan or specification modifications, shortages of equipment, materials or skilled labor, labor disputes, unforeseen environmental, engineering or geological problems, work stoppages, fire and other natural disasters, construction scheduling problems and weather interferences; changes and concessions required by governmental or regulatory authorities; delays in obtaining, or inability to obtain, all licenses, permits, and authorizations required to complete and/or operate the Venue Project; and disruption of existing operations and facilities. Such events could result in delayed marketing, substantial completion, and/or occupancy (and the receipt of a certificate evidencing the right to occupy) of the Venue Project and, though the credit for the Bonds is not directly tied to Venue Project completion or performance, failure of the former or underperformance of the latter could nevertheless impact collection of Pledged Revenues and/or public sentiment and support of the Venue Project. In addition, substantial completion and occupancy of the Venue Project may be extended by reason of changes authorized by the City, delays due to unforeseen acts or neglect of the Venue Project, or by independent contractors retained in the construction thereof.

Availability of Funds. The cost of any project may vary significantly from initial expectations, and there may be a limited amount of capital resources to fund cost overruns. If cost overruns occur and cannot be financed on a timely basis, the completion of the Venue Project may be delayed until adequate funding is available. No assurance can be given that the costs of completing the Venue Project will not exceed the amount of available funds or that completion of the Venue Project will not be delayed beyond the current expected opening day.

Events of Force Majeure. Construction and operation of the Venue Project are at risk from events of force majeure, such as earthquakes, tornados, hurricanes or other natural disasters, epidemics, blockades, rebellions, war, riots, acts of sabotage, terrorism or civil commotion, and spills of hazardous materials, among other events. Construction or operations may also be stopped or delayed from non-casualty events such as discovery of archaeological artifacts, changes in law, delays in obtaining or renewing required permits, revocation of such permits and approvals and litigation, among other things.

Environmental Risks. There are potential risks relating to environmental liability associated with the ownership of any property. If hazardous substances are found to be located on or under the Venue Project property, such property may be held liable for costs and other liabilities relating to such hazardous substances.

Regulatory and Legislative Environment

Under various federal, State and local environmental laws, orders, and regulations, a current or previous owner or operator of real property may become liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Other federal, State and local laws exist, such as the Americans with Disabilities Act, which may require modifications to buildings or restrict certain renovations by requiring access to such buildings by disabled persons. The costs of compliance with such laws may be substantial and may materially affect the Venue Project and its operations and performance.

Non-Recourse Obligations

The Bonds are special obligations of the City payable solely from the Pledged Revenues. See “SECURITY AND SOURCES OF PAYMENT; FUNDS AND ACCOUNTS”. NONE OF THE STATE OF TEXAS, THE CITY, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE OF TEXAS, EITHER INDIVIDUALLY OR COLLECTIVELY, HAS PLEDGED OR SHALL PLEDGE OTHER REVENUES AS SECURITY FOR THE BONDS FROM FUNDS RAISED OR TO BE RAISED BY AD VALOREM TAXATION; AND NEITHER THE FAITH AND CREDIT, NOR THE TAXING POWER, OF THE STATE OF TEXAS, THE CITY, OR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE OF TEXAS, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM (IF ANY), OR THE INTEREST ON THE BONDS. NO INTEREST IN THE VENUE PROJECT HAS BEEN GRANTED AS SECURITY FOR THE PAYMENT OF THE BONDS.

Risk of Damage to the City Caused by Weather Events

The City is located in proximity to the Texas Gulf Coast and has been and could again be impacted by high winds, heavy rains, and flooding caused by hurricane, tornado, tropical storm, or other adverse weather events. In the event that weather events cause a substantial loss of property (including hotels and other City infrastructure) in the City for a prolonged period, the ability of the City to pay its debt obligations, including the Bonds, could be impacted. There can be no assurance that a casualty will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any properties in the City that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which the City would be adversely affected. There can be no assurance the City, its infrastructure, and hotels and other facilities directly impacting the Pledged Revenues will not sustain damage from meteorological events.

Additionally, it is possible that a subsequent hurricane or significant weather related event may cause the Governor to take actions (as Governor Rick Perry did in response to Hurricane Ike in 2008, to suspend the collection of hotel occupancy taxes for a certain period) which, if prolonged, could have a material adverse effect on the City’s ability to pay debt service on the Bonds.

Achievement of Projections

The collection of the Pledged Revenues in amounts sufficient to pay debt service on the Bonds when due is affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. As noted in the section captioned “Forward Looking Statements,” any projection is subject to uncertainties. Although the City believes that the expectations reflected herein are reasonable, there is no assurance that those expectations will be achieved. Inevitably, some assumptions used to develop the moderate and/or higher growth scenario forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See “Forward Looking Statements.”

Limitations of Remedies

The occurrence of an event of default under the Ordinance will not permit the acceleration of the maturity of, or allow immediate payment for, the entire outstanding principal balance of the Bonds. Due to the fact that payment of the Bonds is not secured by a mortgage lien or other security interests in the physical facilities of the Project or any other assets of the City, the Bondholders will be limited to seeking remedies against the Pledged Revenues.

Summary

The foregoing is intended only as a summary of certain investment considerations attendant to an investment in the Bonds. In order to allow potential investors to identify investment considerations and make an informed investment decision, potential investors should be thoroughly familiar with the entire Official Statement and the appendices hereto and should have accessed whatever additional financial and other information any such investor may deem necessary to make its decision to invest in the Bonds.

BOND INSURANCE

The City has applied for a bond insurance policy to guarantee the scheduled payment of principal of and interest on the Bonds. The City has yet to determine whether an insurance policy will be purchased on the Bonds. If an insurance policy is purchased, the following are risk factors relating to bond insurance.

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the City which is recovered by the City from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the City unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of RATINGS herein.

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.
Neither the City nor the Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "Bond Insurance" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas 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 Texas 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 of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) interest-bearing banking deposits, other than those described by clause (7), if (A) the funds invested in the banking deposits are invested through (i) a broker with a main office or branch office in this State that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this state that the City selects; (B) the broker or depository institution as described in clause (8)(A), above, arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits or; (ii) where the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) 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; (iv) 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 (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations permitted by the Public Funds Investment Act, and require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City’s name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) 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 (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers’ acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) 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 complies with SEC Rule 2a-7; and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

Investment Policies

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

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the 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.

Additional Provisions

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

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel to the City will rely upon (a) the City's federal tax certificate, and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds, and certain other matters. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance of the Bonds.

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

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

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the holders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

Under existing law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof.

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered owner and to the IRS. Payments of interest and principal may be subject to backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of non-U.S. owners, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

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

LITIGATION

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

It is the obligation of the Underwriter to register or qualify the sale of the Bonds 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 Bonds 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 Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "RATING" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS

The City will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are a valid and legally binding general obligation of the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds, issued in compliance with the provisions of the Ordinance, are valid and legally binding general obligations of the City. In its capacity as Bond Counsel, such firm has reviewed the information relating to the Bonds and the Ordinance contained in this Official Statement (except for any financial, statistical, or technical data therein) under the captions "THE BONDS", "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE,", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "LEGAL MATTERS" (excluding the last sentence of the first paragraph thereof) and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings"), and such firm is of the opinion that the information contained under such captions and in such appendices is a fair and accurate summary of the information purported to be shown and is correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB annually in an electronic format that is prescribed by the MSRB and available via the Electronic Municipal Market Access System ("EMMA") at www.emma.msrb.org. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement in Appendix A (Tables 1-5B) and in Appendix C. The City will update and provide the updated financial and operating data in Appendix A within six months after the end of each fiscal year ending in or after 2026 and, if then available, audited financial statements of the City. If audited financial statements are not available when the information is provided, the City will provide audited financial statements when and if they become available, but in any event within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall 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 statements becomes available.

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

The City's current fiscal year end is September 30. Accordingly, updated unaudited information included in the above-referenced tables must be provided by March 31 in each year, and audited financial statements 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.

Notice of Occurrence of Certain Events

The City also will provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten (10) business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional paying agent/registrar or change of name of the paying agent/registrar, 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 Bonds nor the Ordinance make any provision for liquidity enhancement, credit enhancement, or require the funding of debt service reserves.

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

Notice of Failure to Timely File

The City also will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the provisions described above.

Availability of Information

All information and documentation filing required to be made by the City in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines, by and through EMMA. Access to such filings will be provided, without charge to the general public, by the MSRB through EMMA at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of certain 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 the Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement. No default by the City with respect to its continuing disclosure agreement shall constitute a breach of or default under the Ordinance for purposes of any other provision of the Ordinance. Nothing in this paragraph is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws. The City's undertakings and agreements are subject to appropriation of necessary funds and to applicable legal restrictions.

The City’s continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds. 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 set forth below, during the past five years the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

On June 20, 2025, the City entered into a lease agreement constituting the incurrence of a financial obligation. Notice of the incurrence of this financial obligation was due July 7, 2025 (ten business days thereafter), as required by paragraph (b)(5)(i)(C) of the Rule. Due to an administrative oversight, the event disclosure was untimely filed. On July 16, 2025 the City filed the notice of incurrence of the financial obligation, along with a notice of failure to timely file within the ten-business day deadline. In addition, the City is obligated to file its Comprehensive Annual Financial Report ("CAFR") by March 31 of each year. In addition, the City filed its CAFR for Fiscal Year 2025 on May 6, 2026. The City has filed a notice of late filing on August 19, 2026.

RATING

The Bonds have been assigned a rating of "A-" by S&P Global Ratings ("S&P").

An explanation of the significance of such rating may be obtained from S&P. The rating of the Bonds reflects only the view of S&P at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. A rating is not a recommendation to buy, hold, or sell securities. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

UNDERWRITER

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at the yields shown on page ii of this Official Statement less an underwriting discount of $___________. The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing the Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

MUNICIPAL ADVISOR

RBC Capital Markets, LLC (the "Municipal Advisor") is employed as Municipal Advisor to the City. The fees paid the Municipal Advisor for services rendered in connection with the issuance and sale of the Bonds are based on the amount of Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

CYBERSECURITY RISKS

The City relies on its information systems to provide security for processing, transmission and storage of confidential personal, health-related, credit and other information. It is possible that the City's security measures will not prevent improper or unauthorized access or disclosure of personally identifiable information resulting from cyber-attacks. Security breaches, including electronic break-ins, computer viruses, attacks by hackers and similar breaches can create disruptions or shutdowns of the City and the services it provides, or the unauthorized disclosure of confidential personal, health-related, credit and other information. If personal or otherwise protected information is improperly accessed, tampered with or distributed, the City may incur significant costs to remediate possible injury to the affected persons, and the City may be subject to sanctions and civil penalties if it is found to be in violation of federal or state laws or regulations. Any failure to maintain proper functionality and security of information systems could interrupt the City's operations, delay receipt of revenues, damage its reputation, subject it to liability claims or regulatory penalties and could have a material adverse effect on its operations, financial condition and results of operations.

POTENTIAL IMPACT OF NATURAL DISASTER

The City is located in proximity to the Texas Gulf Coast and has been and could again be impacted by high winds, heavy rains, and flooding caused by hurricane, tornado, tropical storm, or other adverse weather events. In the event that a natural disaster should damage or destroy the Center, resulting in decreased collections of the City's taxes. There can be no assurance that a casualty will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), or that any insurance company will fulfill its obligation to provide insurance proceeds. There can be no assurance that property in the City or the Center will not sustain damage from meteorological events.

FORWARD LOOKING STATEMENTS

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

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

AUTHENTICITY OF FINANCIAL INFORMATION

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

USE OF INFORMATION IN OFFICIAL STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

The Ordinance will 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 Bonds by the Underwriter in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

CITY OF VICTORIA, TEXAS

____
Mayor
City of Victoria, Texas

ATTEST:

____
City Secretary
City of Victoria, Texas

APPENDIX A

The information contained in Appendix A consists of financial information regarding the City of Victoria, Texas.

Table 1

PRO-FORMA VENUE TAX REVENUE AND BOND DEBT SERVICE SCHEDULE (PROJECTED)

Fiscal Year Ended 30-Sep	Actual/ Projected HOT Revenue[1]	Actual/ Projected MVRT Revenue[1]	Projected Pledged Revenue Available for Debt Service	The Bonds[2] Principal	Interest	Total	Principal Unpaid at End of Year	% of Principal Retired	Annual Coverage Ratio	Excess Revenues
2026	$ 544,951	$ 200,000	$ 744,951				$ 7,650,000	0.00%		$ 744,951
2027	544,951	200,000	744,951	$ 150,000	$ 362,546	$ 512,546	7,500,000	1.96%	1.45	232,405
2028	544,951	200,000	744,951	125,000	387,750	512,750	7,375,000	3.59%	1.45	232,201
2029	544,951	200,000	744,951	130,000	381,288	511,288	7,245,000	5.29%	1.46	233,664
2030	544,951	200,000	744,951	140,000	374,567	514,567	7,105,000	7.12%	1.45	230,385
2031	544,951	200,000	744,951	145,000	367,329	512,329	6,960,000	9.02%	1.45	232,623
2032	544,951	200,000	744,951	155,000	359,832	514,832	6,805,000	11.05%	1.45	230,119
2033	544,951	200,000	744,951	160,000	351,819	511,819	6,645,000	13.14%	1.46	233,133
2034	544,951	200,000	744,951	170,000	343,547	513,547	6,475,000	15.36%	1.45	231,405
2035	544,951	200,000	744,951	180,000	334,758	514,758	6,295,000	17.71%	1.45	230,194
2036	544,951	200,000	744,951	185,000	325,452	510,452	6,110,000	20.13%	1.46	234,500
2037	544,951	200,000	744,951	195,000	315,887	510,887	5,915,000	22.68%	1.46	234,064
2038	544,951	200,000	744,951	205,000	305,806	510,806	5,710,000	25.36%	1.46	234,146
2039	544,951	200,000	744,951	220,000	295,207	515,207	5,490,000	28.24%	1.45	229,744
2040	544,951	200,000	744,951	230,000	283,833	513,833	5,260,000	31.24%	1.45	231,118
2041	544,951	200,000	744,951	240,000	271,942	511,942	5,020,000	34.38%	1.46	233,009
2042	544,951	200,000	744,951	255,000	259,534	514,534	4,765,000	37.71%	1.45	230,417
2043	544,951	200,000	744,951	265,000	246,351	511,351	4,500,000	41.18%	1.46	233,601
2044	544,951	200,000	744,951	280,000	232,650	512,650	4,220,000	44.84%	1.45	232,301
2045	544,951	200,000	744,951	295,000	218,174	513,174	3,925,000	48.69%	1.45	231,777
2046	544,951	200,000	744,951	310,000	202,923	512,923	3,615,000	52.75%	1.45	232,029
2047	544,951	200,000	744,951	325,000	186,896	511,896	3,290,000	56.99%	1.46	233,056
2048	544,951	200,000	744,951	340,000	170,093	510,093	2,950,000	61.44%	1.46	234,858
2049	544,951	200,000	744,951	360,000	152,515	512,515	2,590,000	66.14%	1.45	232,436
2050	544,951	200,000	744,951	380,000	133,903	513,903	2,210,000	71.11%	1.45	231,048
2051	544,951	200,000	744,951	400,000	114,257	514,257	1,810,000	76.34%	1.45	230,694
2052	544,951	200,000	744,951	420,000	93,577	513,577	1,390,000	81.83%	1.45	231,374
2053	544,951	200,000	744,951	440,000	71,863	511,863	950,000	87.58%	1.46	233,088
2054	544,951	200,000	744,951	465,000	49,115	514,115	485,000	93.66%	1.45	230,836
2055	544,951	200,000	744,951	485,000	25,075	510,075	-	100.00%	1.46	234,877
	$ 16,348,530	$ 6,000,000	$ 22,348,530	$ 7,650,000	$ 7,218,483	$ 14,868,483				$ 7,480,047

[1] Revenues estimated using current year collections and projections for the remaining months.

[2] Preliminary, subject to change. Interest calculated at an assumed rate solely for illustration purposes.

Table 2

CITY OF VICTORIA HISTORICAL HOTEL OCCUPANCIES AND AVERAGE DAILY RATES/HISTORY

Calendar Year	Average Daily Room Rate (S$)	Hotel Occupancy (%)	REVPARS($)[(1)]
2019	79.09	62.58	49.58
2020	71.59	54.28	39.12
2021	78.72	63.26	49.76
2022	83.76	61.73	51.77
2023	82.88	57.83	47.96
2024	86.25	60.38	52.15
2025	87.22	56.72	49.55
2026[(2)]	89.73	56.64	50.91

Source: The City.

[(1)] Represents revenue per available room per day.

Table 3A

HOTEL OCCUPANCY - TOP 15 HOTELS BY ANNUAL REVENUE

Hotel	2025 Revenue	2024 Revenue	2023 Revenue	2022 Revenue	2021 Revenue
Hilton Garden Inn	$ 3,579,604	$ 3,833,749	$ 3,462,454	$ 3,429,810	$ 3,350,436
Homewood Suites	3,311,816	3,038,922	2,620,854	2,812,182	2,266,936
Courtyard by Marriott Victoria	2,807,763	3,095,836	2,755,910	2,935,418	2,072,784
Victoria Hospitality Partners	1,872,716	2,258,607	1,993,911	12,418	N/A
La Quinta Victoria South	1,752,853	1,783,760	1,563,857	1,647,207	1,682,080
Hampton Inn - Victoria	1,559,046	1,770,083	1,503,562	1,447,320	1,213,949
Comfort Inn & Suites	1,455,698	1,558,314	1,274,069	1,316,243	1,291,352
CW Victoria 1 Hospital LLC	1,370,442	1,207,868	1,228,919	N/A	N/A
Best Western Plus	1,011,226	981,552	496,138	385,347	N/A
La Quinta Inn	995,821	1,120,510	1,002,612	1,083,983	955,749
Baymont Inn & Suites	837,409	862,737	754,126	927,055	975,818
Fairfield Inn & Suites Victoria	789,833	672,057	769,940	874,427	844,163
1907 US Hwy 59 N	769,238	802,658	585,655	738,670	290,976
Days Inn	727,828	700,345	728,867	1,259,222	895,471
Super 8	694,738	674,691	467,235	145,028	N/A
	$ 23,536,031	$ 24,361,689	$ 21,208,109	$ 19,014,330	$ 15,839,714

Source: The City.

Table 3B

HOTEL OCCUPANCY - TOP 15 HOTELS BY ANNUAL REVENUE

Hotel	Number of Rooms
La Quinta Inn	130
Americas Best Value Inn & Suites	126
Hilton Garden Inn	118
Homewood Suites	109
Courtyard by Marriott Victoria	109
Victoria10 Hospitality LLC	101
Sure Stay by Best Western	96
Candlewood Suites	82
Motel 6	80
Victoria Hospitality Partners LLC	76
1907 US Hwy 59 N	70
Comfort Inn & Suites	68
Hampton Inn Victoria	68
La Quinta Victoria South	66
Days Inn	64
	1,363

Source: The City.

Table 4

5 YEAR ANNUAL HOTEL ROOM SALES

Year	Total Hotel Room Sales	% Increase/ Decrease	Total Taxable Hotel Room Sales	% Increase/ Decrease	HOT 7%	Venue Tax 2%(2)
2021	$ 30,650,192	-	$ 26,581,257	-	$ 1,860,688	$ 531,625
2022	30,221,897	-1.40%	27,602,059	3.84%	1,932,144	552,041
2023	28,260,598	-6.49%	26,084,211	-5.50%	1,825,895	521,684
2024	31,016,945	9.75%	29,077,446	11.48%	2,035,421	581,549
2025	31,523,658	1.63%	27,229,528	-6.36%	1,906,067	544,591
2026(1)	13,219,654	N/A	11,822,256	N/A	827,558	236,445

Source: The City. Note: This information is presenented on a calendar year basis.

(1) Through June 30, 2026.

(2) 2021-2025 estimate what the annual Venue Tax Collections would have been had the City imposted the Venue Tax at the time.

Table 5A

MONTHLY SHORT-TERM MOTOR VEHICLE RENTAL REVENUE

Fiscal Year	October	November	December	January	February	March	April	May	June	July	August	September
2025/26	$ 518,747.46	$ 456,196.37	$ 544,063.38	$ 391,892.62	$ 400,489.19	$ 498,819.76	$ 456,187.80	$ 459,865.12	$ 526,234.76			

Table 5B

MONTHLY SHORT-TERM MOTOR VEHICLE RENTAL TAXABLE RECEIPTS

Fiscal Year	October	November	December	January	February	March	April	May	June	July	August	September
2025/26	$ 210,635.08	$ 333,122.91	$ 396,201.20	$ 287,177.67	$ 282,759.74	$ 378,113.86	$ 304,621.42	$ 330,117.25	$ 397,634.43			

APPENDIX B

The information contained in this Appendix consists of general information regarding the City of Victoria, Texas.

GENERAL AND FINANCIAL INFORMATION REGARDING THE CITY OF VICTORIA, TEXAS

Location

The City of Victoria, Texas (the "City") occupies an area of 29.17 square miles along the banks of the Guadalupe River. The topography is rolling with a median elevation between 203-238 feet. The City is 30 miles inland from the Gulf of Mexico and within a 2 hour drive of 4 of the fastest growing cities in the United States. Interstate 10 is 63 miles to the north, Interstate 35 is 93 miles northwest and Interstate 37 is 85 miles southwest.

The City is the second oldest incorporated city in the State of Texas. It has a rich history of Spanish Conquistadors, French explorers, and Mexican settlers. Soon after Texas declared its independence in 1836, the City became distinguished as one of the leading areas for cattle ranching and then in the early 1900's, a leader in oil and gas exploration.

Population

City of Victoria	Year	Victoria County
65,534	2020	91,319
62,592	2010	86,793
60,603	2000	81,500
55,076	1990	74,361
51,248	1980	68,807
41,349	1970	53,766

Economy

The City's economy has grown to become the regional hub for approximately 175,000 people. It has also evolved into a service and supply hub for heavy industry located nearby. The population and industrial base has allowed the growth of hospitals and other medical facilities, law firms, accounting firms, insurance agencies and other types of consultants. Oil and gas exploration and production is a significant part of the City's economy although it no longer plays a dominant role. Retail, restaurant and recreational activities continue to play a major role in the economy due to the large population served.

Victoria draws from a 50-mile radius for employees and has a civilian work force population of approximately 37,700 with low union employment.

Major Area Employers

Employer	Type of Business	Number of Employees
Formosa Plastics Corporation	Petrochemical, plastics	2,800
Victoria Independent School District	Education	2,414
The Inteplast Group	Plastics Products	2,000
Citizens Medical Center	Health Care	1,341
DeTar Healthcare System	Health Care	1,200
Victoria College	Higher Education	700
Dow – Seadrift Operations	Petrochemicals	694
City of Victoria	City Government	656
Caterpillar	Heavy Equipment	650
Texas A&M University-Victoria	Higher Education	588

Source: The City's Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2025.

Historical Employment Data, City of Victoria

Area	2026[1]	2025	2024	2023	2022
Labor Force	30,160	30,280	30,354	29,910	29,830
Employed	28,728	29,019	29,099	28,678	28,565
Unemployed	1,432	1,261	1,255	1,232	1,265
Unemployment Percentage	4.7%	4.2%	4.1%	4.1%	4.2%

Source: Texas Labor Market Information.
[1] As of June 2026.

Comparative Unemployment Rates

	2026[1]	2025	2024	2023	2022
City of Victoria	4.7%	4.2%	4.3%	4.1%	4.2%
State of Texas	4.9%	4.2%	4.1%	3.6%	3.9%
United States of America	4.4%	4.3%	3.9%	3.9%	3.6%

Source: Texas Workforce Commission.
[1] As of June 2026.

Building Permit History

	Residential/Miscellaneous		Commercial		Total	
Fiscal Year	Number of Permits	Amount (000's)	Number of Permits	Amount (000's)	Number of Permits	Amount (000's)
2004	2,002	$42,143	58	$18,627	2,060	$60,770
2005	1,296	42,531	75	22,406	1,371	64,937
2006	1,229	46,863	65	38,520	1,294	85,383
2007	1,087	48,905	60	41,536	1,147	90,441
2008	1,273	32,928	72	160,644	1,345	193,572
2009	1,400	22,146	33	39,230	1,433	61,376
2010	1,585	26,065	42	23,625	1,627	49,690
2011	1,459	39,919	32	72,285	1,491	112,204
2012	1,808	58,751	36	61,568	1,844	120,319
2013	2,313	75,949	29	38,128	2,342	114,077
2014	2,344	116,282	32	51,897	2,376	168,179
2015	2,010	60,253	19	8,961	2,029	69,214
2016	1,537	55,122	28	32,424	1,565	87,546
2017	2,198	33,742	9	8,599	2,207	42,341
2018	5,912	109,386	8	5,419	5,920	114,805
2019	2,100	58,622	9	14,202	2,109	72,824
2020	1,842	64,392	6	14,284	1,848	78,676
2021	1,979	131,871	18	33,436	1,997	165,310
2022	2,021	32,287	19	28,955	2,040	61,242
2023	1,779	34,659	90	38,367	1,869	72,996
2024	1,832	80,299	20	77,350	1,852	157,649
2025	1,834	28,068	25	29,556	1,859	57,624

Source: The City's Comprehensive Annual Financial Reports, and the Finance Department of the City of Victoria.

Climate

The average low temperature for January is 43 degrees and the average high temperature for July is 94 degrees. The annual average wind speed is 10 mph and the average annual precipitation is 36.9".

Higher Education

There are over 60 colleges and universities within a 150-mile radius of the City. Some of the premier research universities in the country are located in the area including The University of Texas at Austin, Texas A & M University, Rice University, and the University of Houston.

Victoria College was established as a part of the Victoria school system on February 4, 1925 and has been located at its present site since 1949. The 80-acre campus includes 18 buildings designed to facilitate and enhance the learning process. Victoria College offers freshman and sophomore courses which parallel/transfer to other colleges and universities; programs of study in the technical and vocational areas; developmental education; continuing education; and programs of interest to the community.

The University of Houston-Victoria (UHV) recently changed state university systems, and is now Texas A&M University-Victoria ("TAMUV"). TAMUV is a four-year public institution offering dozens of bachelor's and master's degree programs and concentrations in the Schools of Arts & Sciences, Business Administration, and Education & Human Development. Since its founding in 1973 as UHV, TAMUV has provided thousands of students in the Victoria region with a quality university education from notable faculty at an exceptional value. As of the fall semester of 2025, TAMUV has over 3,500 students.

Government

The City is under a council-manager form of government with seven elected members. The Mayor is elected at-large, four council members are elected by district, with the two remaining council members being elected by superdistrict.

Transportation

Victoria Regional Airport serves the area. Skywest provides the airport with daily flights Houston.

The Union Pacific Railroad provides service to the area. The Union Pacific also provides the rail service for plants located along the Victoria Barge Canal. The main line runs through the City of Bloomington South of Victoria and serves the rest of the country via Houston and Corpus Christi. An average of six trains per day pass through Victoria. There are twelve Motor Freight Carriers and seven moving companies that provide professional services to the City. Greyhound, Valley Transit and Kerrville Bus lines provide service to the City.

The nearest deepwater port, the Port of Port Lavaca-Point Comfort, is just 30 miles from Victoria. The Victoria Barge Canal connects Victoria to the Gulf Intracoastal Waterway and allows barges originating from Victoria access to all Gulf and Atlantic Coast ports as well as all inland ports along the Mississippi River system and the Great Lakes.

Recreation/Miscellaneous

The City provides many types of recreation and entertainment; the Symphony Orchestra features internationally recognized performers, the Texas Zoo contains over 100 species of native Texas wildlife, the Victoria Community Theater offers productions annually and the Victoria Fine Arts Association sponsors various programs. The City has 2 museums, over 58 restaurants and motels with 1,500 rooms. Additionally, the City has two 18-hole golf courses and one 27-hole golf course, 48 tennis courts, public swimming pools and 12 city parks totaling 720 acres in addition to area attractions such as Lake Texana and the Coleto Creek Reservoir.

APPENDIX C

The information contained in Appendix C consists of excerpts from the City's Annual Financial Report for Fiscal Year Ended September 30, 2025 for the City of Victoria, Texas

Annual Comprehensive Financial Report

Year Ended September 30, 2025

City of Victoria, Texas

CITY OF VICTORIA, TEXAS

ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the year ended September 30, 2025

Prepared by the Finance Department
City of Victoria, Texas

TABLE OF CONTENTS

Page

FINANCIAL SECTION - (Continued)

Combining and Individual Fund Statements and Schedules

Page

FINANCIAL SECTION - (Continued)

Combining and Individual Fund Statements and Schedules - (Continued)

Page

STATISTICAL SECTION - (Continued)

Revenue Capacity

Debt Capacity

Demographic and Economic Information

Operating Information

SINGLE AUDIT SECTION

Page

INTRODUCTORY SECTION

THE CITY OF
VICTORIA
TEXAS

FINANCE
702 N. MAIN ST.

EST. 1824
Founded by Congress, Republic of Texas, 1839

MISSION
The Mission of the City of Victoria is to provide services to Victoria residents that enhance the livability of our community.

700 MAIN CENTER
702 N. Main St.
STE. 100

P.O. BOX 1758
VICTORIA, TX 77902
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WWW.VICTORIATX.GOV

April 20, 2026

Honorable Mayor, City Council and Citizens
City of Victoria
Victoria, Texas Comprehensive Annual

The Annual Comprehensive Financial Report of the City of Victoria, Texas (the "City"), as of September 30, 2025, and for the year then ended is submitted herewith. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and cash flows of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City's MD&A can be found immediately following the independent auditors' report.

City of Victoria Profile

Victoria is the largest city for the seven-county area known as the "Golden Crescent," which includes Victoria, Calhoun, Dewitt, Goliad, Gonzales, Jackson, and Lavaca counties. This gives Victoria a retail trade of more than 205,000 shoppers with retail sales totaling more than $1.16 billion dollars and an expected growth in the range of 3%. Victoria is a regional transportation hub with a long list of transportation options; access to large and small freight carriers, the Victoria Regional Airport, railway terminals, the shallow draft Port of Victoria, and the deep-water Port of Port Lavaca-Point Comfort. Victoria holds a prime position along the NAFTA Corridor with Mexico and will add another critical segment to its transportation resources; the soon-to-be-completed IH69.

Victoria is home to the largest medical community in the Golden Crescent region with a medical network that provides state-of-the-art care on five hospital campuses. With more than 720 beds, a system of local clinics, and skilled personnel providing individualized care with the most modern advances in technology for inpatient and outpatient services, residents in Victoria and surrounding counties have access to the finest in medical care.

Structure and Services Provided

The City provides the traditional local government services under the direction of the Mayor and City Council, and all such activities are accounted for and reported within the basic funds. This report includes all funds of the City government. The financial statements of the Victoria Sales Tax Development Corporation, the Victoria Special Events Association, the Victoria Housing Finance Corporation, and the Tax Increment Reinvestment Zone #1 are also reported herein as discretely presented *(constituting a separate entity)* component units of the City. The reporting entity funds and various related entities are thoroughly discussed in the notes.

The City utilizes a Council-Manager form of government. The elected body is made up of a Mayor, who is elected at large, and six Council Members elected by district. The City Manager, appointed by the City Council, is responsible for the management of City employees and administration of all City affairs. The City Council appoints several boards and commissions, most of which are used in an advisory capacity. Most of these boards and commissions have no operating budgets and no financial statements, except for the Victoria Sales Tax Development Corporation and Victoria Housing Finance Corporation.

The following boards and commissions are appointed, partially or entirely, by Council, or include a sitting Council member:

1. Board of Adjustments & Appeals
2. Housing Authority Board
3. Library Board
4. Planning Commission
5. Food Establishment Appeals Board
6. Health Auth. for Victoria County Public Health Dept.
7. Victoria Housing Finance Corporation Board
8. Building and Standards Commission
9. Victoria County Public Health Dept. Board of Health
10. Tourism Advisory Board
11. Victoria Economic Development Corp.
12. Parks and Recreation Commission
13. Victoria Development Commission
14. Victoria Sales Tax Dev. Corp. Board
15. Victoria Metropolitan Planning Org.
16. Victoria Health Facilities Dev. Corp.
17. Victoria Central Appraisal District
18. Golden Crescent Reg. Planning Comm.
19. Tax Increment Reinvestment Zone #1
20. Victoria Public Facility Corporation
21. Victoria Special Events Association

The City provides a full range of municipal services to its citizens. In the public safety sector, the City maintains and operates a Fire Department and Police Department. The public works sector includes Engineering, Traffic Control, Water/Wastewater *(the City owns and operates a water pumping and distribution system, a surface water treatment facility, and a wastewater collection and treatment system)*, and Streets and Drainage *(provides street cleaning, street maintenance, and drainage structure maintenance, as well as some capability for rehabilitation of streets, drainage structures, and sidewalks).* Various refuse collection departments, including Residential Solid Waste, Brush and Bulky Item, Yard Waste, and Recycling, as well as Community Appearance, are operated in the City's environmental services sector. The City owns its landfill and contracts out management of the landfill to an outside party.

The City also provides planning and development services, including building inspections, code enforcement, and development review functions that support safe construction practices and guide the City's growth; a parks system, which includes recreational programs, golf course and a community center; and, maintains its own in-house print shop, custodial service, and building maintenance service. The City supports economic growth through its economic development functions, which focus on business recruitment, retention, and expansion to strengthen the local economy. The Convention and Visitors Bureau (CVB) promotes tourism and local events to enhance economic activity and community visibility. The City also operates a public library system that provides access to educational resources, technology, and community programming for residents of all ages. In addition, the City has a full-service garage for fleet maintenance.

According to the Charter, which was amended in 2022, the City Manager, City Attorney, and Municipal Court Judge are appointed by City Council. General staff support includes an in-house Human Resources Department, Information Technology Department, and Finance Department. The Finance Department includes all accounting, budgeting, treasury, purchasing, and other financial administration. Beginning with fiscal year 2020, the City Manager utilizes two Assistant City Managers, an increase of one from prior years.

Per an interlocal agreement entered between the City of Victoria and the County of Victoria, the City provides fire, emergency medical services and all hazard response services for a set reimbursement amount from the County. In addition, the City of Victoria operates library services at no cost to the County. By provisions of the interlocal agreement, the County of Victoria provides health and animal control services at no cost to the City.

Major Initiatives

For Fiscal Year 2025 and Into the Future:

Fiscal year 2025 was marked by significant accomplishments, with a continued focus on strengthening the City's workforce, advancing infrastructure investments, and maintaining long-term financial stability. A key priority during the year was addressing employee recruitment and retention challenges, particularly in response to wage competitiveness and labor market pressures. During the fiscal year, the City implemented targeted compensation and benefit enhancements, including a 3% across-the-board pay increase, an additional 1% step increase for eligible public safety personnel, and the establishment of a $15 per hour minimum wage across all departments. The City also enhanced its employee benefits by maintaining stable health insurance premiums, adding an exclusive provider organization (EPO) option, and providing employees with additional flexibility through benefit options such as health savings, flexible spending, or retirement contributions. These actions reflect the City's commitment to supporting its workforce while maintaining financial discipline.

The City also made substantial progress on its capital and infrastructure initiatives. Approximately $25 million in capital improvement projects were awarded or underway, including the Residential Street Construction Program, Preventative Street Maintenance Program, and Thoroughfare Street Program. Additional operational initiatives, such as the Street Sweeping Program, Drainage Mowing Program, and various traffic signal improvements, were implemented to enhance service delivery and maintain critical infrastructure.

Investment in community amenities and quality of life projects also remained a priority. Major park improvements were initiated or completed, including the Bronson Park Playground Project, Pine Street Project, and the Riverside Playground and Splash Pad Project. In addition, the City continues to implement recommendations from master plans completed in prior fiscal years, guiding development in recreation and community facilities among other areas.

From a financial perspective, the City continued to demonstrate strong fiscal stewardship. The City met its OPEB Trust funding requirements for post-employment benefits, maintained compliance with all bond covenant requirements, and managed its debt responsibly.

The accomplishments described above represent significant progress during fiscal year 2025. Building on this momentum, the fiscal fear 2026 budget focuses on sustaining service levels while addressing key operational and capital priorities. The top budgetary priorities include:

- *Personnel Services* - The total budgeted positions for fiscal year 2026 is 660. The total budgeted personnel cost for fiscal year 2026 is $58.1 million, which includes a market adjust for all employees and new STEP plans for the Police and fire Department. Public Safety also received an additional 2-3% STEP for qualifying individuals. The City is committed to honoring the STEP program in future years.

- *Street & Drainage Programs* - Aging street infrastructure is a nationwide problem and one of the biggest challenges facing many cities and counties throughout the nation. Victoria's streets are no different from the streets in most U.S. cities. Many are in poor condition and need to be rebuilt, while others are in good condition, but if not maintained properly will continue to deteriorate to the point they must also be rebuilt. To improve the conditions of our residential and major thoroughfare streets, over $34.9 million was budgeted in street repairs, marking a continuation of significant infrastructure upgrades. Projects included major reconstructions like the Bon Aire Phase 1 and 2 Street Reconstruction Project and various utility and road maintenance projects.

Other Projects and Programs

a. Public Safety Headquarters: Groundbreaking began for a new facility that will house the Victoria Police Department, Fire Department administration, and Municipal Court in 2024. The facility is designed to address the city's growing public safety needs with a scheduled completion of February 2026.

b. Citywide Street LED Lighting Project ($250,000) – this project consists of replacing High Pressure Sodium (HPS) light bulbs with more efficient LED fixtures on streetlights starting with Phase I on the South side of town. This project will take place over a five-year period with an annual cost of $250,000. This is the fourth year of funding.

c. Utility Projects ($12.56 million) – projects include design for utility reconstruction, sewer line replacements, water line replacements, Regional Wastewater Treatment Plan Project, and SCADA System.

d. Community and Recreation Enhancements: Progress was made on key park projects, including Riverside Park rejuvenation and the expansion of Ethel Lee Tracy and MLK parks. The city also invested in sports fields, trails, and facilities to improve recreational offerings.

e. Community Development Block Grant (CDBG) Projects: Funding supported neighborhood improvements, park upgrades, and services like rental assistance, meals programs, and behavioral health interventions. These projects aim to uplift low- to moderate-income residents and enhance overall quality of life.

f. Master Plan Updates: The city began implementing a master plan for the Victoria Community Center, including proposed renovations for expanded events and conference capabilities. These accomplishments highlight Victoria's commitment to growth, modernization, and community engagement in 2025. We look forward toward implementing the fiscal year 2026 budgetary priorities; and with Council's leadership, we will make sure we continue to move in the right direction for our community.

A master plan sets guidelines for how the City will expand and develop its services and may be specific to a department, or it may represent a more narrowly focused topic. Master plans are created based on input from community members, and they are used to ensure that any changes and new initiatives reflect what residents want. The City has developed the following master plans:

- *The Victoria Parks and Recreation Master Plan* was initiated in late 2020 to establish an updated vision for how the City's system of parks, recreation facilities and recreational programs would meet the evolving long-term needs of Victoria's current and future residents. Initiation of the Plan occurred in conjunction with other long-term planning initiatives commissioned by the City, and the resulting Plan document was drafted to replace the City's original 2012 parks and recreation master plan following consideration of public preferences identified during the planning process. The Victoria Parks and Recreation Master Plan is a blueprint for the maintenance and upkeep of all city parks and recreation facilities, identifies capital park improvement projects, guides the development of new parks and trails, and assists City staff in developing new programs and events. Whether you visit Victoria parks for relaxation, socializing, or play, the new parks and recreation plan will be our roadmap to provide "A Space for All of Us!"

- *The Sports Facility Assessment* is a market feasibility report that analyzes City sports and recreation facilities and makes recommendations for the development of new facilities and improvements to existing facilities.

- *The Community Center & Fairgrounds Master Plan* is proposing a renovation project up to $35 million, which would improve the venue's capacity to host livestock shows, rodeos, concerts, recreational athletic events and larger conventions, as well as local events such as church festivals, weddings and quinceañeras. An election adopting a venue tax and short-term rental tax was approved by voters in May 2025 which will provide approximately $9.2 million of the revised estimated cost of $39 million needed for the project.

- *The Library Master Plan* reflects the needs of the Victoria Public Library through 2040 and more adequately account for needing to serve the entire population of Victoria County.

- *The Facility Condition Assessment Usage Study and Master Plan* is a comprehensive study that will prioritize the needs of physical facilities, aid in the budgetary process, optimize existing space, and plan for future growth.

- *The Downtown Master Plan* is intended to provide an overall strategy and guidelines for what future development could look like in the area. This includes addressing the design of building form, streets, public spaces, and branding strategies. The ultimate goal of this Plan is to present an innovative, yet realistic vision and strategy for strengthening Downtown Victoria as an economic driver for the community.

- *The Victoria Thoroughfare Master Plan (TMP)* is a long-range planning document adopted by the Victoria City Council on June 15, 2022 for use in guiding the development of the community's transportation network. The purpose of the thoroughfare master plan is to guide the development of transportation infrastructure in a way that preserves right of way and improves connectivity and accommodates growth in Victoria.

- *The Active Transportation Master Plan (ATMP)* identifies a prioritized network of active transportation facilities, that, when implemented, will provide residents with the opportunity to safely walk and bike throughout Victoria.

- *The updated Storm Drainage Master Plan* will establish a guide to identify and address drainage issues in Victoria, including evaluation of infrastructure, and update the Drainage Criteria Manual to reflect current data and best practices. The Storm Drainage Master Plan will provide recommendations for drainage & stormwater improvements that will facilitate the City's growth capacity; enhance the City's infrastructure; evaluate and provide solutions to existing undersized drainage facilities; and evaluate and provide recommendations to improve outfalls, storm sewer, and open ditches. The City is currently exploring implementing a new stormwater drainage fee to fund the maintenance and capital projects of its stormwater drainage system.

- *Public Safety* – Public Safety is a top priority in our community. The City's Public Safety is made up of the Police Department, Fire Department and Municipal Court, with a combined funding of $39.7 million for fiscal year 2026. The Police and Fire Departments are the two largest departments in the City making up 59% of the General Fund.

- *Park and Recreational Services Improvement Programs* - The fiscal year 2026 budget includes $3.94 million for various Park & Recreation programs; $3.7 million budgeted within General Fund includes funding for parks ground maintenance, various recreational programs, vehicle/equipment replacement, and playground equipment for various parks; and Hotel Tax Fund includes $90,000 for various sports tournament programs, $177,000 for equipment for the Youth Sports Complex, and $33,000 for facility improvements.

- *Community Center Venue Tax Project* – Voters adopted a new venue tax in May 2025 (implemented October 1) to fund the Community Center Venue Tax Project. Project includes constructing a new arena, renovation of existing facilities, and other site improvements totaling $39 million. The project will be funded in two phases in late 2026. Design is currently in process.

- *Hotel Occupancy Tax Program* - For fiscal year 2026, City Council has approved $135K of Hotel Tax funding to eligible agencies and organizations and a $1 million allocation to go towards the Community Center Venue Tax Project.

- *Library Programs* - The fiscal year 2026 budget includes $2.7 million for personnel and various maintenance and program costs; the budget includes $208K for capital expenditures, mainly for replacing the library's technology equipment and purchasing books/materials.

- *Code Enforcement Programs* - The fiscal year 2026 budget includes $611,000 for various Code Enforcement Programs.

- *Community Appearance* - The Community Appearance division was reorganized into a new division within the Parks & Recreation Department, then transferred from General Fund to the Environmental Services Fund beginning fiscal year 2022. Budgeted at $721,000 the division is dedicated to visually enhancing the overall landscape of our community with quality and attention. The goal with each task performed is to inspire others to be involved in the future beautification of our City.
- *Main Street Program* – In fiscal year 2020, the City of Victoria assumed management of the Victoria Main Street Program. Through this program, the City works to strengthen downtown by promoting economic development, supporting local businesses, and enhancing opportunities for community events and public engagement. Fiscal year 2026 includes $452,000 budgeted for the Main Street Program, including Christmas on the Square, lawn and landscaping maintenance and other Downtown programs throughout the year.
- *Bond Debt Program* - The fiscal year 2026 budget includes $18.1 million in debt service payments (General Governmental and Utility Revenue Bonds), an increase of $1.75 million. The City is calling in $1.3 million in outstanding principal payments as part of an effort to pay off debt sooner and increase interest savings.
- *Tax Rate* - The budget assumes a property tax rate of 47.90¢, which is 0.83¢ higher than prior year. The tax rate is allocated at 30.59¢ for General Fund maintenance and operating costs, an increase of 0.80¢ and 17.31¢ for debt service payments, an increase of 0.03¢. The State's mandated No-New Revenue Tax Rate calculations produce a rate for fiscal year 2026 of 47.10¢ and a Voter-Approval Tax Rate of 48.20¢. The net property tax revenue increased $372,501, while implementing a tax rate less than the "Voter-Approval Tax Rate M&O", per S.B.2.
- *Sales Tax* - The fiscal year 2026 sales tax revenue budget is $19,581,00, an increase of $581K or 3.06 percent compared to last year's original budget. The increase in sales tax is anticipated due to inflation that has caused a permanent increase in the price of goods and services.
- *Fund Balance / Working Capital Balance Reserves* - The fiscal year 2026 General Fund budget assumes a minimum fund balance reserve at 25 percent *(three months of reserve fund balance)* of budgeted expenditures, same as prior fiscal year. The fiscal year 2026 minimum fund balance *(25% of $66,947,065 budgeted expenditures)* is projected to be $16,736,766, which is $3,612,282 less than the projected year-end fund balance amount of $20,349,048.

Capital Improvement Program

Routine Capital Expenditures

The Fiscal Year 2026 Budget includes $8.3 million in capital expenditures, an increase of 82.8 percent. The increase is mainly due to an increase in Public Safety equipment replacements. Utilities to fund building improvements and machinery & equipment replacement. The $8.3 million capital expenditure budget will be funded with $6.70 million of recurring revenue and $1.6 million of one-time use of fund balance/working capital balance ($807K General Fund; $9K Motel Tax Fund; $100K Public & Educational Government Television; $508K Water/Wastewater Fund; $50K 700 Main Center Fund; $65K Environmental Services Fund; $98K Riverside Golf Course Fund; $3K Building & Equipment Services; $6K Information Technology Fund; and $5K Radio Systems Fund).

The following table recaps routine capital expenditures for fiscal year 2026, compared to fiscal year 2025.

Type of Fund	*FY 2025 Original Budget*	*FY 2026 Original Budget*	*Increase/ (Decrease)*	*% Change*
General Fund	$2,048,705	$1,223,050	$(825,655)	-40.30%
Special Revenue Funds	497,006	1,440,947	943,941	189.93%
Enterprise Funds	1,210,812	1,159,319	(51,493)	-4.25%
Internal Service Funds	714,400	4,476,451	3,762,051	526.60%
Total	***$4,470,923***	***$8,299,767***	***$3,828,844***	***85.64%***

Non-Routine Capital Expenditures

As a city that was founded over 200 years ago, Victoria has an aging infrastructure in various stages of maintenance or disrepair. One of the major goals for the Council is to build value for its citizens by making significant improvements to the City's infrastructure.

The purpose of a Capital Improvement Program (CIP), non-routine capital expenditures, is to determine the priorities for capital expenditures and to coordinate the projects selected within a multi-year planning framework. The first objective of the CIP is to decide the most effective way to allocate our limited capital improvement resources to meet City goals. The CIP has a second benefit of coordinating capital improvement projects administered by different municipal departments.

The CIP is a plan that can be revised and amended in response to changing circumstances and funding availability. All projects require final approval based on the City's Fiscal and Budgetary Policy and applicable administrative directives based on each individual project. This Budget is proactive in supporting the City's Capital Improvement Program (CIP). The fiscal year 2026 Budget includes $79.25 million in "new" capital improvement projects. The table below recaps the non-routine capital expenditures for fiscal year 2026, compared to fiscal year 2025.

Fiscal year 2026 Capital Improvement Program is as follows:

	FY 2025 Original Budget	*FY 2026 Original Budget*	*Increase/ (Decrease)*	*% Change*
CIP 3037	$26,695,516	$34,697,973	$8,002,457	3.00%
CIP 3036	770,265	815,000	44,735	5.81%
Venue Tax Fund	0	28,942,227	28,942,227	100.00%
Utilities 3044	2,021,500	2,233,578	212,078	10.49%
Utilities 3046	11,298,500	12,562,625	1,264,125	11.19%
Total	***$40,785,781***	***$79,251,403***	***$38,465,622***	***94.31%***

Financial Policies

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Fiscal and Budgetary Policies

The broad purpose of the Fiscal and Budgetary Policy is to enable the City to achieve and maintain a long-term stable and positive financial condition. The watchwords of the City's financial management include integrity, prudent stewardship, planning, accountability, full disclosure, and communication.
Each year as part of the budget process, Fiscal and Budgetary Policies are reviewed. These policies serve as the framework for preparing the budget as well as for the financial management of the City. During the budget preparation process, these policies are reviewed with Council.

The strategic planning and budget processes are integrated to ensure that policy direction is implemented through the budget cycle. The development of the budget begins early in the calendar year with budget staff preparing salary and benefits information based on management's proposed pay policy for the upcoming budget year. The process continues through the spring and summer as departments prepare budget requests.

The Strategic Plan (Plan 2035), a Comprehensive Plan for Victoria, was adopted by City Council on April 5, 2016. The Plan is intended to guide future development, redevelopment and community enhancement efforts over the next 20 years. It serves as a framework for thoughtful community discussion on the real and perceived challenges facing Victoria, as well as the upcoming opportunities that will shape its future. Through long-range planning efforts, the community can accommodate its projected growth in a manner that preserves its history, culture and overall quality of life for current and future residents. The Plan focuses on five areas, each having its own policy guidance in order to plan effectively: Land Development; Mobility; Growth Capacity and Infrastructure; Economic Opportunity; and Recreation and Amenities.

Budgetary Management

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual budgets approved by the Mayor and Council. Budgets for the General Fund, Debt Service Fund, and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Budget comparisons are presented in the accompanying financial statements for these funds with appropriated budgets. The level of budgetary control includes expenditures that cannot legally exceed the appropriated amount and is established by departments within an individual governmental fund and proprietary fund.

Budgetary control is maintained at the subfunction level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders that result in an overrun of subfunction balances are not released until additional appropriations are made available. Open encumbrances are reported in the financial statements as restricted, committed, or assigned for specific purposes at September 30, 2025.

According to the City Charter, "No funds of the City of Victoria shall be expended, nor shall any obligation for the expenditure of money be incurred, except in pursuance of the annual appropriation ordinance . . ."

Minimum Fund Balance

Sales tax rebate revenues can be volatile in any given year. Because of this, the General Fund's minimum fund balance level becomes an important issue. Council has set the minimum fund balance reserve at 25% of budgeted expenditures, to create an adequate reserve to address future economic uncertainties.

The Enterprise Funds estimated ending working capital reserve balance is three months of total operating and debt expenses. The Internal Service Funds, which account for the financing of goods and services provided to other City departments on a cost-reimbursement basis, estimated ending working capital reserve balance is a minimum of one to two months of total operating expenses *(depending on the type of fund, some funds will have a higher reserve)*, per City policy.

To augment the minimum fund balance reserve policy, the City has also created a Self-Finance/Stabilization Fund, with a current available balance of $1,636,671. This fund supports the City's pay-as-you-go philosophy for one-time repairs, one-time maintenance, or other one-time programs/expenditures, and major capital projects to reduce or eliminate the use of long-term debt where possible. The funding sources are transfers from the City's funds using excess fund balance or working capital balance. This fund will also be used to offset any governmental fund balance deficits below the reserve policy for each fund. Appropriations from this fund will be made at the discretion of City Council and/or the City Manager during the budget process and fiscal year as needs arise.

Financial Fund Structure

The accounts of the City are by fund, each of which operates separately and independently of one another. The fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities/services or programs. The operations of each fund are accounted for with a separate set of self-balancing accounts that are comprised of assets, liabilities, fund equity, revenues and expenditures. The City, like other state or local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The City's budgeted funds can be divided into two categories: *governmental funds* or *proprietary funds*; and, each fund is also identified as a *"major fund"* or *"non-major fund"*. Major funds are any funds that have revenue, expenditures, assets, and/or liabilities that constitute more than 10 percent of the revenues, expenditures, assets and/or liabilities of the total fund category; or, *any fund the government feels is of considerable importance to financial statement readers may also be designated as a major fund.*

Other Post-Employment Benefits (OPEB)

To address the City's post-employment health care benefit liability, an OPEB Trust was established in fiscal year 2015. By creating an OPEB Trust Fund, the City can finance future OPEB cost/liabilities in large part from the investment earnings provided by the OPEB Trust Fund, i.e. the investment earning is expected to generate significant revenue to reduce the City's OPEB obligations. Beginning in fiscal year 2026, the OPEB Trust will fund the retiree premiums previously funded by the General Fund which amounted to $225,000 annually.

Debt Management

The City of Victoria recognizes the primary purpose of capital facilities is to support provision of services to its residents. Using debt financing to meet the capital needs of the community must have the highest rate of return for a given investment purpose. The City will limit long-term debt to only those capital projects that cannot be financed from current revenues. In addition, the City will not use long-term debt to finance recurring maintenance and operating costs and issue debt longer than the estimated useful life of the capital project. The City will seek to minimize the maturity of long-term debt, qualified by the objectives of the long-term debt plan and the financial abilities of the City. The general policy of the City shall be to sell bonds using the competitive bidding process unless the nature of the issue warrants a negotiated bid. In situations where a competitive bidding process is not elected, the Assistant City Manager and Finance Director will publicly present the reasons why, and the Assistant City Manager and Finance Director will participate with the financial advisor in the selection of the underwriter or direct purchaser. Debt will be used in the future to address capital improvement needs but will be issued very conservatively. Keeping long-term debt service requirements down will enable the City to remain flexible with capital improvement program funding, while creating less burden on the City and its taxpayer

Independent Audit

This report is prepared in compliance with the legal requirements imposed by Article V, Section 3(6) of the Charter of the City of Victoria, Texas, as amended. In addition to fulfilling this legal requirement, this report serves to fully disclose financial data and other statistical data on an annual basis to management, Mayor and Council, the public, investors, and other interested persons. The Victoria firm of Harrison, Waldrop & Uherek, L.L.P., was retained by the City to satisfy this requirement.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Victoria for its annual comprehensive financial report for the fiscal year ended September 30, 2024. This was the forty-first consecutive year that the City of Victoria has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current annual comprehensive financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of the annual comprehensive financial report is a joint effort of the City's Finance Department and the City's independent auditor, Harrison, Waldrop & Uherek, L.L.P. The successful and timely preparation of this report depends on the cooperation of these groups and upon the hard work of the entire staff of the Finance Department. Appreciation must also be expressed to the Mayor and Council for their continuing support.

Wesley Janecek, CPA
Director of Finance

Jesús A. Garza
City Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

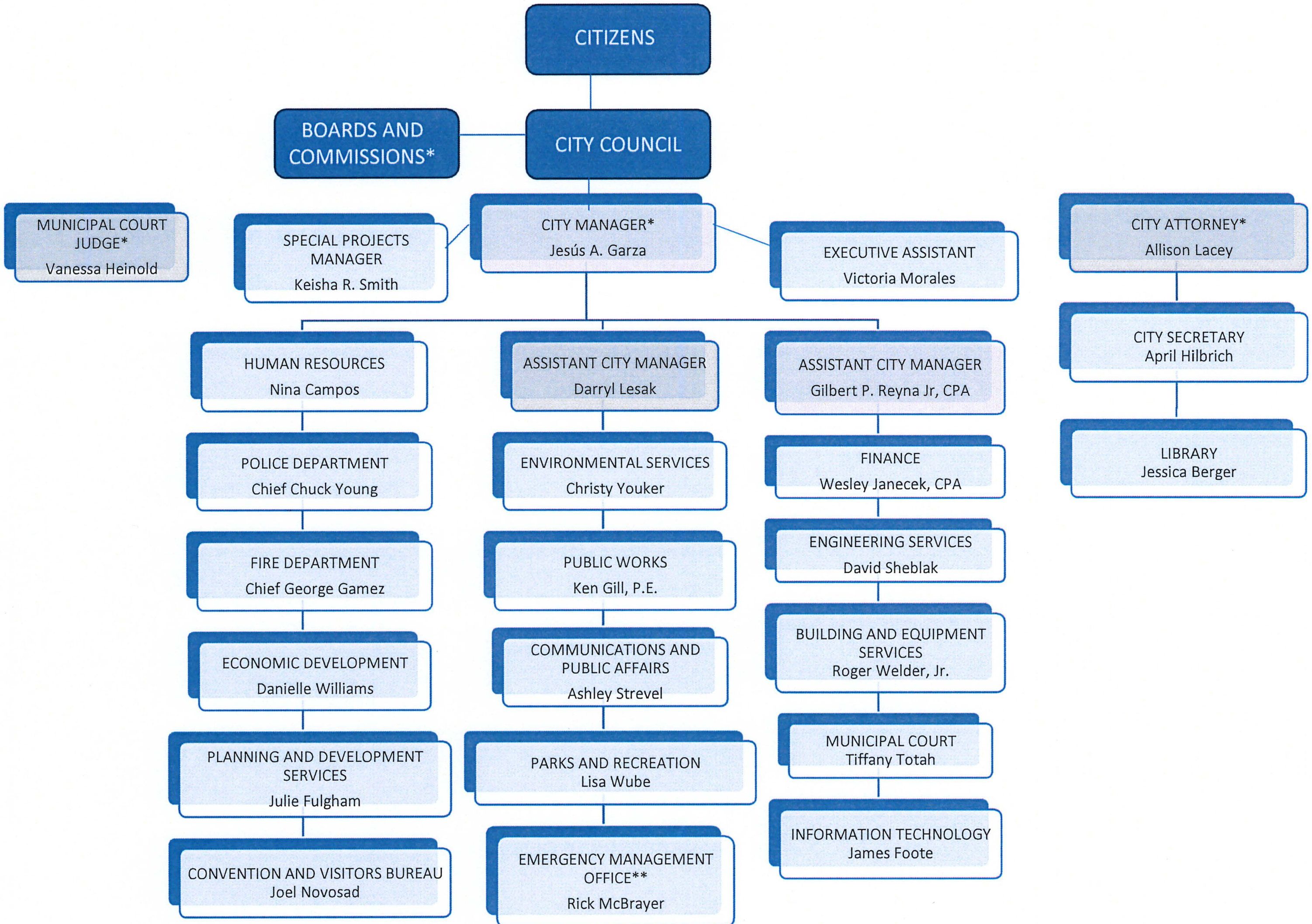
City of Victoria
Texas

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

September 30, 2024

Christopher P. Morrill

Executive Director/CEO



**Appointed by Council*
*** Joint City-County Office*

PRINCIPAL CITY OFFICIALS

ELECTED OFFICIALS

Name	Position	Years of Service	Term Expires
Front Row			
Jan Scott	Council Member, District 4	9	May, 2027
Duane Crocker	Mayor	6	May, 2028
April Butler	Council Member, District 3	1	May, 2027
Back Row			
Rafael DeLaGarza, III	Council Member, District 1	9	May, 2027
Mark Loffgren	Council Member, Super District 6	6	May, 2028
Steven Kidder	Council Member, District 2	1	May, 2027
Dr. Andrew Young	Mayor Pro-Tem, District 5	12	May, 2028

EXECUTIVE LEADERSHIP

Name	Position	Years of Service: Current With City	Years of Service: Position
Jesús A. Garza	City Manager	6	6
Gilbert P. Reyna, Jr., CPA	Assistant City Manager	30	0
Darryl Lesak	Assistant City Manager	17	0
Allison Lacey	City Attorney	9	3
David Sheblak, P.E.	City Engineer	1	1
Danielle Williams	Director of Economic Development	17	3
Nina Campos	Director of Human Resources	0	0
Wesley Janecek, C.P.A	Director of Finance	7	1
James Foote	Director of Information Technology	18	13
Julie Fulgham	Director of Development Services	11	7
Charles "Chuck" Young	Police Chief	4	2
George Gamez	Fire Chief	1	1
Lisa Wube	Director of Parks and Recreation	1	1
Jessica Berger	Director of Public Library	23	2
Ken Gill, P.E.	Director of Public Works	34	5
Christy Youker	Director of Environmental Services	4	0
Ashley Strevel	Director of Communications and Public Affairs	6	6
Joel Novosad	Director of Convention & Visitor's Bureau	13	6
Roger Welder	Director of Building & Equipment Services	8	6
April Hilbrich	City Secretary	17	8
Tiffany Totah	Municipal Court Administrator	13	8
Keisha Smith	Special Projects Manager	4	3
Victoria Morales	Executive Assistant to the City Manager	4	3

FINANCIAL SECTION

HARRISON, WALDROP & UHEREK, L.L.P.

HWU

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members
of the City Council
City of Victoria, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Victoria, Texas (the "City") as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2025 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Sales Tax Development Corporation, Downtown Tax Increment Reinvestment Zone No. 1, and the Victoria Special Events Association, Inc. were not audited in accordance with *Government Auditing Standards.* Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our 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.

Emphasis of Matter

As discussed in Note 20 to the financial statements, during the year ended September 30, 2025, the City adopted new accounting guidance, GASB Statement No. 101, Compensated Absences. Beginning net position has been restated as a result of the implementation of this statement. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.

The Honorable Mayor and Members
of the City Council
City of Victoria, Texas

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of changes in net pension liability and related ratios, schedules of changes in total OPEB liability and related ratios, and the schedules of employer contributions, 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.

The Honorable Mayor and Members
of the City Council
City of Victoria, Texas

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2026, 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.

Harrison, Waldrop & Uherek, LLP

HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants
Victoria, Texas

April 20, 2026

The discussion and analysis of the City of Victoria's (the "City") financial performance provides an overall review of the City's financial activities for the year ended September 30, 2025. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter and the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the fiscal year ended September 30, 2025, by $298,960,204. Of this amount, $48,795,016 of unrestricted net position is available to meet the City's ongoing obligations to citizens and creditors (see page 8 for further detail).
- During the year, the City's general revenues exceeded net expenses of the primary government by $15,529,956. This represents a 5.42% increase in net position from the previous fiscal year.
- The total cost of all City activities was $111,996,229 for the fiscal year. Net cost of all activities was $50,333,562.
- At September 30, 2025, the City's governmental funds reported combined ending fund balances of $58,196,720, a decrease of $35,268,371 (37.73%) in comparison with prior year. The unassigned fund balance is $28,099,888 (see page 12 for further detail).
- At September 30, 2025, unassigned fund balance for the General Fund was $28,179,250 or 47.48% of total General Fund expenditures.
- The City's outstanding long-term debt had a net decrease of $14,967,850. The main reasons for the net decrease are the City paid $6,980,000 in principal payments on bonded debt and the net pension liability balance decreased $7,637,794 (see page 16 for further detail).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, 3) component unit financial statements, and 4) notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information

Independent Auditors' Report
Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis
This supplementary information is required for state and local government financial statements, and is intended to provide a narrative introduction, and analysis.
Pages 4 to 22

Government-wide Financial Statements
Provides information on governmental and business-type activities of the primary government.
Pages 23 to 26

Fund Financial Statements
Provides information on the financial position of specific funds of the primary government.
Pages 27 to 42

Component Unit Financial Statements
Provides information on the City's component units.
Pages 43 to 45

Notes to Financial Statements
Provides a summary of significant accounting policies and related disclosures.
Pages 46 to 100

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

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

Statement of Net Position

The statement of net position presents information on all of the City's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of net position can be found on pages 23 through 24.

Statement of Activities

The statement of activities presents information showing how the government's net position changed during fiscal year 2025. All changes in net position are reported as soon as the underlying event, giving rise to the change, occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected and earned, but unused vacation leave). The statement of activities can be found on pages 25 through 26.

Both of these financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges *(business-type activities)*. The governmental activities of the City include general government, public safety, development, building services, recreation, and interest on long-term debt. The business-type activities of the City include water/wastewater utilities, environmental service operations, and other (700 Main Center, Community Center, and Golf Course). The government-wide financial statements can be found immediately following the Management's Discussion and Analysis.

The government-wide financial statements include not only the City itself (known as the primary government) but also the component units of Sales Tax Development Corporation, Downtown TIRZ No.1, and Victoria Special Events Association, Inc. These component units are not included as part of the primary government.

Fund Financial Statements

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

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial 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 financial decisions. Both the governmental fund balance sheet (pages 27 and 28) and the governmental fund statement of revenues, expenditures, and changes in fund balances (pages 30 and 31) provide reconciliations to facilitate this comparison between governmental funds and governmental activities (pages 29 and 32).

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

Governmental Funds - (Continued)

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, Capital Construction (3036), Capital Construction (3037), and Venue Tax Fund, which are considered to be major funds. Data from the other 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 and individual statements and schedules following the required supplementary information.

The City adopts annual appropriated budgets for its General Fund, Debt Service Fund, and Capital Project Funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance. A schedule for the Venue Tax Fund will be provided in subsequent years when a budget is adopted.

The basic governmental fund financial statements may be found immediately following the government-wide financial statements.

Proprietary Funds

The City maintains two different 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 uses enterprise funds to account for the fiscal activities relating to water/wastewater utilities, environmental service operations, and other enterprise activities (700 Main Center, Community Center, and Golf Course). Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its building and equipment services, information technology services, radio systems services, purchasing services, safety management services, workers' compensation services, print shop services, and health plan services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water/wastewater utilities and environmental service operations, which are both considered to be major funds for the City, and other (700 Main Center, Community Center, and Golf Course).

The basic proprietary fund financial statements follow the governmental fund financial statements (pages 33 through 40).

Fiduciary Funds

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

The basic fiduciary fund financial statements can be found on pages 41 and 42 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Discretely Presented Component Units

The City's three discretely presented component units shown in aggregate on the face of the government-wide financial statements have individual information presented in the form of combining statements immediately following the fund financial statements of the primary government. These statements can be found on pages 43 through 45 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 46 through 100 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General Fund, a schedule of changes in liability and related ratios for the TMRS Defined Benefit Pension Plan, a schedule of employer contributions for the TMRS Defined Benefit Pension Plan, a schedule of changes in Total OPEB liability and related ratios for the TMRS Supplemental Death Benefit Plan, a schedule of employer contributions for the TMRS Supplemental Death Benefit Plan, a schedule of changes in Net OPEB liability and related ratios for the Retiree Healthcare Plan, and a schedule of employer contributions for the Retiree Healthcare Plan. Required supplementary information can be found on pages 101 through 117 of this report.

The combining and individual fund statements and schedules referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 118 through 218 of this report.

Individual data for the component units that are reported as a governmental fund type (Sales Tax Development Corporation and Downtown TIRZ #1) is provided in the form of combining statements and follow the required supplementary information on pages 219 and 220 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by $298,960,204 at the close of the fiscal year ended September 30, 2025.

The City implemented GASB Statement No. 101, Compensated Absences in fiscal year 2025 resulting in a restatement which decreased net position by $2,302,341 as of September 30, 2024. Because the restatement is the result of a change in accounting principle, the information for 2024 in the tables in the MD&A have not been restated in accordance with GASB Statement No. 100, Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62. See Note 20 for more information.

At the end of fiscal year 2025, the City is able to report positive balances in all three categories of net position for the government as a whole.

City of Victoria, Texas

Net Position

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Current assets	$ 88,619,417	$ 121,880,695	$ 36,117,551	$ 37,833,266	$ 124,736,968	$ 159,713,961
Capital assets (net)	236,329,560	192,381,145	132,154,516	133,615,571	368,484,076	325,996,716
Total assets	324,948,977	314,261,840	168,272,067	171,448,837	493,221,044	485,710,677
Deferred outflows of resources	7,489,921	13,811,704	1,560,903	2,759,388	9,050,824	16,571,092
Long-term liabilities	124,237,745	135,655,615	53,575,019	57,124,999	177,812,764	192,780,614
Other liabilities	17,109,841	15,294,236	3,730,959	3,757,224	20,840,800	19,051,460
Total liabilities	141,347,586	150,949,851	57,305,978	60,882,223	198,653,564	211,832,074
Deferred inflows of resources	3,025,470	2,452,460	1,632,630	1,242,771	4,658,100	3,695,231
Net position:						
Net investment in capital assets	151,600,575	144,165,892	92,268,114	91,895,101	243,868,689	236,060,993
Restricted	6,296,499	8,077,320	-	-	6,296,499	8,077,320
Unrestricted	30,168,768	22,428,021	18,626,248	20,188,130	48,795,016	42,616,151
Total net position	$ 188,065,842	$ 174,671,233	$ 110,894,362	$ 112,083,231	$ 298,960,204	$ 286,754,464

The largest portion of the City's fiscal year 2025 net position (81.57% or $243,868,689) consists of investment in capital assets (e.g., land, buildings, streets, and equipment); less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City has restricted net position of $6,296,499 consisting of $2,422,420 for debt service, $2,579,365 for special programs related to recreation, $794,546 for public safety programs, and $500,168 for development within the City. The remaining balance of $48,795,016 may be used to meet the government's ongoing obligations to citizens and creditors; overall, the City's net position increased by $15,529,952, which consists of an increase of $16,013,284 in governmental net position and a decrease of $483,332 in business-type net position as a result of current year operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of Victoria, Texas
Changes in Net Position

	Governmental Activities 2025	Governmental Activities 2024	Business-type Activities 2025	Business-type Activities 2024	Total 2025	Total 2024
REVENUES						
Program revenues:						
Charges for services	$ 10,829,473	$ 9,470,992	$ 34,524,077	$ 34,424,614	$ 45,353,550	$ 43,895,606
Operating grants and contributions	4,839,561	8,123,475	-	-	4,839,561	8,123,475
Capital grants and contributions	8,694,897	10,086,464	2,774,659	1,402,553	11,472,556	11,489,017
General revenues:						
Property taxes	30,096,229	30,163,352	-	-	30,096,229	30,163,352
Other taxes	29,026,764	27,789,332	-	-	29,026,764	27,789,332
Other	5,341,376	5,215,899	1,399,149	1,951,222	6,740,525	7,166,121
Total revenues	88,828,300	90,849,514	38,697,885	37,778,389	127,526,185	128,627,903
EXPENSES						
General government	8,177,904	7,568,874	-	-	8,177,904	7,568,874
Public safety	36,170,599	34,579,298	-	-	36,170,599	34,579,298
Development	21,307,601	18,616,041	-	-	21,307,601	18,616,041
Recreation	7,183,635	7,447,015	-	-	7,183,635	7,447,015
Interest on long-term debt	3,300,430	3,090,231	-	-	3,300,430	3,090,231
Water/wastewater	-	-	27,060,394	25,932,363	27,060,394	25,932,363
Environmental services	-	-	6,386,353	6,355,990	6,386,353	6,355,990
Other	-	-	2,409,313	2,355,789	2,409,313	2,355,789
Total expenses	76,140,169	71,301,459	35,856,060	34,644,142	111,996,229	105,945,601
Change in net position before transfers	12,688,131	19,548,055	2,841,825	3,134,247	15,529,956	22,682,302
Transfers	3,325,157	3,635,701	(3,325,157)	(3,635,701)	-	-
Change in net position	16,013,288	23,183,756	(483,332)	(501,454)	15,529,956	22,682,302
Net position - beginning, as previously reported	174,671,233	151,487,477	112,083,231	112,584,685	286,754,464	264,072,162
Change in accounting principle	(1,923,526)	-	(378,815)	-	(2,302,341)	-
Error correction	(695,153)	-	(326,722)	-	(1,021,875)	-
Net position - beginning, as restated	172,052,554	151,487,477	111,377,694	112,584,685	283,430,248	264,072,162
Net position - ending	$ 188,065,842	$ 174,671,233	$ 110,894,362	$ 112,083,231	$ 298,960,204	$ 286,754,464

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Governmental Activities

The increase in the governmental activities of $16.0M is due to the following:

1) General government expenses increased due to the PTO Buyback Program in FY25.
2) The increase in public safety expenses is related to the purchase of 245 new radios for public safety personnel.
3) Development expenses increased due to traffic signal maintenance, electricity, capital replacement charges, and CIP related expenses.
4) Increase in charges for services income of $1.3M is due to an increase in ambulance revenue.
5) The decrease in operating grants and capital grants was due to a decrease in American Rescue Plan Act grant activity due to timing of expenditures occurring primarily prior to FY25. In addition, funding from the Victoria Sales Tax Development decreased in FY25.
6) The decrease in unrestricted investment earnings was due to lower interest rates.

City of Victoria, Texas
2025 Expenses and Program Revenues - Governmental Activities

Functions/Programs	Expenses	% of Total	Revenues	% of Total	Net (Expense) Revenue
General government	$ 8,177,904	10.74%	$ 4,738,111	19.45%	($ 3,439,793)
Public safety	36,170,599	47.51%	9,566,860	39.26%	(26,603,739)
Development	21,307,601	27.99%	6,901,697	28.33%	(14,405,904)
Recreation	7,183,635	9.43%	3,157,263	12.96%	(4,026,372)
Interest on long-term debt	3,300,430	4.33%	-	0.00%	(3,300,430)
	$ 76,140,169		$ 24,363,931		($ 51,776,238)

City of Victoria, Texas
Revenue by Source - Governmental Activities

Description	Revenues 2025	% of Total	Revenues 2024	% of Total
Charges for services	$ 10,829,473	11.75%	$ 9,470,992	10.02%
Operating grants and contributions	4,839,561	5.25%	8,123,475	8.60%
Capital grants and contributions	8,694,897	9.43%	10,086,464	10.68%
Property taxes	30,096,229	32.66%	30,163,352	31.92%
Sales taxes	21,000,431	22.79%	19,948,312	21.11%
Franchise taxes	6,050,557	6.57%	5,756,651	6.09%
Other taxes	1,975,776	2.14%	2,084,369	2.21%
Unrestricted investment earnings	3,787,836	4.11%	5,120,557	5.42%
Miscellaneous	1,553,540	1.69%	95,342	0.10%
Transfers	3,325,157	3.61%	3,635,701	3.85%
Total	$ 92,153,457		$ 94,485,215	

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Business-type Activities

Fiscal year 2025 business-type activities decreased the City's net position by $483,332. The net position decrease is due to an increase in Water/wastewater expenses of $1.13M primarily in personnel costs (including pension and OPEB expense) and capital replacement charges for vehicles.

City of Victoria, Texas

2025 Expenses and Program Revenues - Business-type Activities

Functions/Programs	Expenses	% of Total	Program Revenues	% of Total	Net (Expense) Revenue
Water/wastewater	$27,060,394	75.47%	$29,159,850	78.18%	$2,099,456
Environmental services	6,386,353	17.81%	6,267,411	16.80%	(118,942)
Other	2,409,313	6.72%	1,871,475	5.02%	(537,838)
	$35,856,060		$37,298,736		$1,442,676

City of Victoria, Texas

Revenue by Source - Business-type Activities

Description	Revenues 2025	% of Total	Revenues 2024	% of Total
Charges for services	$34,524,077	97.60%	$34,424,614	100.83%
Capital grants and contributions	2,774,659	7.84%	1,402,553	4.11%
Unrestricted investment earnings	1,367,440	3.87%	1,931,051	5.65%
Miscellaneous	31,709	0.09%	20,171	0.06%
Transfers	(3,325,157)	(9.40%)	(3,635,701)	(10.65%)
Total	$35,372,728		$34,142,688	

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of fiscal year 2025, the City's governmental funds reported combined ending fund balances of $58,196,720, a decrease of $35,268,371. The main reasons for the net decrease in the City's combined governmental ending fund balances is due to the issuance of the 2024 Certificates of Obligation and the spending of funds received in prior fiscal years by the Capital Construction Funds in FY 2025.

The City's governmental funds combined fund balance of $58,196,720 is mainly made up of the following funds:

1. *The General Fund* is the chief operating fund of the City. At the end of fiscal year 2025, unassigned fund balance of the General Fund was $28,179,250 while total General Fund fund balance was $28,532,005. 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 47% of the total General Fund expenditures, while total fund balance also represents 48% of that same amount.

   The General Fund fund balance increased by $3,755,813, which was mainly due to an increase in taxes of $2,677,674 in comparison with the prior year; included in this increase in taxes was $1,093,156 in ad valorem tax revenues due to increased property values and adopting the voter-approval tax rate as well as an increase in sales tax revenues of $1,052,119 which was due primarily to Comptroller audit adjustments. Expenditures increased $5,930,992 from the prior year, primarily in Public Safety and General Government which accounted for $3,582,290 and $965,945 of the increase, respectively. The City implemented a 3% across the board pay program for all employees and 1% STEP adjustments for qualifying public safety personnel. In addition, the City leased $2.5 million in radios to replace all radios for the Police and Fire departments. Revenues and other financing sources came in over budget by $9.7M and expenditures and other financing uses were over budget by $798K – this was primarily due to accounting for a radio lease of $2.1M. The City had planned to draw down fund balance for one-time capital projects, but due to the increase in revenues and certain expenditures coming in under budget (personnel due to vacancies and transfers due to CIP projects), fund balance increased.

2. *The Debt Service Fund* is a debt service fund used to account for the General Obligation Bond and Certificate of Obligation Bond debt repayments and revenue collections. At the end of fiscal year 2025, fund balance of the Debt Service Fund was $1,843,487. The main reason for the $418,972 increase in the Debt Service Fund fund balance is due to interest income coming in over budget by $67,304 and not issuing the planned Series 2025 Certificates of Obligation, which had budgeted debt service of $468,780 in FY 2025; these bonds were not issued due to timing of design completion for the respective capital project the bonds were to fund.

3. *The Capital Construction Funds* are capital project funds used to account for the acquisition or construction of City facilities, usually accounting for proceeds of bond issues and local sources. At the end of fiscal year 2025 the combined fund balances for the three major capital construction funds was $21,061,582. The net decrease in their fund balances from the prior year was $37.6M and was mainly due to encumbrances carried over from the prior fiscal year being paid out in the current fiscal year; these projects include the Public Safety Headquarters Project ($32.6M), Tanglewood Street Reconstruction Project ($6.1M), and Bridle Ridge/Vista Del Sol Street Project ($3.6M).

FINANCIAL ANALYSIS OF THE CITY'S FUNDS - (Continued)

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 proprietary funds at the end of the fiscal year amounted to:

Fund	2025 Unrestricted Net Position	2024 Unrestricted Net Position
Water and Wastewater	$ 12,115,334	$ 13,584,489
Environmental Services	4,351,923	4,577,494
Other	2,158,991	2,026,147
Total	$ 18,626,248	$ 20,188,130

Other factors concerning the finances of these funds have been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

- Differences between the fiscal year 2025 General Fund original budget and fiscal year 2025 General Fund final amended budget for expenditures (including transfers) was $1,562,214 which represents fiscal year 2024 carryover encumbrances of $911K and budget amendments amounting to $652K (TMRS and PTO Buyout).
- The original fiscal year 2025 budget included approximately $4.8M of "one-time" expenditures mainly consisting of capital acquisition and improvement projects.
- For fiscal year 2025, the General Fund revenues came in $4,306,540 higher than the General Fund amended 2025 budget, primarily due to sales tax revenue coming in $2.0M over budget and ambulance revenue coming in $997K over budget.
- For fiscal year 2025, the General Fund actual expenditures, including encumbrances, came in approximately $1.4M higher than the General Fund amended fiscal year 2025 budget or $3.0M higher than the General Fund original 2025 budget. This is due to the net result of capitalization of leased equipment which was offset with lease proceeds, personnel coming in under budget due to vacancies, and maintenance coming in over budget due vehicle repairs.

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, 2025, amounts to $368,484,076 (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings, office equipment, machinery and equipment, improvements other than buildings, streets and bridges, right-to-use lease assets, subscription assets, water and wastewater distribution system, and construction in progress. The total net increase in the City's investment in capital assets for the current fiscal year was $42,487,360 or 13.03% (a $43,948,415 or 22.84% increase for governmental activities and ($1,461,055) or 1.09% decrease for business-type activities).

Major capital asset events during the current fiscal year included the following capital purchases, constructions, and deletions:

City of Victoria, Texas
Capital Asset Investment Activity Schedule

Capital Asset Description	Additions Governmental Activities	Deletions Governmental Activities	Additions Business-type Activities	Deletions Business-type Activities	Net Total
Land	$ -	$ -	$ -	$ -	$ -
Buildings	47,329	9,135	229,530	12,988	254,736
Other structure improvements	1,058,366	632,700	1,942,216	-	2,367,882
Infrastructure - streets, drainage, traffic, and sidewalks, etc.	17,917,130	-	-	-	17,917,130
Construction in progress	51,324,892	18,243,874	5,507,314	9,222,397	29,365,935
Machinery, equipment, and vehicles	6,058,224	1,322,857	898,408	204,719	5,429,056
Right-to-Use lease assets	981,825	237,532	-	-	744,293
Subscription assets	-	-	-	-	-
Water and wastewater distribution system	-	-	7,953,864	-	7,953,864
Total	$ 77,387,766	$ 20,446,098	$ 16,531,332	$ 9,440,104	64,032,896
	FY 2025 depreciation and amortization expense				(23,930,671)
	FY 2025 accumulated depreciation and amortization deletions				2,385,135
	Primary government beginning capital assets balance				325,996,716
	Primary government ending capital assets balance				$368,484,076

CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)

Capital Assets - (Continued)

The following financial table represents the City's total capital assets as of September 30, 2025:

City of Victoria, Texas
Capital Assets
(Net of Depreciation and Amortization)

	Governmental Activities		Business-type Activities		Total	
	2025	**2024**	**2025**	**2024**	**2025**	**2024**
Land	$ 5,120,362	$ 5,120,362	$ 5,569,177	$ 5,569,177	$ 10,689,539	$ 10,689,539
Construction in progress	63,110,242	30,029,224	12,626,805	16,341,888	75,737,047	46,371,112
Machinery and equipment	12,854,067	10,353,440	2,400,389	1,897,666	15,254,456	12,251,106
Buildings	4,830,071	5,705,386	16,333,019	17,556,917	21,163,090	23,262,303
Improvements other than buildings	18,285,657	18,166,275	7,198,434	5,675,492	25,484,091	23,841,767
Infrastructure	130,569,606	121,835,391	151,216	160,095	130,720,822	121,995,486
Right-to-Use lease assets	1,378,677	899,750	405,706	575,882	1,784,383	1,475,632
Subscription assets	180,878	271,317	-	-	180,878	271,317
Water and wastewater distribution system	-	-	87,469,770	85,838,454	87,469,770	85,838,454
Total	$236,329,560	$192,381,145	$132,154,516	$133,615,571	$368,484,076	$325,996,716

Additional information on the City's capital assets can be found in Note 6 of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)

Long-Term Debt

At the end of fiscal year 2025, the City had total bonded debt outstanding of $111,490,000. Of this amount, $75,965,000 comprises debt backed by the full faith and credit of the government and $35,525,000 secured solely by specific revenue sources (i.e., revenue bonds). In addition, the City had outstanding $3,385,105 in financed purchases, $1,848,316 in right-to-use leases, $199,743 in subscriptions, $3,384,926 in compensated absences, $7,530,465 in OPEB liability, $32,273,350 in net pension liability, $4,743,814 in estimated landfill closure and post-closure care cost; $1,511,722 in arbitrage liability, and $11,445,326 in net bond premium as of September 30, 2025.

City of Victoria, Texas

Outstanding Debt and Net Bond Premium

	Governmental Activities		Business-type Activities		Total	
	2025	2024*	2025	2024*	2025	2024*
General obligation bonds	$ 18,205,000	$ 21,905,000	$ -	$ -	$ 18,205,000	$ 21,905,000
Certificates of obligation	57,760,000	61,040,000	-	-	57,760,000	61,040,000
Revenue bonds	-	-	35,525,000	38,960,000	35,525,000	38,960,000
Financed purchases	3,271,968	1,562,670	113,134	149,738	3,385,105	1,712,408
Right-to-Use leases	1,422,813	926,894	425,503	591,447	1,848,316	1,518,341
Subscriptions	199,743	279,900	-	-	199,743	279,900
Compensated absences	2,941,171	3,263,146	443,755	612,926	3,384,926	3,876,072
OPEB liability	5,946,808	7,056,770	1,583,657	1,501,040	7,530,465	8,557,810
Net pension liability	25,486,265	32,910,729	6,787,085	7,000,415	32,273,350	39,911,144
Estimated landfill closure and post-closure care cost	-	-	4,743,814	4,743,814	4,743,814	4,743,814
Arbitrage	1,168,875	695,153	342,847	326,722	1,511,722	1,021,875
Net bond premium	7,835,102	8,634,032	3,610,224	3,944,434	11,445,326	12,578,466
Total	$ 124,237,745	$ 138,274,294	$ 53,575,019	$ 57,830,536	$ 177,812,764	$ 192,780,614

The City's debt had a net decrease of $14,967,850 or 7.76%. The key factors to this net decrease are the following:

- Debt payments of $6,980,000 in governmental activities bonds and $3,435,000 in business-type activities bonds were made during fiscal year 2025,
- The City entered into a finance purchase for public safety radios in the amount of $2,105,516 during fiscal year 2025,
- Net pension liability decreased by $7,637,794,
- Total OPEB liability decreased by $1,027,345 and,
- Bond premium had a net decrease of $1,133,140.

Additional information on the City's debt can be found in Note 12 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Texas Economy

The Texas economy decelerated at the end of 2025. Overall, employment growth slowed notably in Texas and major metro areas in 2025 relative to 2024, though payrolls expanded in December. Private hourly wages rose, with growth outpacing inflation last year. The January Texas Business Outlook Surveys showed a strong rebound in manufacturing and service sector activity. Texas consumer price index (CPI) increases remained modest in November.

Texas employment grew an annualized 1.7 percent in December (20,200 jobs). Texas payrolls held steady in 2025 following a 1.6 percent increase in 2024. Employment growth in 2025 was mixed across major sectors, with robust gains in construction and education and health (primarily health services), but modest growth or declines in most other sectors. In 2025, job growth in no major sector outpaced the growth of the previous year.

Texas' major metro job gains have been slowing over the past three years. In 2025, only Austin and Fort Worth saw modest gains, rising 0.9 percent and 0.3 percent respectively. San Antonio contracted 0.6 percent, while Dallas fell 0.2 percent and Houston declined 0.1 percent.

Texas private hourly earnings grew 3.9 percent year over year in December 2025, and the 12-month growth in CPI for Texas was 1.1 percent in November. During a period of high inflation from mid-2021 to late 2022, Texas wage growth lagged CPI but has outpaced price increases since mid-2024.

Texas factory activity continued to rise in March, but at a slower pace than the previous month, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, fell six points to 6.8, a reading suggestive of a below-average pace of output expansion.

Other measures of manufacturing activity also showed signs of slower growth this month. The capacity utilization index moved down five points to 7.2, the new orders index fell to 6.1 from 11.1, and the shipments index fell eight points to 1.8.

Perceptions of broader business conditions were mixed in March. The general business activity index was relatively unchanged at -0.2, with the near-zero reading indicating no change in business activity from February. However, the company outlook index fell into negative territory dropping nearly seven points to -3.5. The outlook uncertainty index shot up 20 points to 26.0, its highest reading since April 2025.

Employment growth stalled and workweeks were flat in March. The employment index came in near zero, with 15 percent of firms noting net hiring and 16 percent of firms noting net layoffs. The hours worked index moved down to 0.9 from 6.1.

Price pressures were little changed while wages grew at a slower pace than last month. Both the finished goods prices index and the raw materials prices index were relatively unchanged at 18.4 and 32.7, respectively. The wages and benefits index fell to 25.2 from 31.9.

Expectations are for increased manufacturing activity six months from now. The future production index held steady at 35.7, and the future general business activity index remained in positive territory but fell two points to 10.6. Other indexes of future manufacturing activity remained in positive territory and increased.

Texas service sector activity was little changed in March, according to business executives responding to the Texas Service Sector Outlook Survey. The revenue index, a key measure of state service sector conditions, fell three points to 1.3, with the near-zero reading indicating flat revenue.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - (Continued)

Labor market measures suggested employment increased slightly in March, though hours worked were unchanged. The employment index edged up two points to 2.5. Both the part-time employment and hours worked indexes registered near-zero readings, suggesting little change from February.

Perceptions of broader business conditions worsened substantially in March. The general business activity index fell 10 points to -13.3. The company outlook index also declined, falling eight points to -9.9. Meanwhile, the outlook uncertainty index jumped up 18 points to 27.0.

Selling price pressures eased while input price and wage pressures increased slightly. The selling prices index dipped to 4.9 from 8.3 in February. The input prices index edged up to 24.4 from 22.4 but remained below the series average of 27.7. Meanwhile, the wages and benefits index rose four points to 12.9.

Respondents' expectations regarding future service sector activity remained positive but eased in March. The future revenue index ticked down six points to 32.8. The future general business activity index plunged 13 points to 2.3. Other future service sector activity indexes, such as employment and capital expenditures, remained in solidly positive territory.

Activity in the oil and gas sector increased in first quarter 2026, according to oil and gas executives responding to the Dallas Fed Energy Survey. The business activity index, the survey's broadest measure of the conditions energy firms face in the Eleventh District, turned positive (indicating expansion), increasing from -6.2 in the fourth quarter of 2025 to 21.0 in the first quarter of 2026.

The company outlook index also turned positive, advancing from -15.2 in the fourth quarter to 32.2 in the first quarter, suggesting improving outlooks among firms. Meanwhile, the outlook uncertainty index remained elevated and increased from 43.4 to 53.7.

Oil and gas production was little changed in the first quarter, according to executives at exploration and production firms. The oil production index increased slightly from -3.4 to 0. Similarly, the natural gas production index edged higher from 0 to 2.3.

Costs increased at a slightly faster pace when compared with the prior quarter. The input cost index for oilfield services firms increased from 24.4 to 34.9. Among exploration and production firms, the finding and development costs index jumped from 5.7 to 22.3. Meanwhile, the lease operating expenses index was relatively unchanged at 30.0.

Oilfield services firms reported modest improvement in nearly all indicators, a shift from the prior quarter. The equipment utilization index for oilfield services firms turned positive, jumping from -12.2 to 30.2. The operating margin index remained negative but increased from -31.7 to -7.0, indicating margins compressed at a slower rate. Meanwhile, the prices received for services index rose sharply from -30.0 to 9.3.

Overall, demand for employees was unchanged, although those on the job tended to work more hours than in the previous quarter. The aggregate employment index increased from -10.8 in the fourth quarter to 0.8 in the first. Additionally, the aggregate employee hours index jumped from -9.3 to 12.8. Meanwhile, the aggregate wages and benefits index increased from 6.2 to 23.5.

On average, respondents expect a West Texas Intermediate (WTI) oil price of $74 per barrel at year-end 2026; responses ranged from $50 to $135 per barrel. When asked about longer-term expectations, respondents on average said they expect a WTI oil price of $73 per barrel two years from now and $79 per barrel five years from now. Survey participants foresee a Henry Hub natural gas price of $3.60 per million British thermal units (MMBtu) at year-end 2026. When asked about longer-term expectations, respondents on average said they anticipate a Henry Hub gas price of $4.03 per MMBtu two years from now and $4.42 per MMBtu five years from now. For reference, WTI spot prices averaged $94.65 per barrel during the survey collection period, and Henry Hub spot prices averaged $3.16 per MMBtu.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - (Continued)

Victoria Economy

The Victoria Region is amid a 'Golden Era' of economic development prospect activity resulting in announced projects representing over $12.6 billion and the planned creation of over 1,900 new high-paying jobs. Additionally, potential future announcements are being considered that collectively represent over $25 billion and 4,000 new high paying primary jobs.

Announced projects are in Ammonia, Hydrogen, Methanol, Battery Additives (EV Supply Chain), Heavy & Light Rare Earth Element Processing, Small Modular Nuclear Reactors, Metal Fabrication, Plastics, Assembly and Distribution. Pending projects include operations in Chemical Manufacturing, Ore Processing, Nuclear Energy, Metals Manufacturing and Industrial Development industry sectors.

First Ammonia continues to move forward with its proposed project at the Port of Victoria and remains active throughout the Victoria area. The company submitted its tax abatement application to the Commissioners Court on January 12, 2026. The development is expected to be a 300 MW facility, creating approximately 60 new jobs and representing a capital investment of $1.25 billion. Additionally, the Victoria Economic Development Corporation (VEDC) hosted First Ammonia and an offtaker site visit on September 25, 2025.

Blue Energy entered into an option agreement with the Port of Victoria to lease 70 acres for the potential development of a modular nuclear power facility. The project is designed to be scalable to meet future power demands. The initial phase is expected to create approximately 100 jobs and represent a capital investment of $2.4 billion.

Terraflow is exploring the establishment of operations across multiple potential sites in Victoria County, which may include a battery manufacturing facility and a data center. VEDC continues to work collaboratively with Terraflow, data center developers, and the Port of Victoria on this potential megaproject.

VEDC and the City of Victoria announced Amazon's plans to develop a last-mile distribution facility along U.S. Highway 59 on March 7, 2025. VEDC hosted the facility's ribbon-cutting ceremony on September 17, 2025. The project created approximately 60–100 new jobs and a $60 million investment.

GEO is advancing Phase 1 of a multi-phased battery additives manufacturing facility at the Port of Victoria to support the electric vehicle supply chain and EV manufacturers across Texas. Phase 1 represents a $109 million capital investment and is expected to create approximately 70 jobs. GEO executed a lease agreement with the Port of Victoria on May 19. VEDC also submitted the project for a Community Economic Development Award through TEDC. Upon full buildout, the project has the potential to create up to 450 high-paying jobs and represent a total investment of approximately $400 million.

Zephyros, a Caterpillar supplier, closed on its property on June 30, 2025, and submitted its tax abatement application on June 17, 2025. The project represents a $40 million capital investment and is expected to create approximately 52 jobs. VEDC also highlighted Zephyros at the 2025 Caterpillar Supplier Summit.

VEDC continues to work with Exxon on due diligence for a potential megaproject representing an estimated $10 billion capital investment and approximately 600 jobs. Exxon engaged with numerous local partners and community stakeholders throughout 2025. Due to recent market shifts, the project is currently on hold.

This project originated from a state-generated lead in which the Calhoun Port was submitted as a potential site. The prospective company is an international firm based in the country of Georgia, specializing in iron and steel mill and ferroalloy operations. VEDC hosted two site visits on July 14 and November 14, 2025. The project has the potential to represent a $30–50 million capital investment and create approximately 100 jobs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - (Continued)

This project involves a battery energy storage center evaluating a site in Bloomington. VEDC continues to facilitate meetings and discussions with the company and community representatives. The project is projected to represent a $50–100 million capital investment.

VEDC played a key role in retaining Halliburton operations in Victoria. In December of 2024, VEDC identified decision-makers and collaborated with Halliburton and local taxing entities to propose an incentive package aimed at maintaining the facility. The City and County approved incentive agreements on March 17 and March 18, 2025, ensuring Halliburton operations would remain in Victoria for at least five years. The Victoria facility supports approximately 80 employees who stay in local hotels for eight weeks every quarter. Additionally, VEDC facilitated a meeting on July 30, 2025, between a local firm planning an expansion and a local landowner. VEDC continues to facilitate potential incentives and regional partnerships to support this expansion, which represents an estimated $50–60 million capital investment.

Dow and X-Energy announced in 2023 that Dow's Seadrift Campus has been selected as the location of a demonstration project for four 80 MW Small Modular Nuclear Reactors to replace aging co-generation facilities on the Dow Campus. The $2.2 billion capital investment is being made in partnership with a grant from the US Department of Energy for a first of its kind demonstration project that can be replicated around the world. Permitting is being undertaken with cooperation by the Nuclear Regulatory Council (NRC) and global Nuclear Energy Agency (Paris). The project will create 120 new high paying jobs.

Three companies (First Ammonia, Acme, and European Energy) have selected the Port of Victoria for chemical projects to leverage new federal legislation providing for 45v tax credits, a growing global market for sustainable chemicals, and decreases in production worldwide due to geopolitical conflicts. The three announcements amount to over $3 billion in planned investments and 350 new high paying jobs. The products being developed will be Green Ammonia, Green Hydrogen and E-Methanol.

Lynas Rare Earths – Lynas purchased property from Dow's Seadrift Campus in 2023 to develop a heavy and light Rare Earth Element processing facility. The $600 million investment is a partnership with the US Department of Defense to secure a vital supply chain to the US economy. The project will create 120 new high paying jobs and has the potential to spin additional industry sectors including magnet manufacturing.

Victoria's unemployment rate for January 2026 was 4.6 percent, compared to the U.S. 4.3 percent rate and Texas 4.5 percent rate; and is 0.5 percent higher than a year ago.

The total building permit value (i.e. new construction for commercial, multi-family units and single-family units) decreased by 34.8 percent or $31.1M, comparing September 2025 to September 2024 values; the decrease is due to commercial permit activity. As of September 2025, total commercial permit value was $32.6M, a decrease of 57.9 percent or $44.8M from last year's values.

Water Supply

To ensure Victoria's economy continues to grow and remain strong, Victoria has an aggressive policy to ensure it has an adequate water supply for its current and future customers. The City uses surface water from the Guadalupe River as its primary source of potable water. The City has a permit issued by the Texas Commission on Environmental Quality that allows the City to withdraw up to 20,000 acre/feet per year from the Guadalupe River. This equates to approximately two times the City's average annual pumping rate. Additionally, the City has approximately four months of surface water and shallow alluvial groundwater supply stored in a system of off-channel reservoirs. This water source provides a back-up supply to the City's primary Guadalupe River water source. All this water is treated at the City's 25.2M gallon per day surface water treatment plant.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - (Continued)

As an emergency supply, the City also maintains 9 of its original 15 water wells that can supply ground water from the Gulf Coast Aquifer. The aquifer is within the corporate limits of the City and varies in thickness from approximately 400 feet to approximately 900 feet. Another option available to the City is a contractual arrangement with the Guadalupe-Blanco River Authority, which allows access to a five-year rolling annual average of 1,240 acre/feet of surface water stored in Canyon Reservoir, with no more than 3,600 acre/feet to be used in any given year.

Over the last several fiscal years, the City has purchased a total of 7,006.7-acre feet/year of additional water rights, which has added to the City's water supply options and allows for improved flexibility.

In 2017, the City, in conjunction with the Victoria County Groundwater Conservation District, was approved for a grant by the Texas Water Development Board for an Aquifer Storage and Recovery Demonstration Project. This project consists of replacing the pumping equipment of Well #19 and retrofitting it into a full-scale ASR well. After completion of the construction, potable water will be stored in the Gulf Coast Aquifer for approximately 7 months and will then be withdrawn over a period of 4 months with level and water quality data being recorded throughout the entire process. If successful, this project will add 2 MGD of additional capacity to the City's water supply. Additional wells can then be added incrementally in the future to expand the City's water supply and defer the capital expenditure required to expand the Surface Water Treatment Plant. The City will continue to explore other possibilities for additional future water supplies for its citizens.

The City is currently undergoing a water feasibility study which will determine current and future water demands, develop potential options for new water supplies, evaluate the options and develop a strategic short-, mid- and long-term plan. A key element in the study is developing a comprehensive set of future water supplies, followed by a matrix system that gives the city a path forward. The goal is to be sure the city has a reliable, resilient and safe water supply that projects future growth in and around the corporate city limits. Projects identified from this study will be implemented in the upcoming Capital Improvement Plans.

Other Economic Factors

- The City of Victoria, with a population of about 66,020, is located 30 miles inland from the Gulf Coast and roughly equidistant from Corpus Christi, Texas; San Antonio, Texas; and Houston, Texas, which are all approximately 130 miles away. While the most important opportunities remain in the petrochemical industry and the manufacturing and industrial sectors, Victoria's economy has become a regional center for retail trade and health care. The City acts as a draw for a seven-county area with a population of nearly 200,000. Over the past ten years (2015 thru 2025), the City's population has decreased approximately 0.11 percent. The population is projected to grow by 3 percent over the next five years.

- As of the first six months of fiscal year 2026, actual sales tax revenues are exceeding the fiscal year 2026 budget by $541,000. The City expects sales tax revenue collections to continue coming in over budget but less than prior year actuals.

- Property taxes (i.e., ad valorem taxes) are based on the value of total appraised, assessed taxable property in the City. The property tax levy includes the taxable value of new improvements and property annexed since January 1, 2025. The fiscal year 2025-2026 total appraised value of all property in the City of Victoria, as rendered by the Victoria Central Appraisal District and adjusted for frozen taxable appraised values, is $6,429,394,605, a decrease of 2.7% or $176 million from last year's tax roll (adjusted for frozen taxable appraised values) of $6,445,551,503.

- The ad valorem tax rate for fiscal year 2026 was set at 47.90¢, an increase of 0.83¢ from last year's tax rate. The tax rate is allocated at 30.59¢ for General Fund maintenance and operating costs (an increase of 0.80¢), and 17.31¢ for Debt Service Fund (an increase of 0.03¢).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - (Continued)

- The General Fund unassigned fund balance, at September 30, 2025, came in $12,851,094 above the fiscal year 2025 minimum required unassigned fund balance of $15,745,484, including carryover encumbrances. The City has a policy of maintaining a minimum unassigned fund balance of 25% of total expenditures, in a given budget year. The excess unassigned fund balance will be used on one-time/non-reoccurring expenditures, capital improvement projects, or at Council's discretion.

- The fiscal year 2026 budget includes $7,417,178 of General Fund one-time expenditures and $2,767,141 of Water and Wastewater Fund one-time expenses.

- In FY 2018, the City completed a water / wastewater rate study. After reviewing the outcome and on the recommendation of consultants, the City moved from a seven-tier variable rate table to a four-tier variable rate table. In conjunction with the rate study, the City prepares a financial model forecasting revenues, expected infrastructure needs and other expected expenses. The model is prepared based upon assumptions regarding customer growth, five years Capital Improvement Program, increases in operating cost, debt-coverage-ratio requirements, and debt service requirements. The model serves as a planning tool to forecast the ability to pay cash for operational needs, future debt service, or finance various infrastructure needs, as well as to establish water and wastewater rate increases. The City is planning to update this study in FY 2026/FY 2027.

- The water and sewer customer base has been relatively stable over the past ten fiscal years with an average annual growth rate of 0.16 percent and 0.39 percent, respectively. The City did not raise its water and sewer rates but changed the variable rate schedule in FY 2019 from a seven-tier table to a four-tier table in order to ensure the City keeps pace with the needs of its water and wastewater operations and infrastructure. As for future trends, the City is expecting the same weather conditions (mild to hot) it experienced in FY 2025 to continue in the next two fiscal years with a relatively flat increase in its customer base, anywhere from 0.5 to 1 percent.

- In FY 2024, the City began a stormwater drainage fee study. Currently, the City does not have a stormwater drainage utility or drainage fee. Because of this, the City is limited in its ability to perform drainage work, and the minimal amount of projects it does perform must compete with general City services for funding. By establishing a stormwater drainage utility, the City can have consistent, reliable, dedicated funding for drainage needs, including implementation of the storm drainage master plan; other City funds can redirect money back toward their core functions; and, the community will benefit from more robust maintenance, improved drainage performance and reduced flooding risk.

- The City's Capital Improvement Program Projects through FY 2028 consist of approximately $127,656,947: in progress - FY 2026 - $79,251,403, FY 2027 - $25,022,519, and FY 2028 - $23,383,025 (more detailed information on this subject can be found in the City's FY2026-2028 Capital Improvement Program document).

Requests for Information

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Office of the Chief Financial Officer, 105 West Juan Linn, Victoria, Texas 77901.

Basic Financial Statements

CITY OF VICTORIA, TEXAS
STATEMENT OF NET POSITION
September 30, 2025

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets				
Cash and cash equivalents	$ 41,948,604	$ 4,714,060	$ 46,662,664	$ 3,542,546
Investments	34,328,533	15,499,488	49,828,021	12,957,975
Receivables (net)	10,603,336	2,745,802	13,349,138	824,551
Internal balances	118,867	(118,867)	-	-
Due from primary government	-	-	-	33,277
Due from component unit	796,410	430,369	1,226,779	-
Inventory	416,429	411,922	828,351	-
Returned checks	349,027	1,490	350,517	-
Prepaid items	28,211	-	28,211	-
Restricted assets				
Cash and cash equivalents	30,000	10,147,936	10,177,936	-
Investments	-	2,285,351	2,285,351	-
Total current assets	88,619,417	36,117,551	124,736,968	17,358,349
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated or amortized	68,230,604	18,195,982	86,426,586	3,940,843
Buildings, improvements, and equipment (net)	166,539,401	113,552,828	280,092,229	846,751
Right-to-Use lease assets (net)	1,378,677	405,706	1,784,383	-
Subscription assets (net)	180,878	-	180,878	-
Net capital assets	236,329,560	132,154,516	368,484,076	4,787,594
Total noncurrent assets	236,329,560	132,154,516	368,484,076	4,787,594
Total assets	324,948,977	168,272,067	493,221,044	22,145,943
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount on refunding	1,186,729	384,773	1,571,502	-
Deferred outflow related to pension	5,082,988	853,456	5,936,444	-
Deferred outflow related to OPEB	1,220,204	322,674	1,542,878	-
Total deferred outflows of resources	7,489,921	1,560,903	9,050,824	-

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities				
Accounts payable	$ 12,427,815	$ 1,134,228	$ 13,562,043	$ 346,671
Accounts payable (payable from restricted assets)	-	1,505,107	1,505,107	-
Accrued expenses	3,114,271	417,481	3,531,752	-
Due to other governments	61,759	42,485	104,244	-
Due to primary government	-	-	-	1,226,779
Due to component unit	-	33,277	33,277	-
Customer deposits	-	72,800	72,800	-
Claims payable	670,935	-	670,935	-
Unearned revenue	325,144	-	325,144	-
Accrued compensated absences	743,995	110,940	854,935	-
Accrued interest payable	501,215	525,582	1,026,797	-
Current portion of long-term obligations	8,607,152	3,784,089	12,391,241	-
Total current liabilities	26,452,286	7,625,989	34,078,275	1,573,450
Noncurrent liabilities				
Noncurrent portion of long-term obligations	81,256,349	36,232,618	117,488,967	-
Accrued compensated absences	2,205,878	332,815	2,538,693	-
Net pension liability	25,486,265	6,787,085	32,273,350	-
OPEB liability	5,946,808	1,583,657	7,530,465	-
Estimated landfill closure and postclosure care cost	-	4,743,814	4,743,814	-
Total noncurrent liabilities	114,895,300	49,679,989	164,575,289	-
Total liabilities	141,347,586	57,305,978	198,653,564	1,573,450
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow related to pension	1,486,881	1,291,022	2,777,903	-
Deferred inflow related to OPEB	1,538,589	341,608	1,880,197	-
Total deferred inflows of resources	3,025,470	1,632,630	4,658,100	-
NET POSITION				
Net investment in capital assets	151,600,575	92,268,114	243,868,689	4,787,594
Restricted for:				
Debt service	2,422,420	-	2,422,420	-
Public safety	794,546	-	794,546	-
Development	500,168	-	500,168	-
Recreation	2,579,365	-	2,579,365	-
Unrestricted	30,168,768	18,626,248	48,795,016	15,784,899
Total net position	$ 188,065,842	$ 110,894,362	$ 298,960,204	$ 20,572,493

The accompanying notes are an integral part of this statement.

CITY OF VICTORIA, TEXAS
STATEMENT OF ACTIVITIES
For the year ended September 30, 2025

		Program Revenues		
Function/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	$ 8,177,904	$ 2,025,300	$ 2,712,811	$ -
Public safety	36,170,599	8,425,965	1,110,895	30,000
Development	21,307,601	-	636,800	6,264,897
Recreation	7,183,635	378,208	379,055	2,400,000
Interest on long-term debt	3,300,430	-	-	-
Total governmental activities	76,140,169	10,829,473	4,839,561	8,694,897
Business-type activities				
Water/wastewater	27,060,394	26,385,191	-	2,774,659
Environmental services	6,386,353	6,267,411	-	-
Community Center	801,642	228,082	-	-
700 Main Center	206,988	151,077	-	-
Golf Course	1,400,683	1,492,316	-	-
Total business-type activities	35,856,060	34,524,077	-	2,774,659
Total primary government	$ 111,996,229	$ 45,353,550	$ 4,839,561	$ 11,469,556
Component Units	$ 15,562,053	$ 24,000	$ -	$ -

General revenues:
Taxes:
Property taxes, levied for general purposes
Property taxes, levied for debt service
Sales taxes
Franchise taxes
Other taxes
Unrestricted investment earnings net of change in fair value of investments
Miscellaneous
Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as previously reported

Change in accounting principle

Error correction

Net position - beginning, as restated

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (3,439,793)	$ -	$ (3,439,793)	$ -
(26,603,739)	-	(26,603,739)	-
(14,405,904)	-	(14,405,904)	-
(4,026,372)	-	(4,026,372)	-
(3,300,430)	-	(3,300,430)	-
(51,776,238)	-	(51,776,238)	-
-	2,099,456	2,099,456	-
-	(118,942)	(118,942)	-
-	(573,560)	(573,560)	-
-	(55,911)	(55,911)	-
-	91,633	91,633	-
-	1,442,676	1,442,676	-
(51,776,238)	1,442,676	(50,333,562)	-
-	-	-	(15,538,053)
20,266,538	-	20,266,538	-
9,829,691	-	9,829,691	-
21,000,431	-	21,000,431	10,533,659
6,050,557	-	6,050,557	-
1,975,776	-	1,975,776	-
3,787,836	1,367,440	5,155,276	883,250
1,553,540	31,709	1,585,249	460,071
3,325,157	(3,325,157)	-	-
67,789,526	(1,926,008)	65,863,518	11,876,980
16,013,288	(483,332)	15,529,956	(3,661,073)
174,671,233	112,083,231	286,754,464	24,233,566
(1,923,526)	(378,815)	(2,302,341)	-
(695,153)	(326,722)	(1,021,875)	-
172,052,554	111,377,694	283,430,248	24,233,566
$ 188,065,842	$ 110,894,362	$ 298,960,204	$ 20,572,493

CITY OF VICTORIA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2025

	General	Debt Service	Capital Construction Fund (3036)
ASSETS			
Current assets			
Cash and cash equivalents	$ 2,175,004	$ 1,793,487	$ 1,081,120
Investments	23,722,647	-	-
Receivables (net)	8,184,324	1,055,241	-
Due from other funds	4,089,814	50,000	84,626
Due from component unit	-	-	-
Inventory	324,544	-	-
Returned checks	349,027	-	-
Prepaid items	28,211	-	-
Total assets	$ 38,873,571	$ 2,898,728	$ 1,165,746
LIABILITIES			
Accounts payable	$ 1,233,101	$ -	$ 30,817
Accrued expenditures	2,994,794	-	-
Accrued compensated absences	8,702	-	-
Due to other governments	61,759	-	-
Due to other funds	54,221	-	102,250
Unearned revenue	14,715	-	-
Total liabilities	4,367,292	-	133,067
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	5,974,274	1,055,241	-
Total deferred inflows of resources	5,974,274	1,055,241	-
FUND BALANCES			
Nonspendable			
Inventory	324,544	-	-
Prepaid items	28,211	-	-
Restricted	-	1,843,487	1,032,679
Committed	-	-	-
Unassigned	28,179,250	-	-
Total fund balances	28,532,005	1,843,487	1,032,679
Total liabilities, deferred inflows and fund balances	$ 38,873,571	$ 2,898,728	$ 1,165,746

The accompanying notes are an integral part of this statement.

Capital Construction Fund (3037)	Venue Tax	Other Governmental Funds	Total Governmental Funds
$ 19,149,686	$ 2,424,241	$ 7,134,173	$ 33,757,711
10,548,554	-	57,332	34,328,533
30,000	-	1,161,147	10,430,712
-	-	21,205	4,245,645
796,410	-	-	796,410
-	-	-	324,544
-	-	-	349,027
-	-	-	28,211
$ 30,524,650	$ 2,424,241	$ 8,373,857	$ 84,260,793
$ 9,549,589	$ 299,655	$ 589,349	$ 11,702,511
-	-	30,573	3,025,367
-	-	-	8,702
-	-	-	61,759
3,070,744	-	604,603	3,831,818
-	-	310,429	325,144
12,620,333	299,655	1,534,954	18,955,301
-	-	79,257	7,108,772
-	-	79,257	7,108,772
-	-	-	324,544
-	-	-	28,211
17,904,317	2,124,586	5,202,337	28,107,406
-	-	1,636,671	1,636,671
-	-	(79,362)	28,099,888
17,904,317	2,124,586	6,759,646	58,196,720
$ 30,524,650	$ 2,424,241	$ 8,373,857	$ 84,260,793

CITY OF VICTORIA, TEXAS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES

September 30, 2025

Total governmental fund balances		$ 58,196,720
Amounts reported for governmental activities in the statement of net position are different because:		
Internal service funds are used by the City to charge the costs of certain activities, such as insurance and vehicle and equipment services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		11,010,875
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are "unavailable" in the funds.		2,684,999
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance.		4,423,773
Capital and subscription assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental assets at year-end consist of:		
Governmental capital and subscription assets costs	$ 510,326,313	
Accumulated depreciation/amortization of governmental assets	(280,689,016)	229,637,297
Deferred outflows of resources are not reported in the governmental funds:		
Deferred amount on refunding	1,186,729	
Deferred outflow related to pension	5,082,988	
Deferred outflow related to OPEB	1,220,204	7,489,921
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	(75,965,000)	
Financed purchases payable	(2,506,689)	
Premiums on bonds payable	(7,835,102)	
Arbitrage liability	(1,168,875)	
Subscription liability	(199,743)	
Accrued interest on long-term debt	(482,702)	
Compensated absences	(2,761,089)	
Net pension liability	(25,486,265)	
OPEB liability	(5,946,808)	(122,352,273)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred inflow related to pension	(1,486,881)	
Deferred inflow related to OPEB	(1,538,589)	(3,025,470)
Net position of governmental activities		$ 188,065,842

The accompanying notes are an integral part of this statement.

CITY OF VICTORIA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended September 30, 2025

	General	Debt Service	Capital Construction Fund (3036)
REVENUES			
Taxes	$ 47,681,345	$ 9,951,127	$ -
Licenses and permits	1,082,868	-	-
Intergovernmental	2,892,277	-	-
Charges for services	4,507,628	-	-
Fines and forfeitures	620,083	-	-
Investment earnings net of change in fair value of investments	1,246,432	242,304	68,575
Miscellaneous	441,932	1,000,000	-
Total revenues	58,472,565	11,193,431	68,575
EXPENDITURES			
Current			
General government	6,996,913	-	-
Public safety	37,372,257	-	-
Development	8,793,120	-	494,932
Recreation	6,184,088	-	-
Capital outlay	-	-	-
Debt service			
Principal retirement	-	6,980,000	-
Interest and fiscal charges	-	3,785,144	-
Paying agents' fees, issue costs, and arbitrage rebate premiums	-	9,315	-
Total expenditures	59,346,378	10,774,459	494,932
Excess (deficiency) of revenues over expenditures	(873,813)	418,972	(426,357)
OTHER FINANCING SOURCES (USES)			
Financed purchase issued	2,105,516	-	-
Transfers in	6,601,035	-	967,304
Transfers out	(4,076,925)	-	(158,000)
Total other financing sources (uses)	4,629,626	-	809,304
Change in fund balances	3,755,813	418,972	382,947
Fund balances at beginning of year	24,776,192	1,424,515	649,732
Fund balances at end of year	$ 28,532,005	$ 1,843,487	$ 1,032,679

The accompanying notes are an integral part of this statement.

Capital Construction Fund (3037)	Venue Tax	Other Governmental Funds	Total Governmental Funds
$ -	$ -	$ 1,832,826	$ 59,465,298
-	-	-	1,082,868
-	-	3,920,449	6,812,726
-	-	-	4,507,628
-	-	196,249	816,332
2,130,787	24,241	240,926	3,953,265
6,294,897	2,400,000	1,229,386	11,366,215
8,425,684	2,424,241	7,419,836	88,004,332
-	-	905,667	7,902,580
-	-	1,969,884	39,342,141
297,671	-	1,548,614	11,134,337
-	-	1,735,003	7,919,091
48,543,451	299,655	2,487,662	51,330,768
-	-	-	6,980,000
-	-	-	3,785,144
-	-	-	9,315
48,841,122	299,655	8,646,830	128,403,376
(40,415,438)	2,124,586	(1,226,994)	(40,399,044)
-	-	-	2,105,516
3,736,959	-	1,572,072	12,877,370
(3,445,091)	-	(2,172,197)	(9,852,213)
291,868	-	(600,125)	5,130,673
(40,123,570)	2,124,586	(1,827,119)	(35,268,371)
58,027,887	-	8,586,765	93,465,091
$ 17,904,317	$ 2,124,586	$ 6,759,646	$ 58,196,720

CITY OF VICTORIA, TEXAS

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

For the year ended September 30, 2025

Total net change in fund balances - governmental funds		$ (35,268,371)
Amounts reported for governmental activities in the statement of activities are different because:		
Internal service funds are used by the City to charge the costs of certain activities, such as insurance and vehicle and equipment services, to individual funds. The net activity of the internal service funds are reported with governmental activities.		(163,752)
Capital outlays and subscriptions are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation or amortization expense.		
Increase in capital assets	$ 56,189,406	
Depreciation and amortization expense	(12,677,866)	43,511,540
The net effect of various transactions involving capital assets (i.e., transfers, contributions, adjustments and dispositions) is to increase (decrease) net position.		(10,721)
Issuance of debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		
Financed purchase		(2,105,516)
Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:		
Bond principal retirement	6,980,000	
Financed purchase principal retirement	148,848	
Subscriptions principal retirement	80,157	7,209,005
Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year end and are not reported as revenue in the governmental funds.		
Property taxes	(244,935)	
Other revenues	805,148	560,213
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in compensated absences	291,822	
Decrease in accrued interest	24,226	
Decrease in loss on bond refunding	(242,682)	
Decrease in bond premium	798,930	
Increase in arbitrage	(473,721)	
Net pension costs	1,069,676	
Net OPEB costs	812,639	2,280,890
Change in net position of governmental activities		$ 16,013,288

The accompanying notes are an integral part of this statement.

CITY OF VICTORIA, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2025

	Business-type Activities				Governmental Activities Internal Service Funds
	Water and Wastewater	Environmental Services	Other Enterprise Funds	Total	
ASSETS					
Current assets					
Cash and cash equivalents	$ 2,104,699	$ 832,423	$ 1,776,938	$ 4,714,060	$ 8,190,893
Investments	8,504,231	6,995,257	-	15,499,488	-
Receivables (net)	2,283,415	356,146	106,241	2,745,802	172,624
Due from other funds	-	28,663	3,970	32,633	245,337
Due from component unit	430,369	-	-	430,369	-
Inventory	393,144	-	18,778	411,922	91,885
Returned checks	-	-	1,490	1,490	-
Restricted assets					
Cash and cash equivalents	8,560,050	1,059,105	528,781	10,147,936	30,000
Investments	-	2,285,351	-	2,285,351	-
Total current assets	22,275,908	11,556,945	2,436,198	36,269,051	8,730,739
Noncurrent assets					
Capital assets					
Land and other assets not being depreciated	15,817,751	834,981	1,543,250	18,195,982	173,175
Buildings, improvements, and equipment (net)	109,852,903	1,490,664	2,209,261	113,552,828	5,140,411
Right-to-Use lease assets (net)	-	-	405,706	405,706	1,378,677
Total noncurrent assets	125,670,654	2,325,645	4,158,217	132,154,516	6,692,263
Total assets	147,946,562	13,882,590	6,594,415	168,423,567	15,423,002
DEFERRED OUTFLOWS OF RESOURCES					
Deferred amount on refunding	384,773	-	-	384,773	-
Deferred outflow related to pension	587,979	265,477	-	853,456	-
Deferred outflow related to OPEB	257,975	64,699	-	322,674	-
Total deferred outflows of resources	1,230,727	330,176	-	1,560,903	-

	Business-type Activities				Governmental Activities
LIABILITIES	Water and Wastewater	Environmental Services	Other Enterprise Funds	Total	Internal Service Funds
Current liabilities					
Accounts payable	$ 805,328	$ 245,792	$ 83,108	$ 1,134,228	$ 725,304
Accounts payable (payable from restricted assets)	1,505,107	-	-	1,505,107	-
Accrued expenses	274,067	86,857	56,557	417,481	88,904
Accrued compensated absences	74,995	29,785	6,160	110,940	45,021
Due to other governments	-	42,485	-	42,485	-
Due to other funds	57,338	55,673	38,489	151,500	540,297
Due to component unit	-	33,277	-	33,277	-
Customer deposits	-	-	72,800	72,800	-
Claims payable	-	-	-	-	670,935
Accrued interest payable	523,967	-	1,615	525,582	18,513
Current portion of revenue bonds	3,590,000	-	-	3,590,000	-
Current portion of right-to-use lease liability	-	-	157,500	157,500	485,940
Current portion of financed purchases	-	-	36,589	36,589	238,359
Total current liabilities	6,830,802	493,869	452,818	7,777,489	2,813,273
Noncurrent liabilities					
Revenue bonds (net of unamortized deferred amounts)	35,545,224	-	-	35,545,224	-
Arbitrage liability	342,847	-	-	342,847	-
Right-to-use lease liability	-	-	268,003	268,003	936,873
Financed purchases	-	-	76,544	76,544	526,920
Accrued compensated absences	224,983	89,354	18,478	332,815	135,061
Net pension liability	5,270,238	1,516,847	-	6,787,085	-
OPEB liability	1,229,725	353,932	-	1,583,657	-
Estimated landfill closure and postclosure care cost	-	4,743,814	-	4,743,814	-
Total noncurrent liabilities	42,613,017	6,703,947	363,025	49,679,989	1,598,854
Total liabilities	49,443,819	7,197,816	815,843	57,457,478	4,412,127
DEFERRED INFLOWS OF RESOURCES					
Deferred inflow related to pension	1,011,055	279,967	-	1,291,022	-
Deferred inflow related to OPEB	273,863	67,745	-	341,608	-
Total deferred inflows of resources	1,284,918	347,712	-	1,632,630	-
NET POSITION					
Net investment in capital assets	86,333,218	2,315,315	3,619,581	92,268,114	4,500,941
Unrestricted net position	12,115,334	4,351,923	2,158,991	18,626,248	6,509,934
Total net position	$ 98,448,552	$ 6,667,238	$ 5,778,572	$ 110,894,362	$ 11,010,875

The accompanying notes are an integral part of this statement.

CITY OF VICTORIA, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the year ended September 30, 2025

	Business-type Activities		
	Water and Wastewater	Environmental Services	Other Enterprise Funds
OPERATING REVENUES			
Charges for services	$ 26,341,465	$ 5,016,885	$ 1,863,723
Miscellaneous	43,726	1,250,526	7,752
Total operating revenues	26,385,191	6,267,411	1,871,475
OPERATING EXPENSES			
Personnel	7,631,615	2,198,602	1,051,054
Materials and supplies	2,428,326	282,413	286,538
Maintenance	1,864,243	2,688	103,410
Heat, lights and power	1,381,157	17,877	187,788
Reinsurance premiums	-	-	-
Miscellaneous services	2,895,107	1,989,551	139,125
Contractual services	1,188,129	395,175	60,508
Computer services	245,923	102,833	29,228
Court costs, judgments and damages	-	-	-
Claims expense	-	-	-
OPEB trust, HSA, life insurance, wellness prg. expense	-	-	-
Tipping fees	-	1,049,946	-
Landfill closure and postclosure care cost	-	174,569	-
Depreciation and amortization	8,076,790	172,699	519,647
Total operating expenses	25,711,290	6,386,353	2,377,298
Operating income (loss) before nonoperating revenues (expenses), contributions and transfers	673,901	(118,942)	(505,823)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings net of change in fair value of investments	756,813	537,716	72,911
Interest and fiscal charges	(1,349,104)	-	(32,015)
Gain (loss) on disposition of capital assets	21,709	10,000	-
Net nonoperating revenues (expenses)	(570,582)	547,716	40,896
Income before contributions and transfers	103,319	428,774	(464,927)
Contributions and transfers			
Capital contributions	2,774,659	-	-
Transfers in	101,702	28,663	450,000
Transfers out	(3,248,425)	(595,167)	(61,930)
Total contributions and transfers	(372,064)	(566,504)	388,070
Change in net position	(268,745)	(137,730)	(76,857)
Net position - beginning, as previously reported	99,298,308	6,915,557	5,869,366
Change in accounting principle	(254,289)	(110,589)	(13,937)
Correction of error	(326,722)	-	-
Net position - beginning, as restated	98,717,297	6,804,968	5,855,429
Net position - ending	$ 98,448,552	$ 6,667,238	$ 5,778,572

The accompanying notes are an integral part of this statement.

Total	Governmental Activities Internal Service Funds
$ 33,222,073	$ 21,279,270
1,302,004	80,384
34,524,077	21,359,654
10,881,271	1,988,238
2,997,277	1,151,076
1,970,341	3,150,735
1,586,822	119,399
-	2,014,125
5,023,783	1,034,966
1,643,812	2,685,771
377,984	123,716
-	27,753
-	6,766,331
-	492,820
1,049,946	-
174,569	-
8,769,136	2,483,673
34,474,941	22,038,603
49,136	(678,949)
1,367,440	308,292
(1,381,119)	(92,840)
31,709	(255)
18,030	215,197
67,166	(463,752)
2,774,659	-
580,365	300,000
(3,905,522)	-
(550,498)	300,000
(483,332)	(163,752)
112,083,231	11,305,822
(378,815)	(131,195)
(326,722)	-
111,377,694	11,174,627
$ 110,894,362	$ 11,010,875

CITY OF VICTORIA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2025

	Business-type Activities		
	Water and Wastewater	Environmental Services	Other Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers/other funds	$ 26,349,354	$ 6,233,801	$ 1,836,506
Cash paid to suppliers for goods and services	(10,140,734)	(3,904,875)	(796,742)
Cash paid to employees for services	(6,527,502)	(2,045,797)	(1,035,365)
Net cash provided (used) by operating activities	9,681,118	283,129	4,399
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Increase (decrease) in customer deposits	-	-	11,378
Borrowings from (to) other funds	21,729	9,835	31,239
Borrowings from (to) component unit	(52,116)	89,783	-
Transfers in from other funds	101,702	-	450,000
Transfers out to other funds	(3,248,425)	(595,167)	(61,930)
Net cash provided (used) by noncapital financing activities	(3,177,110)	(495,549)	430,687
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(3,600,895)	(136,067)	(93,460)
Proceeds from sale of capital assets	21,709	10,000	-
Principal paid on long-term debt	(3,435,000)	-	(202,549)
Interest and debt costs paid	(1,795,761)	-	(32,631)
Net cash provided (used) by capital and related financing activities	(8,809,947)	(126,067)	(328,640)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale and maturities of investments	9,319,028	10,538,896	-
Purchase of investments	(10,681,971)	(11,058,400)	-
Investment income	772,938	537,716	72,911
Net cash provided (used) by investing activities	(590,005)	18,212	72,911
Net increase (decrease) in cash and cash equivalents	(2,895,944)	(320,275)	179,357
Cash and cash equivalents at beginning of year	13,560,693	2,211,803	2,126,362
Cash and cash equivalents at end of year	$ 10,664,749	$ 1,891,528	$ 2,305,719

The accompanying notes are an integral part of this statement.

Total	Governmental Activities Internal Service Funds
$ 34,419,661	$ 21,119,208
(14,842,351)	(17,034,774)
(9,608,664)	(2,003,431)
9,968,646	2,081,003
11,378	-
62,803	-
37,667	-
551,702	300,000
(3,905,522)	-
(3,241,972)	300,000
(3,830,422)	(1,968,236)
31,709	(588)
(3,637,549)	(710,921)
(1,828,392)	(77,848)
(9,264,654)	(2,757,593)
19,857,924	1,063,929
(21,740,371)	-
1,383,565	308,292
(498,882)	1,372,221
(3,036,862)	995,631
17,898,858	7,225,262
$ 14,861,996	$ 8,220,893

(continued)

CITY OF VICTORIA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended September 30, 2025

	Business-type Activities		
	Water and Wastewater	Environmental Services	Other Enterprise Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	$ 673,901	$ (118,942)	$ (505,823)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	8,076,790	172,699	519,647
Changes in assets and liabilities			
(Increase) decrease in accounts receivable	(23,360)	(11,282)	-
(Increase) decrease in other receivables	(12,477)	(22,328)	(34,969)
(Increase) decrease in inventory	(19,889)	-	9,649
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in deferred outflows related to pension/OPEB	852,049	283,214	-
Increase (decrease) in accounts payable	(117,960)	111,754	206
Increase (decrease) in accrued expenses	25,982	7,396	13,991
Increase (decrease) in due to other funds	-	-	-
Increase (decrease) in compensated absences	(125,884)	(44,985)	1,698
Increase (decrease) in due to other governments	-	(1,577)	-
Increase (decrease) in claims payable	-	-	-
Increase (decrease) in net pension liability	(53,909)	(159,421)	-
Increase (decrease) in OPEB liability	88,113	(5,496)	-
Increase (decrease) in deferred inflows related to pension/OPEB	317,762	72,097	-
Total adjustments	9,007,217	402,071	510,222
Net cash provided (used) by operating activities	$ 9,681,118	$ 283,129	$ 4,399
Reconciliation of cash and cash equivalents			
Cash and cash equivalents - Unrestricted	$ 2,104,699	$ 832,423	$ 1,776,938
Cash and cash equivalents - Restricted	8,560,050	1,059,105	528,781
Total	$ 10,664,749	$ 1,891,528	$ 2,305,719
Noncash capital and related financing activities			
Assets acquired from initiation of Right-to-Use lease	$ -	$ -	$ -
Change in Right-to-Use lease asset/liability	-	-	-
Capital asset related accounts and retainge payables	1,635,143	10,330	-
Total	$ 1,635,143	$ 10,330	$ -

The accompanying notes are an integral part of this statement.

Total	Governmental Activities Internal Service Funds
$ 49,136	$ (678,949)
8,769,136	2,483,673
(34,642)	-
(69,774)	(43,094)
(10,240)	(13,802)
-	(68,554)
1,135,263	-
(6,000)	406,500
47,369	7,115
-	(128,798)
(169,171)	(22,308)
(1,577)	-
-	139,220
(213,330)	-
82,617	-
389,859	-
9,919,510	2,759,952
$ 9,968,646	$ 2,081,003
$ 4,714,060	$ 8,190,893
10,147,936	30,000
$ 14,861,996	$ 8,220,893
$ -	$ 981,825
-	22,355
1,645,473	3,230
$ 1,645,473	$ 1,007,410

(concluded)

CITY OF VICTORIA, TEXAS

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
September 30, 2025

	Retiree Health Care Plan Trust
ASSETS	
Cash and cash equivalents	$ 64,998
Investments	
Mutual funds - equity	2,602,415
Mutual funds - fixed income	1,732,776
Accrued income	189
Total assets	4,400,378
LIABILITIES	-
NET POSITION	
Restricted for OPEB	$ 4,400,378

The accompanying notes are an integral part of this statement.

CITY OF VICTORIA, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUND

For the year ended September 30, 2025

		Retiree Health Care Plan Trust
ADDITIONS		
Miscellaneous		
Employer contributions	$	1,033,618
Investment income		
Net appreciation (depreciation) in fair value of investments		305,378
Dividends		121,335
Interest		2,003
Total additions		1,462,334
DEDUCTIONS		
Benefit payments		833,618
OPEB Plan administrative expense		18,297
Other		1,655
Total deductions		853,570
Changes in net position		608,764
Net position - beginning		3,791,614
Net position - ending	$	4,400,378

The accompanying notes are an integral part of this statement.

CITY OF VICTORIA, TEXAS
STATEMENT OF NET POSITION
COMPONENT UNITS
September 30, 2025

	Sales Tax Development Corporation	Downtown Tax Increment Reinvestment Zone No. 1	Victoria Special Events Assoc., Inc.	Total
ASSETS				
Current assets				
Cash and cash equivalents	$ 3,396,832	$ 142,714	$ 3,000	$ 3,542,546
Investments	12,957,975	-	-	12,957,975
Receivables (net)	824,551	-	-	824,551
Due from primary government	33,277	-	-	33,277
Total current assets	17,212,635	142,714	3,000	17,358,349
Noncurrent assets				
Capital assets				
Land and other assets not being depreciated	3,940,843	-	-	3,940,843
Buildings, improvements, and equipment (net)	846,751	-	-	846,751
Total noncurrent assets	4,787,594	-	-	4,787,594
Total assets	22,000,229	142,714	3,000	22,145,943
LIABILITIES				
Current liabilities				
Accounts payable	343,459	1,212	2,000	346,671
Due to primary government	1,226,779	-	-	1,226,779
Total liabilities	1,570,238	1,212	2,000	1,573,450
NET POSITION				
Net investment in capital assets	4,787,594	-	-	4,787,594
Unrestricted	15,642,397	141,502	1,000	15,784,899
Total net position	$ 20,429,991	$ 141,502	$ 1,000	$ 20,572,493

The accompanying notes are an integral part of this statement.

CITY OF VICTORIA, TEXAS
STATEMENT OF ACTIVITIES
COMPONENT UNITS
For the year ended September 30, 2025

		Program Revenues		
Function/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Units				
Sales Tax Development Corporation	$ 15,535,346	$ -	$ -	$ -
Downtown TIRZ No. 1	2,707	-	-	-
Victoria Special Events Assoc., Inc.	24,000	24,000	-	-
Total component units	$ 15,562,053	$ 24,000	$ -	$ -

General revenues:
Taxes:
Sales taxes
Unrestricted investment earnings net of change in fair value of investments
Miscellaneous
Total general revenues
Change in net position
Net position - beginning
Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Component Units			
Sales Tax Development Corporation	Downtown Tax Increment Reinvestment Zone No. 1	Victoria Special Events Assoc., Inc.	Total
$ (15,535,346)	$ -	$ -	$ (15,535,346)
-	(2,707)	-	(2,707)
-	-	-	-
(15,535,346)	(2,707)	-	(15,538,053)
10,533,659	-	-	10,533,659
879,374	3,876	-	883,250
413,381	46,690	-	460,071
11,826,414	50,566	-	11,876,980
(3,708,932)	47,859	-	(3,661,073)
24,138,923	93,643	1,000	24,233,566
$ 20,429,991	$ 141,502	$ 1,000	$ 20,572,493

INDEX

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Victoria (the "City"), operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, health and social services, culture and recreation, public improvements, planning, water and sewer, and general administrative services.

A. Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including legally separate organizations as component units within the City's reporting entity are set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

The component units discussed in this note are included in the City's financial statements because of the significance of their financial relationships with the City.

Excluded from the reporting entity:

Victoria Independent School District - Provides educational services to the residents of the City. The Independent School District's board members are elected by the residents of the City and County of Victoria; in addition, Victoria Independent School District provides its own source of financing.

Advisory Boards and Commissions - The City Council uses an extensive network of advisory boards and commissions in order to ensure public input to the City's decision-making process. These boards and commissions are: Board of Adjustments and Appeals, Board of Health, Library Board, Food Establishment Appeals Board, Housing Authority, Parks and Recreation Commission, Planning Commission, Building and Standards Commission, Victoria Central Appraisal District, Golden Crescent Regional Planning Commission, Victoria Economic Development Corporation, Victoria Metropolitan Planning Organization, Victoria Development Commission, Victoria Health Facilities Development Corporation, Health Authority for Victoria County Public Health Department, Tourism Advisory Board, Victoria Housing Finance Corporation, and Victoria Public Facility Corporation Board. The advisory boards and commissions are appointed, partially or entirely, by the City Council; however, these boards and commissions do not perform any financial activity.

Included in the reporting entity:

The component units column in the financial statements includes the financial data from three component units. These component units are reported in a separate column to emphasize that they are legally separate from the City. The component unit column is made of the following:

1. The Sales Tax Development Corporation was created for the purpose of aiding, assisting and acting on behalf of the City in undertaking and completing projects to acquire and improve drainage, water and sewage, streets and roads, parks and recreational facilities, and public safety facilities. All powers of the Corporation are vested in the Board of Directors consisting of three members of the City Council and four individuals appointed by the City Council. The Board of Directors operates at the direction of the City Council. The City is able to impose its will on the Corporation by approving its annual budgets and bonded debt issuance. This entity is reported as a governmental fund type.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

2. The Reinvestment Zone Number One, Victoria Texas (TIRZ #1) was created in December 2021, under the authority of the Tax Increment Financing Act, as codified as Chapter 311 of the Texas Tax Code. TIRZ #1 is a financing and management tool for the City that allows future ad valorem tax revenue to be set aside to be spent within the geographic boundaries of the TIRZ #1 which is a 210.9 acre area located within the City's downtown. The participants include the Victoria County Navigation District, Victoria Junior College District and the City at 100% of incremental value. The Board of Directors consists of seven individuals with one slot assigned for each partner and the City appointing any remaining Board members. The City Council has the authority to approve or disapprove TIRZ #1 projects. This entity is reported as a governmental fund type.

3. The Victoria Special Events Association, Inc. was created in May 1998, to operate and maintain the softball recreational complex owned by the City of Victoria. The Corporation raises and holds economic resources for the direct benefit of the City. The management of the Corporation is vested in the Board of Directors consisting of three City of Victoria employees. The Board of Directors operates at the direction of the City Council and the City Council approves the Corporation's annual budgets. The Victoria Special Events Association, Inc. operates as a proprietary fund type.

These component units are discretely presented in the financial statements. Complete financial statements of the individual component units can be obtained from the City's Finance Department, 700 Main Center, Suite 100, Victoria, Texas 77901.

In accordance with GAAP, the City's financial statements also include the following entity in the financial statements as a blended component unit.

1. The Victoria Housing Finance Corporation was established in 1979, pursuant to the Texas Housing Finance Corporations Act as a separate not-for-profit entity for the exclusive purpose of benefitting and accomplishing public purposes of, and on behalf of, the City. It is authorized to issue debt/bonds for the purpose of supporting affordable single-family home mortgages, and issue private activity bonds to provide financing for multifamily housing projects for low and moderate income owners. It can serve as a general partner in multifamily housing projects. The City Council constitutes the Board of Directors.

B. Government-wide and Fund Financial Statements

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Government-wide and Fund Financial Statements - (Continued)

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. A 120-day availability period is used for recognition of all other Governmental Fund revenues. 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, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The City reports the following major governmental funds:

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

The Debt Service Fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for general government debt principal and interest.

The Capital Project Funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities or other capital assets. Capital Project Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. The Capital Project Funds, Capital Construction Fund (3036), Capital Construction Fund (3037), and Venue Tax Fund are reported as major funds as of September 30, 2025.

The City reports the following major proprietary funds:

Enterprise Funds are used to account for operations: 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Water and Wastewater Fund, an enterprise fund, accounts for the activities of the City related to its sewage treatment plant and the water distribution system.

The Environmental Services Fund, an enterprise fund, accounts for the operation of the City's garbage collection and landfill.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

Additionally, the City reports the following fund types:

The Special Revenue Funds account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City maintains eight Internal Service Funds: Building and Equipment Services, Information Technology, Radio Systems, Purchasing, Safety Management, Workers' Compensation, Print Shop, and Employee Health Plan.

The proprietary funds are accounted for on a flow of *economic resources measurement focus* and utilize the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and used between various City functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets and Budgetary Accounting

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

1. Prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to October 1, the budget is legally enacted through passage of an ordinance.

4. No funds may be expended or encumbered which will exceed appropriations; however, the City Manager is authorized to transfer budgeted amounts within any department or agency. Any revisions that alter the total expenditures of any department or agency must be approved by the City Council. There were supplemental appropriations made during the year.

5. Budgets for the General, Debt Service, and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Budget comparisons are presented in the accompanying financial statements for these funds with appropriated budgets.

6. The Debt Service Fund is budgeted by debt service issues.

7. The Capital Project Funds are budgeted on a project basis. Annually the City Council budgets only those portions of projects that have not been previously appropriated, along with new appropriations for new projects. The Venue Tax Fund was not part of the fiscal year 2025 adopted budget since it did not pass until May 2025. Fiscal year 2026 will be the first year a budget will be adopted and therefore presented.

8. All appropriations lapse at year-end except for that portion related to encumbered amounts.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds, and Capital Project Funds. The outstanding encumbrances for the governmental funds as of September 30, 2025 are $22,262,987.

F. Leases

City as Lessee

With the exception of short-term leases, when the City is a lessee in noncancellable lease arrangements the City recognizes a right-to-use lease liability (lease liability) and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value that would be material to the government-wide financial statements. For leases not meeting these criteria, lease payments are recognized as outflows of resources based on the payment provisions of the contract. See Note 12 for details of the City's leasing arrangements as lessee.

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.

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

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position. 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.

F. Leases - (Continued)

City as Lessor

With the exception of short-term leases and certain regulated leases, when the City is a lessor in noncancellable lease arrangements the City recognizes a right-to-use lease receivable (lease receivable) and a deferred inflow of resources in the government-wide and governmental fund financial statements. The City recognizes lease receivables with an initial, individual value that would be material to the governmental financial statements. The City does not recognize any such leases as of September 30, 2025. For leases not meeting these criteria, lease revenues are recognized as inflows of resources based on the payment provisions of the contract.

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

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

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

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

G. Deposits and Investments

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

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the City are in compliance with the City Council's investment policies.

Investments for the City, as well as the component units, are recorded at amortized cost, which as of September 30, 2025, approximates fair value. Because the fair value of the City's investments did not materially differ from cost, no adjustments were made to the City's reporting amounts. See Note 3 for further discussion.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "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."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes. The allowance on the unpaid property taxes is equal to 5% of the outstanding property taxes and the allowance on the penalties and interest is equal to 50% of the assessed amount.

I. Inventory and Prepaid Items

Inventory of the General Fund and the Water and Wastewater Fund consists of supplies held for the City's use and are carried at cost. Inventory in the Internal Service Funds is held for resale and is reported at lower of cost or market, which is determined by using a monthly moving average. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as prepaid items in the fund financial statements and in the government-wide statements and recorded when purchased rather than when consumed.

J. Restricted Assets

The City has interest and sinking accounts in the Water and Wastewater Fund that are used to segregate resources accumulated for debt service payments. The City also has set aside resources in the Environmental Services Fund to pay for closure and post-closure care costs and to fund a new facility, and in the Community Center Fund to fund any future improvements to the Community Center facility. The restricted cash in the Workers' Compensation Fund represents those funds held by a third party administrator for future claims.

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. The City defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Capital Assets - (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on capital assets of business-type activities when acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred during the period of construction until completion of the project with interest earned on invested proceeds over the same period.

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

Assets	Years
Buildings	40
Improvements other than buildings	40
Water and wastewater distribution system	40
Streets and bridges - parking lots	10
Sidewalks	10
Machinery and equipment	2-20
Office equipment and fixtures	2-10

Subscription assets are initially recognized at the present value of subscription payments expected to be made during the subscription term, plus any payments made to the vendor before commencement of the subscription term and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. Subscription assets are amortized using the straight-line method over the subscription term.

L. Compensated Absences

The City recognizes that employees have diverse needs for time off from work and, as such, the City has established a paid time off (PTO) policy. The benefits of PTO are that it promotes a flexible approach to time off by combining vacation and sick for personal leave use. PTO is available for all full-time employees. The maximum PTO any employee may accrue is 1,040 hours (1,560 for Fire Certified Cycle). Accrual in excess of the maximum is not allowed. Employees who accrue the maximum accrual amount will cease accruing PTO until they use accrued hours such that they drop below the maximum. PTO hours may be carried over to the next calendar year, so long as the carryover does not take the employee's PTO hours above the maximum.

Upon separation of employment, full-time employees who have been continuously employed according to the following schedule and leave in good standing will be eligible for payment of accrued paid time off based on their years of service.

The City recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability for compensated absences includes salary-related benefits, where applicable.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Long-Term Obligations

In the government-wide financial statements, and in 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 statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount on the statement of net position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs and deferred losses on refunding as expenditures 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.

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet reports 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 future periods 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/OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Differences between actuarial assumptions used and actual experience for determination of pension or OPEB liability – These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized 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 future periods and so will not be recognized as an inflow of resources (revenue) until that time. This year, the City has the following items that qualify for reporting in this category.

- 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 or OPEB experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's pension liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 68.

P. Supplemental Death Benefit (OPEB)

For purposes of measuring the total OPEB liability for the supplemental death benefit plan, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's OPEB liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 75.

Q. Fund Balance Policies

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory or prepaid items) because they are either not in spendable form, or legally or contractually required to be maintained in-tact;
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the General Fund.

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include non-spendable resources and amounts that are restricted, committed, assigned, or any combination of those classifications. In addition, the General Fund may also include an unassigned amount.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Fund Balance Policies - (Continued)

Commitments will only be used for specific purposes pursuant to a formal action (ordinance) of the City Council. The action to commit funds must occur prior to fiscal year-end, to report such commitments in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year-end. A two-thirds majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

The City Council delegates the responsibility to assign funds not to exceed $100,000 to the City Manager or their designee to be used for specific purposes. City Council shall have the authority to assign any amount of funds to be used for specific purposes pursuant to the City's fund balance policy. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. The assignments may occur subsequent to fiscal year-end.

Encumbered amounts of otherwise unassigned resources will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54. Encumbrances of already restricted, committed, or assigned resources are not reported in the governmental financial statements.

R. Net Position Flow Assumptions

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

S. Minimum Fund Balance Policy

The City will maintain a minimum unassigned fund balance in its General Fund of 25 percent of the subsequent year's budgeted expenditures and outgoing transfers. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment. When fund balance falls below the 25 percent range, the City will replenish shortages/deficiencies. Should unassigned fund balance of the General Fund ever exceed the maximum 25 percent range, the City will consider such fund balance surpluses for one-time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures.

T. Stabilization Arrangement

On October 6, 2020, the Council adopted a Ordinance No. 2020-193 establishing a Self Finance/Stabilization Fund by transferring excess fund balance or working capital balance from various City's funds. The Fund is to be maintained to provide for emergencies, contingencies, revenue shortfalls, or budgetary imbalances that may occur from time to time. Appropriations from the Fund will be made at the discretion of City Council and the City Manager during the budget process and fiscal year end as needs arise. The Stabilization Fund is reported as a nonmajor special revenue fund and the fund balance is reported as committed at fiscal year-end. The balance as of September 30, 2025 was $1,636,671.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

U. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Compliance

Budgetary compliance is monitored at the departmental level in the General Fund and at the fund level in the Debt Service Fund and the Capital Project Funds. There were several situations of expenditures exceeding the amount appropriated during the fiscal year 2024-2025.

Fund/Department	Budget	Actual	Negative Variance
General Fund			
Non-departmental	$ 2,411,259	$ 2,807,230	$ 395,971
Police	18,300,273	18,992,943	692,670
Fire	16,343,121	17,864,319	1,521,198
Development center/inspections	1,023,385	1,030,638	7,253
Engineering	858,122	875,490	17,368
Traffic control	2,415,970	2,525,746	109,776

These over expenditures were funded by available fund balance in the General Fund.

Deficit Fund Balances and Net Position

As of September 30, 2025, the CDBG Hazard Mitigation Fund and the CDBG-MIT Grant Fund (both nonmajor special revenue funds) had deficit fund balances of $11,553 and $67,809, respectively. The fund deficits are the result of unavailable revenue at September 30, 2025 and will be eliminated upon receipt of the reimbursements in the upcoming year. In addition, the City's Workers' Compensation Fund (an internal service fund) had a deficit net position as of September 30, 2025. The City will eliminate in fiscal year 2026 with a one-time transfer in addition to the regular allocations from the various City funds.

NOTE 3: DEPOSITS AND INVESTMENTS

Deposits

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of the deposits. All deposits of the Reporting Entity that exceeded the federal depository insurance coverage level of $250,000 per account were covered by collateral by the Federal Reserve Bank in the City's name under a tri-party collateral agreement between Wells Fargo Bank, N.A. and The Bank of New York Mellon. The fair value of the collateral held at the Federal Reserve Bank in the City's name at fiscal year-end was $7,619,858.

At September 30, 2025, the carrying amount of the City's deposits was $6,105,200 and the respective bank balances totaled $4,769,521. The City's cash on hand totaled $5,300.

Investments

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; 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; 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 of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements. For additional information see the City of Victoria investment policy at www.victoriatx.gov.

The Reporting Entity categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3: DEPOSITS AND INVESTMENTS

Investments - (Continued)

As of September 30, 2025, the Reporting Entity had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)	Credit Risk	Portfolio %age
Public Funds Investment Pool				
LOGIC	$ 34,609,657	52	AAAm	29%
Texas CLASS	13,770,197	43	AAAm	11%
Texas Fixed Income Trust (FIT)	10,610,361	71	AAAf/S1	9%
TX-FIT Choice Pool	13,876,577	127	AAAf	12%
Texas TERM 25	13,860,613	42	AAAf	12%
Texas TERM 26	10,587,656	199	AAAf	9%
Texas DAILY	16,136,138	45	AAAmmf	13%
TexPool Prime	5,842,791	41	AAAm	5%
	$ 119,293,990			

Following the criteria for GASB Statement No. 79, Certain External Investment Pools and Pool Participants, TexPool uses amortized cost and the remaining investment pools use the fair value method to value portfolio assets. The pools operate in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pools is the State of Texas. The investment pools transact at a net asset value of $1.00 per share and are classified as cash and cash equivalents for reporting purposes.

Interest Rate Risk
In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to less than one year from the time of purchase. To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than two years from the date of purchase.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to limit its investments to those with ratings of not less than A or its equivalent.

Concentration of Credit Risk
The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity or specific user. At year-end, the City was not exposed to concentration of credit risk.

NOTE 3: DEPOSITS AND INVESTMENTS

Investments - (Continued)

Custodial Credit Risk - Investments
For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2025, and for the year then ended, the City was not exposed to any custodial credit risk.

Deposits and Investments - Retiree Health Care Plan Trust Fund

The deposits and investments of the Retiree Health Care (OPEB) Plan Trust Fund ("Trust Fund") are maintained separately from the City's cash and investments, and are subject to a separate investment policy. Accordingly, the required disclosures for these deposits and investments are presented separately. The Trust Fund's cash equivalents reported in the Statement of Fiduciary Net Position is composed entirely of short-term investments in a money market fund.

The OPEB Plan's Committee has the responsibility and authority to oversee the investment portfolio. PFM Asset Management, LLC is contracted to manage the Trust Fund's assets. All investment decisions are subject to Texas law and the investment policy established by the OPEB Plan's Committee. The mutual funds are valued using quoted prices in active markets for identical assets (Level 1 inputs).

Investment Type	Fair Value	Weighted Average Maturity (Days)	Credit Risk	Portfolio %age
Mutual Funds - Equity	$ 2,602,415	N/A	N/A	60%
Mutual Funds - Fixed Income	1,732,776	N/A	N/A	40%
	$ 4,335,191			

NOTE 4: RECEIVABLES

Receivables are aggregated into a single accounts receivable (net of an allowance for estimated uncollectible accounts) line on the financial statements. Receivables at September 30, 2025 consist of the following:

Governmental activities

	General	Debt Service	Capital Construction (3037)	Nonmajor Governmental	Total Governmental Funds	Internal Service	Total Governmental Activities
Gross receivables:							
Accounts	$ -	$ -	$ -	$ 370,350	$ 370,350	$ -	$ 370,350
Ad valorem taxes	2,008,561	1,309,762	-	-	3,318,323	-	3,318,323
Franchise taxes	603,116	-	-	-	603,116	-	603,116
Sales taxes	1,580,249	-	-	-	1,580,249	-	1,580,249
Weedy lots	4,492,673	-	-	-	4,492,673	-	4,492,673
Ambulance	5,070,585	-	-	-	5,070,585	-	5,070,585
Fines	1,773,355	-	-	-	1,773,355	-	1,773,355
Grants	-	-	-	749,674	749,674	-	749,674
Other	226,407	-	30,000	41,123	297,530	172,624	470,154
Total gross receivables	15,754,946	1,309,762	30,000	1,161,147	18,255,855	172,624	18,428,479
Less: allowances	7,570,622	254,521	-	-	7,825,143	-	7,825,143
Total net receivables	$ 8,184,324	$ 1,055,241	$ 30,000	$ 1,161,147	$ 10,430,712	$ 172,624	$ 10,603,336

Business-type activities

	Water and Wastewater	Environmental Services	Other Enterprise	Total
Gross receivables:				
Accounts	$ 2,319,940	$ 323,092	$ -	$ 2,643,032
Other	77,680	61,092	106,241	245,013
Total gross receivables	2,397,620	384,184	106,241	2,888,045
Less: allowances	114,205	28,038	-	142,243
Total net receivables	$ 2,283,415	$ 356,146	$ 106,241	$ 2,745,802

NOTE 4: RECEIVABLES - (Continued)

Discretely Presented Component Units

	Sales Tax Development Corporation	Total
Gross receivables:		
Sales taxes	$ 790,125	$ 790,125
Other	34,426	34,426
Total gross receivables	824,551	824,551
Less: allowances	-	-
Total net receivables	$ 824,551	$ 824,551

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and payable by the following January 31, which comprises the collection dates for the current tax roll. The Victoria County Tax Assessor bills, collects, and remits daily all ad valorem taxes.

The City is permitted by a local charter to levy taxes up to $2.00 per $100 of assessed valuation. The combined tax rate for the year ended September 30, 2025, was $0.4707 per $100, which means that the City has a tax margin of $1.5293 per $100 and could raise up to $94,490,932 on $6,178,704,784 before the limit is reached.

The City's governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
General Fund			
Ad valorem taxes receivable	$ 1,629,758	$ -	$ 1,629,758
Weedy lots	648,968	-	648,968
Ambulance	2,999,356	-	2,999,356
Fines	696,192	-	696,192
Grants and contributions	-	14,715	14,715
Debt Service Fund			
Ad valorem taxes receivable	1,055,241	-	1,055,241
Nonmajor Funds			
Grants and contributions	79,257	310,429	389,686
	$ 7,108,772	$ 325,144	$ 7,433,916

NOTE 5: JOINT VENTURE

The South Texas Zoo is a cooperative effort funded by the City of Victoria's General Fund and the South Texas Zoological Society. The South Texas Zoological Society operates and maintains the South Texas Zoo located in the City-owned Riverside Park. The City does not appoint any of the directors of the Society. As of the last financial statement, September 30, 2025, total assets were $583,912, total liabilities were $10,223, total fund net position was $573,689, total support and revenues were $860,182 and total expenses were $778,059. Excess revenue over expenses resulted in a net income of $82,123. The amount contributed by the City for years ended September 30, 2025 and 2024, was $100,000 and $100,000, respectively. Complete audited financial statements for the South Texas Zoo may be obtained at 110 Memorial Drive, Victoria, Texas 77901.

NOTE 6: CAPITAL ASSETS

The City's capital asset activity for the year ended September 30, 2025, was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	$ 5,120,362	$ -	$ -	$ 5,120,362
Construction in progress	30,029,224	51,324,892	18,243,874	63,110,242
Total capital assets not being depreciated	35,149,586	51,324,892	18,243,874	68,230,604
Capital assets, being depreciated				
Machinery and equipment	64,194,389	6,058,224	1,322,857	68,929,756
Buildings	22,370,509	47,329	9,135	22,408,703
Improvements other than buildings	24,783,940	1,058,366	632,700	25,209,606
Infrastructure	342,000,390	17,917,130	-	359,917,520
Total capital assets being depreciated	453,349,228	25,081,049	1,964,692	476,465,585
Right-to-Use lease assets, being amortized				
Machinery and equipment	1,623,424	981,825	237,532	2,367,717
Total right-to-use lease assets being amortized	1,623,424	981,825	237,532	2,367,717
Subscription assets, being amortized	452,197	-	-	452,197
Less accumulated depreciation and amortization for				
Capital assets, being depreciated				
Machinery and equipment	53,840,949	3,555,361	1,320,621	56,075,689
Buildings	16,665,123	913,509	-	17,578,632
Improvements other than buildings	6,617,665	938,767	632,483	6,923,949
Infrastructure	220,164,999	9,182,915	-	229,347,914
Right-to-Use lease assets, being amortized				
Machinery and equipment	723,674	480,544	215,178	989,040
Subscription assets, being amortized	180,880	90,439	-	271,319
Total accumulated depreciation and amortization	298,193,290	15,161,535	2,168,282	311,186,543
Total capital assets being depreciated and lease/subscription assets being amortized, net	157,231,559	10,901,339	33,942	168,098,956
Governmental activities capital assets, net	$ 192,381,145	$62,226,231	$18,277,816	$ 236,329,560

NOTE 6: CAPITAL ASSETS - (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	$ 5,569,177	$ -	$ -	$ 5,569,177
Construction in progress	16,341,888	5,507,314	9,222,397	12,626,805
Total capital assets not being depreciated	21,911,065	5,507,314	9,222,397	18,195,982
Capital assets, being depreciated				
Machinery and equipment	9,356,501	898,408	204,719	10,050,190
Buildings	51,344,398	229,530	12,988	51,560,940
Improvements other than buildings	7,649,862	1,942,216	-	9,592,078
Infrastructure	1,793,382	-	-	1,793,382
Water and wastewater distribution system	220,709,426	7,953,864	-	228,663,290
Total capital assets being depreciated	290,853,569	11,024,018	217,707	301,659,880
Right-to-Use lease assets, being amortized				
Machinery and equipment	836,348	-	-	836,348
Total right-to-use lease assets being amortized	836,348	-	-	836,348
Less accumulated depreciation and amortization for				
Capital assets, being depreciated				
Machinery and equipment	7,458,835	394,831	203,865	7,649,801
Buildings	33,787,481	1,453,428	12,988	35,227,921
Improvements other than buildings	1,974,370	419,274	-	2,393,644
Infrastructure	1,633,287	8,879	-	1,642,166
Water and wastewater distribution system	134,870,972	6,322,548	-	141,193,520
Right-to-Use lease assets, being amortized				
Machinery and equipment	260,466	170,176	-	430,642
Total accumulated depreciation and amortization	179,985,411	8,769,136	216,853	188,537,694
Total capital assets being depreciated and right-to-use lease assets being amortized, net	111,704,506	2,254,882	854	113,958,534
Business-type activities capital assets, net	$ 133,615,571	$ 7,762,196	$ 9,223,251	$ 132,154,516

Depreciation and amortization expense was charged to functions/programs of the City as follows:

Governmental activities	
General government	$ 59,349
Public safety	1,643,411
Development	10,355,401
Recreation	619,701
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	2,483,673
Total depreciation and amortization expense - governmental activities	$ 15,161,535
Business-type activities	
Water/wastewater	$ 8,076,790
Environmental services	172,699
Other	519,647
Total depreciation and amortization expense - business-type activities	$ 8,769,136

NOTE 6: CAPITAL ASSETS - (Continued)

Discretely Presented Component Units:

	Beginning Balance	Increases	Decreases	Ending Balance
Sales Tax Development Corporation				
Capital assets, not being depreciated				
Land	$ 3,928,244	$ -	$ -	$ 3,928,244
Construction in progress	12,599	-	-	12,599
Total capital assets not being depreciated	3,940,843	-	-	3,940,843
Capital assets, being depreciated				
Improvements other than buildings	9,913,733	-	-	9,913,733
Infrastructure	1,714,085	-	-	1,714,085
Total capital assets being depreciated	11,627,818	-	-	11,627,818
Less accumulated depreciation for				
Improvements other than buildings	10,692,843	88,224	-	10,781,067
Total accumulated depreciation	10,692,843	88,224	-	10,781,067
Total capital assets being depreciated, net	934,975	(88,224)	-	846,751
Sales Tax Development Corporation capital assets, net	4,875,818	(88,224)	-	4,787,594
Victoria Special Events Assoc., Inc.				
Capital assets, being depreciated				
Machinery and equipment	10,449	-	-	10,449
Improvements other than buildings	461,588	-	-	461,588
Total capital assets being depreciated	472,037	-	-	472,037
Less accumulated depreciation for				
Machinery and equipment	10,449	-	-	10,449
Improvements other than buildings	461,588	-	-	461,588
Total accumulated depreciation	472,037	-	-	472,037
Total capital assets being depreciated, net	-	-	-	-
Victoria Special Events Assoc., Inc. capital assets, net	-	-	-	-
Discretely presented component units capital assets, net	$ 4,875,818	$ (88,224)	$ -	$ 4,787,594

NOTE 7: DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 938 plans in the defined benefit cash-balance plan administered by the TMRS. TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of the TMRS with a six-member, Governor appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available annual comprehensive financial report (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, and the City-financed monetary credits with interest. Members may choose to receive their retirement benefit in one of seven payments 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 plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City for plan year 2025 were as follows:

Employee deposit rate	6.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	Last adopted 1993 - Auto Readoption - 100% - Transfers
COLA (for retirees)	Last adopted 1993 - Auto Readoption - 70%
Military service credit	Yes, adopted 11-1984
Restricted prior service credit	Yes, adopted 1-1992
Buy back last adopted	8-1982

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	565
Inactive employees entitled to but not yet receiving benefits	548
Active employees	571
	1,684

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of the member's total compensation, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 6.00% of their annual gross earnings during the fiscal year, unchanged from the prior year. The contribution rates for the City were 17.27% and 17.58% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2025 were $6,167,318, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2024, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions
The Total Pension Liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

Net Pension Liability - (Continued)

Actuarial Assumptions - (Continued)
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 arithmetic real rates of return for each major asset class in fiscal year 2025 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.00%	7.10%
Core Fixed Income	6.00%	5.00%
Non-Core Fixed Income	6.00%	6.80%
Hedge Funds	5.00%	6.40%
Private Equity	13.00%	8.50%
Private Debt	13.00%	8.20%
Real Estate	12.00%	6.70%
Infrastructure	6.00%	6.00%
Other Private Markets	4.00%	7.30%
Total	100.00%	

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

Net Pension Liability - (Continued)

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2023	$ 239,985,487	$ 200,074,343	$ 39,911,144
Changes for the year:			
Service cost	5,233,567	-	5,233,567
Interest	15,923,307	-	15,923,307
Changes of benefit terms	-	-	-
Difference between expected and actual experience	294,445	-	294,445
Change of assumptions	-	-	-
Contributions - Employer	-	6,298,509	(6,298,509)
Contributions - Employee	-	2,188,251	(2,188,251)
Net investment income	-	20,738,797	(20,738,797)
Benefit payments, including refunds of employee contributions	(13,402,849)	(13,402,849)	-
Administrative expense	-	(133,325)	133,325
Other changes	-	(3,119)	3,119
Net changes	8,048,470	15,686,264	(7,637,794)
Balance at 12/31/2024	$ 248,033,957	$ 215,760,607	$ 32,273,350

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents the Net Pension Liability of the City, calculated using the discount rate of 6.75%, as well as what the City's Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's Net Pension Liability:	$66,471,792	$32,273,350	$4,351,122

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

Net Pension Liability - (Continued)

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

For the year ended September 30, 2025 the City recognized pension expense of $6,701,097.

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,264,662	$ -
Changes in actuarial assumptions	-	826,352
Difference between projected and actual investment earnings	-	1,951,551
Contributions subsequent to the measurement date	4,671,782	-
Total	$ 5,936,444	$ 2,777,903

$4,671,782 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended:	Pension Expense Amount
2025	$ 530,127
2026	2,603,504
2027	(3,200,113)
2028	(1,446,759)
2029	-
Thereafter	-
Total	$ (1,513,241)

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB)

Plan Description and Benefits Provided

TMRS administers an optional death benefit plan known as the Supplemental Death Benefits Fund (SDBF), which operates like a group-term life insurance plan. This voluntary program allows participating cities to provide supplemental death benefits for their active members, with optional coverage for their retirees. A City may terminate coverage in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The SDBF had 818 participating cities on December 31, 2024.

Benefits payable from SDBF become due after the death of a covered active member or retiree and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active members provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the member's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post-employment benefit (OPEB) and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded, single-employer OPEB plan (i.e. no assets are accumulated).

Membership

At the December 31, 2024 valuation and measurement date, the following is the number of members in the plan:

Inactive employees currently receiving benefits	436
Inactive employees entitled to but not yet receiving benefits	159
Active employees	571
Total	1,166

Contributions

Contributions to the SDBF are made monthly based on the payroll of covered members of the cities participating in the SDBF. The required contribution rate is actuarially determined annually for each City participating in the SDBF. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the City's contribution rate and the calendar year when the rate goes into effect. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retired term life insurance during employees' entire careers. Therefore, there are no assets that are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The SDBF is considered an unfunded OPEB plan and benefit payments made by the City are treated as being equal to the City's yearly contribution for retirees.

The City's contribution rates for the program are as follows:

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2021	0.30%	0.22%
2022	0.30%	0.22%
2023	0.43%	0.26%
2024	0.42%	0.26%
2025	0.38%	0.25%

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)

Total OPEB Liability

The City's total OPEB liability and the OPEB expense is recognized on the City's financial statements. The OPEB expense recognized each fiscal year is equal to the change in the total OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of certain changes in the liability.

Actuarial Assumptions
The actuarial assumptions used in the December 31, 2024 valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

Inflation	2.5%
Salary increases	3.6% to 11.85 % including inflation
Discount rate	4.08%*
Retirees' share of benefit-related costs	$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates-service retirees	2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Mortality rates-disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

- *The discount rate was based on the Bond Buyer "20-Bond GO Index" rate closest to, but not later than December 31, 2024.

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)

Total OPEB Liability - (Continued)

Changes in Total OPEB Liability
The following details the changes in the Total OPEB liability:

Balance at 12/31/23	$ 2,406,236
Changes for the year:	
Service cost	58,353
Interest	90,028
Change of benefit terms	-
Difference between expected and actual experience	(12,269)
Change of assumptions	(120,329)
Benefit payments	(94,824)
Net changes	(79,041)
Balance at 12/31/24	$ 2,327,195

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate
The following presents the Total OPEB Liability of the City, calculated using the discount rate of 4.08 %, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.08%) or 1-percentage-point higher (5.08%) than the current rate:

	1.0% Decrease in Discount Rate (3.08%)	Discount Rate (4.08%)	1.0% Increase in Discount Rate (5.08%)
City's Total OPEB Liability:	$2,752,553	$2,327,195	$1,993,307

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

For the year ended September 30, 2025, the City recognized OPEB expense of ($20,552).

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 6,350	$ 21,357
Changes in actuarial assumptions	81,142	475,044
Contributions subsequent to the measurement date	66,436	-
Total	$ 153,928	$ 496,401

$66,436 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability for the year ending September 30, 2026.

NOTE 8: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - (Continued)

Deferred outflows and inflows of resources to be recognized in future OPEB expense (excluding City contributions subsequent to the measurement date) are as follows:

Year ended:	OPEB Expense Amount
2025	$ (234,510)
2026	(146,301)
2027	(18,561)
2028	(9,537)
2029	-
Thereafter	-
Total	$ (408,909)

NOTE 9: RETIREE HEALTH BENEFIT PLAN (OPEB)

Plan Description and Funding Policy

In addition to providing pension benefits, the City provides its retirees with post-employment health care benefits through a single-employer post-employment healthcare plan (the "plan"). Management of the plan is vested in the City of Victoria OPEB Advisory Board (the "Board"), which consists of four members - the City's Chief Financial Officer, Assistant Finance Director, and two City department directors. The City's Chief Financial Officer has the authority to recommend amendments to benefit terms to be voted on by the City Council.

In order for a City employee to be eligible for this benefit, he or she needs 20 years of service, attained the age of 60 with five years of service, or otherwise be eligible to retire under TMRS and receive a monthly TMRS annuity. The City elected to cap their contribution to the plan for existing retirees and long service employees and will no longer contribute to the cost for lesser service employees. Thus, the grandfathered group who will receive a City contribution is closed and, consequently, the liability will dwindle to zero.

Monthly premiums paid by retirees vary depending on date of retirement, longevity, age, type of plan chosen and Medicare coverage. Retirees, retired as of 12/31/08 (not yet age 65) with 30 years or more of service and with Medicare coverage, pay a monthly health premium of HDHP1-$81.18 or HDHP2-$73.29, without Medicare, HDHP1-$162.36 or HDHP2-$146.58; with 20 to 29 years of service and with Medicare coverage pay a monthly health premium of HDHP1-$162.36 or HDHP2-$146.58, without Medicare, HDHP1-$324.72 or HDHP2-$293.15.

Retirees, retired after 1/01/09 (not yet age 65) with 20 years or more of service and with Medicare coverage, pay a monthly health premium of HDHP1-$133.90 or HDHP2-$94.44, without Medicare, HDHP1-$267.80 or HDHP2-$188.88; with 10 to 19 years of service and with Medicare coverage pay a monthly health premium of HDHP1-$201.90 or HDHP2-$162.44, without Medicare, HDHP1-$403.80 or HDHP2-$324.88; with less than 10 years of service and with Medicare coverage pay a monthly health premium of HDHP1-$235.90 or HDHP2-$196.44, without Medicare HDHP1-$471.80 or HDHP2-$392.88.

NOTE 9: RETIREE HEALTH BENEFIT PLAN (OPEB) - (Continued)

Plan Description and Funding Policy - (Continued)

Retirees, over age 65, were placed in a Retiree Exchange System and a Health Reimbursement Account for eligible retirees was established in fiscal year 2014. The premiums for each person are dependent on age, gender, and type of plan elected.

The retiree's dependents are allowed to participate in the plan; however, it is up to the retiree to pay for their dependent's health insurance premiums.

The City is under no obligation, statutory or otherwise, to pay any portion of the cost of post-employment benefits to any retirees. Allocation of City funds to pay other post-employment benefits is determined on an annual basis by the City Council as part of the budget process.

Other post-employment benefits are expensed and funded on a pay-as-you-go basis. The City recognizes the cost of providing these benefits as a payroll expense/expenditure in an operating fund with corresponding revenue in the Employee Health Plan Fund.

At the December 31, 2024 valuation date, the following represents the participants in the plan:

Retirees and beneficiaries	153
Inactive , nonretired members	-
Active members	568
Total	721

NOTE 9: RETIREE HEALTH BENEFIT PLAN (OPEB) - (Continued)

Investments

The plan's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board (1) to invest assets of the plan in a manner consistent with the following standards: (a) all transactions undertaken must be for the sole interest of plan beneficiaries, and (b) assets are to be diversified in order to minimize the impact of large losses from individual investments; (2) to provide for funding and anticipated withdrawals on a continuing basis for payment of benefits and reasonable expenses of operation of the plan; (3) to enhance the value of plan assets in real terms over the long-term, to minimize principal fluctuations over the time horizon of five years or longer; and (4) to achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding the investment objective set forth in the performance expectations included in the plan's investment policy. In order to meet the plan's investment objectives and the best balance between risk and return for optimal diversification, the Board has adopted the following asset allocation policy:

Asset Class	Target Allocation	Range
Domestic Equity	39%	19%-59%
International Equity	21%	1%-41%
Other Growth Assets	0%	0%-20%
Fixed Income	40%	20%-60%
Other Income Assets	0%	0%-20%
Real Return Assets	0%	0%-20%
Cash Equivalents	0%	0%-20%
Total	100%	

There were no changes in the plan's investment policy during this reporting period. Fair value of the investments was determined by using the market approach and level one inputs were obtained to determine fair value under this approach. The internal rate of return on the plan investments was 12.77%. As of September 30, 2025, the plan had investments in one domestic equity mutual fund, one international equity mutual funds, and four fixed income mutual funds that exceeded 5% of the plan's fiduciary net position.

Net OPEB Liability

Actuarial Methods and Assumptions
Actuarial values of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. The actuarial methods and assumptions used in the December 31, 2023 valuation were as follows.

Actuarial Cost Method	Individual Entry Age Normal
Discount Rate	6.50% as of December 31, 2024
Inflation	2.50%
Salary Increases	3.60% to 11.85%, including inflation

NOTE 9: RETIREE HEALTH BENEFIT PLAN (OPEB) - (Continued)

Net OPEB Liability - (Continued)

Actuarial Methods and Assumptions - (Continued)

Demographic Assumptions	Based on the 2023 experience study conducted for the TMRS.
Mortality	For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. 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.
Healthcare Cost Trend Rates	Initial rate of 7.20% declining to an ultimate rate of 4.25% after 15 years. City subsidies are not expected to increase in the future.
Participation Rates	It was assumed that retirees would choose to receive retiree health care benefits through the City of Victoria according to the schedule below:

Service with Victoria as of 1/1/2009	Pre-65 Election Percentage
<10	15%
10-19	50%
20+	75%

Since retirees must be on the City's plan upon attainment of age 65 in order to be eligible for City contributions to a Retiree Reimbursement Account (RRA), the rates above were multiplied by 120% at ages 63 and 64 for those eligible for RRA contributions. In addition, it was assumed that 100% of employees retiring after the age of 65, who are eligible to receive a RRA contribution from the City, would participate.

NOTE 9: RETIREE HEALTH BENEFIT PLAN (OPEB) - (Continued)

Net OPEB Liability - (Continued)

Changes in Net OPEB Liability
The following details the changes in the Net OPEB liability:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2023	$ 9,943,188	$ 3,791,614	$ 6,151,574
Changes for the year:			
Service cost	143,170	-	143,170
Interest	623,868	-	623,868
Difference between expected and actual experience	(272,961)	-	(272,961)
Change of assumptions	-	-	-
Employer contributions	-	1,033,618	(1,033,618)
Net investment income	-	428,716	(428,716)
Benefit payments	(833,618)	(833,618)	-
Administrative expense	-	(18,297)	18,297
Other changes	-	(1,655)	1,655
Net changes	(339,541)	608,764	(948,305)
Balance at 12/31/2024	$ 9,603,647	$ 4,400,378	$ 5,203,269

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate
The following presents the Net Pension Liability of the City, calculated using the discount rate of 6.5%, as well as what the City's Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

	1.0% Decrease in Discount Rate (5.5%)	Discount Rate (6.5%)	1.0% Increase in Discount Rate (7.5%)
City's Net OPEB Liability:	$5,906,621	$5,203,269	$4,577,109

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rate
The following presents the Net OPEB Liability of the City, calculated using the trend rate, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1.0% Decrease in Trend Rate	Trend Rate	1.0% Increase in Trend Rate
City's Net OPEB Liability:	$4,901,251	$5,203,269	$5,552,108

NOTE 9: RETIREE HEALTH BENEFIT PLAN (OPEB) - (Continued)

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

For the year ended September 30, 2025, the City recognized OPEB expense of $317,330.

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 418,374	$ 1,380,975
Changes in actuarial assumptions	233,519	2,820
Differences between projected and actual investments	8,643	-
Contributions subsequent to the measurement date	728,411	-
Total	$ 1,388,947	$ 1,383,795

$728,411 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability for the year ending September 30, 2026. Deferred outflows and inflows of resources to be recognized in future OPEB expense (excluding City contributions subsequent to the measurement date) are as follows:

Year ended September 30:	OPEB Expense Amount
2026	$ (159,753)
2027	(25,791)
2028	(137,846)
2029	(218,662)
2030	(138,051)
Thereafter	(43,156)
Total	$ (723,259)

Summary of OPEB Accounts

Plan	OPEB Liability (Asset)	Deferred Outflows	Deferred Inflows	OPEB Expense (Reduction)
TMRS Supplemental Death Benefit	$ 2,327,195	$ 153,931	$ 496,402	$ (20,552)
Retiree Health Benefit	5,203,270	1,388,947	1,383,795	317,330
Totals	$ 7,530,465	$ 1,542,878	$ 1,880,197	$ 296,778

NOTE 10: SELF-INSURANCE

The City maintains a self-insurance internal service fund designed to pay comprehensive health benefits incurred by its participants. The fund assumed all risk up to $175,000 of claims per participant annually; after this a reinsurance policy pays any remaining claims for the remainder of the year. The reinsurance premiums were $777,507 and $809,825 for the fiscal years ended September 30, 2025 and 2024, respectively. Premiums are charged to the individual funds based on a predetermined cost per employee and dependent. These amounts are recorded as operating revenue in the internal service fund and as operating expenditures/expenses in the respective funds. Any claims that have been incurred, but not reported, as of the balance sheet date are shown as current liabilities in the internal service fund and have been charged as an operating expense for that period. This amount was determined by an actuary through the City's health plan administrator. During the fiscal years ended September 30, 2025 and 2024, the City paid health claims of $6,219,314 and $4,846,459. The fund incurred a net loss for the year of $183,098 compared to a net income of $805,887 for the prior year.

Settlements of claims did not exceed insurance coverage for any of the past three fiscal years.

	Beginning Liability	Current Year Claims and Changes In Estimates	Claim Payments	Ending Liability
Fiscal Year 2020	$ 420,254	$ 5,552,868	$ 5,484,937	$ 488,185
Fiscal Year 2021	488,185	4,516,995	4,679,176	326,004
Fiscal Year 2022	326,004	4,126,070	4,133,109	318,965
Fiscal Year 2023	318,965	5,543,164	5,460,178	401,951
Fiscal Year 2024	401,951	4,846,459	4,899,013	349,397
Fiscal Year 2025	349,397	6,219,315	6,177,597	391,115

The City established an internal service fund called Workers' Compensation Fund in the fiscal year 1989-1990 to account for and finance its uninsured risk of loss. Under this program the Workers' Compensation Fund provides coverage for up to a maximum of $350,000 for each workers' compensation claim. Any excess over the maximum self-insured amount would be covered by the City's workers' compensation insurance.

All funds of the City participate in the program and make payments to the Workers' Compensation Fund based on actuarial estimates of the amount needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

The claim liability of $279,820 and $182,318, for the fiscal years 2024-2025 and 2023-2024, are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. As a result of this, the Workers' Compensation Fund incurred a net loss of $242,208 in fiscal year 2025 compared to a net loss of $150,632 in fiscal year 2024. Settlements of claims did not exceed insurance coverage for any of the past three fiscal years.

NOTE 10: SELF-INSURANCE - (Continued

	Beginning Liability	Current Year Claims and Changes In Estimates	Claim Payments	Ending Liability
Fiscal Year 2020	$ 242,864	$ 142,934	$ 175,690	$ 210,108
Fiscal Year 2021	210,108	336,840	237,724	309,224
Fiscal Year 2022	309,224	24,615	237,465	96,374
Fiscal Year 2023	96,374	272,923	205,067	164,230
Fiscal Year 2024	164,230	367,162	349,074	182,318
Fiscal Year 2025	182,318	547,017	449,515	279,820

The City was insured in the area of general liability, police liability, and public officials liability for the fiscal year ending September 30, 1988. On September 26, 1988, by Council resolution, the City decided to purchase insurance coverage for all risk areas; and created an internal service fund, the Safety Management Fund, to account for liability and casualty insurance premiums as well as for any claim payments made in areas of self-insurance. Under this program, the City is insured up to a combined single limit that ranges from $5,000,000 to $1,000,000 with various deductible amounts. For the fiscal years 2025 and 2024, total contributions from the various City funds totaled $1,509,137 and $1,202,001, respectively. During the fiscal years 2025 and 2024, the City paid $666,042 and $988,229 in reinsurance premiums and $27,753 and $11,614 in legal fees and claims. In addition to this, the fund incurred a net income of $37,248, compared to a net income of $17,452 for the prior year. Full insurance coverage was in effect for the year ended September 30, 2025. Settlements of claims did not exceed insurance coverage for any of the past three fiscal years.

The City purchases commercial insurance coverage for fleet liability, contractors' equipment, comprehensive property damage, comprehensive general liability, police professional liability, public official errors and omissions, electronic data processing physical damage, employee benefits liability, radio towers, boilers and machinery, and employee dishonesty coverage. There have been no significant reductions in insurance coverage during the fiscal year 2025. Settlements of claims did not exceed insurance coverage for any of the past three fiscal years.

NOTE 11: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Effective January, 1997, the assets were transferred to trusts for the exclusive benefit of the participants and their beneficiaries.

NOTE 12: LONG-TERM DEBT

A. Changes In Long-term Liabilities

Long-term liability activity for the year ended September 30, 2025, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds and certificates payable					
Certificates of obligation	$ 61,040,000	$ -	$ 3,280,000	$ 57,760,000	$ 2,430,000
General obligation bonds	21,905,000	-	3,700,000	18,205,000	4,870,000
Less deferred amounts:					
Issuance premiums	8,634,032	-	798,930	7,835,102	-
Net bonds and certificates payable	91,579,032	-	7,778,930	83,800,102	7,300,000
Direct borrowings					
Financed purchases	1,562,670	2,105,516	396,218	3,271,968	725,418
Right-to-Use leases	926,894	981,825	485,906	1,422,813	485,940
Subscriptions	279,900	-	80,157	199,743	95,794
Arbitrage*	695,153	473,722	-	1,168,875	-
Net pension liability	32,910,729	-	7,424,464	25,486,265	-
OPEB liability	7,056,770	-	1,109,962	5,946,808	-
Compensated absences**	3,263,146	-	321,975	2,941,171	735,293
Total governmental activity long-term liabilities	$ 138,274,294	$ 3,561,063	$ 17,597,612	$ 124,237,745	$ 9,342,445
Business-type activities					
Bonds payable					
Revenue bonds	$ 38,960,000	$ -	$ 3,435,000	$ 35,525,000	$ 3,590,000
Less deferred amounts:					
Issuance premiums	3,944,434	-	334,210	3,610,224	-
Net bonds payable	42,904,434	-	3,769,210	39,135,224	3,590,000
Direct borrowings					
Financed purchases	149,738	-	36,604	113,134	36,589
Right-to-Use leases	591,447	-	165,944	425,503	157,500
Estimated landfill closure and postclosure care cost	4,743,814	-	-	4,743,814	-
Arbitrage*	326,722	16,125	-	342,847	-
Net pension liability	7,000,415	-	213,330	6,787,085	-
OPEB liability	1,501,040	82,617	-	1,583,657	-
Compensated absences**	612,926	-	169,171	443,755	110,939
Total business-type activity long-term liabilities	$ 57,830,536	$ 98,742	$ 4,354,259	$ 53,575,019	$ 3,895,028

*Arbirage liability restated as of October 1, 2024, due to error correction. See Note 20 for details.

**Compensated absences liability restated as of October 1, 2024, upon implementation of GASB 101. See Note 20 for details. The change in compensated absences is presented as a net amount.

NOTE 12: LONG-TERM DEBT

A. Changes In Long-term Liabilities - (Continued)

Internal service funds predominantly serve the governmental funds. Accordingly, the long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year-end, $180,082 of internal service funds' compensated absences, $1,422,813 of right-to-use lease liabilities, and $765,279 of financed purchases are included in the above amounts. Also, for the governmental activities, compensated absences and other post-employment benefits are generally liquidated by the General Fund.

The estimated amount of OPEB liability due within one year for the Supplemental Death Benefit Plan (OPEB) which is a postemployment defined benefit plan that is not administered through a trust is reported as $0. The amount was determined to be insignificant to the City's September 30, 2025 financial statements so the entire OPEB liability is reported as a noncurrent liability on the Statement of Net Position.

B. General Obligation Certificates and Bonds

Bonds and certificates payable at September 30, 2025, are comprised of the following individual issues:

$3,810,000 2012 Certificates of Obligation due in annual installments ranging from $205,000 to $250,000 through August 15, 2032; interest varying between 2.00% and 3.75%.	$ 900,000
$9,075,000 2013A General Obligation Refunding Bonds due in annual installments ranging from $170,000 to $1,000,000 through August 15, 2026; interest varying between 2.00% and 3.00%.	1,000,000
$5,945,000 2014 Certificates of Obligation due in annual installments ranging from $235,000 to $400,000 through August 15, 2034; interest varying between 2.00% and 4.00%.	2,810,000
$11,770,000 2015 General Obligation Refunding Bonds due in annual installments ranging from $90,000 to $1,480,000 through August 15, 2027; interest varying between 2.00% and 4.00%.	2,255,000
$2,445,000 2015 Certificates of Obligation due in annual installments ranging from $85,000 to $170,000 through August 15, 2035; interest varying between 3.00% and 5.00%.	1,450,000
$21,880,000 2017 General Obligation Refunding Bonds due in annual installments ranging from $840,000 to $2,280,000 through August 15, 2030; interest varying between 4.00% and 5.00%.	10,530,000
$1,960,000 2019 Certificates of Obligation due in annual installments ranging from $75,000 to $125,000 through August 15, 2039; interest varying between 2.50% and 4.00%.	1,485,000
$5,750,000 2019 General Obligation Refunding Bonds due in annual installments ranging from $420,000 to $675,000 through August 15, 2033; interest varying between 4.14% and 5.27%.	4,420,000
$2,265,000 2023 Certificates of Obligation due in annual installments ranging from $70,000 to $165,000 through August 15, 2042; interest varying between 4.00% and 5.00%.	1,995,000
$53,645,000 2024 Certificates of Obligation due in annual installments ranging from $2,315,000 to $3,425,000 through August 15, 2043; interest varying between 4.00% and 5.00%.	49,120,000
Total General Obligation Certificates and Bonds	$ 75,965,000

NOTE 12: LONG-TERM DEBT - (Continued)

B. General Obligation Certificates and Bonds - (Continued)

The City generally issues general obligation certificates and bonds to provide funds for the construction of improvements to various City infrastructures and for the payment of related contractual obligations for professional services.

Annual debt service requirements to maturity for certificates of obligation and general obligation bonds are as follows:

	Governmental Activities						
Year Ending	Certificates of Obligation			General Obligation Bonds			Combined
September 30	Principal	Interest	Total	Principal	Interest	Total	Total
2026	$ 2,430,000	$ 2,739,808	$ 5,169,808	$ 4,870,000	$ 735,550	$ 5,605,550	$ 10,775,358
2027	3,070,000	2,621,658	5,691,658	3,290,000	526,850	3,816,850	9,508,508
2028	3,210,000	2,480,696	5,690,696	2,645,000	377,850	3,022,850	8,713,546
2029	3,360,000	2,333,696	5,693,696	2,750,000	266,800	3,016,800	8,710,496
2030	3,510,000	2,179,620	5,689,620	2,845,000	162,300	3,007,300	8,696,920
2031-2035	17,455,000	8,379,718	25,834,718	1,805,000	109,350	1,914,350	27,749,068
2036-2040	14,615,000	4,547,650	19,162,650	-	-	-	19,162,650
2041-2043	10,110,000	911,650	11,021,650	-	-	-	11,021,650
Total	$ 57,760,000	$ 26,194,496	$ 83,954,496	$ 18,205,000	$ 2,178,700	$ 20,383,700	$ 104,338,196

NOTE 12: LONG-TERM DEBT - (Continued)

C. Revenue Bonds

Revenue bonds payable are comprised of the following individual issues:

$4,620,000 2015 Utility System Revenue Refunding Bonds, Series 2015 due in annual installments ranging from $50,000 to $750,000 through December 1, 2027; interest varying between 3.00% and 4.00%.	$ 1,135,000
$9,150,000 2016 Utility System Revenue Refunding Bonds, Series 2016 due in annual installments ranging from $80,000 to $2,285,000 through December 1, 2027; interest varying between 2.00% and 4.00%.	2,590,000
$16,760,000 2017 Utility System Revenue Refunding Bonds, Series 2017 due in annual installments ranging from $235,000 to $1,665,000 through December 1, 2034; interest varying between 4.00% and 5.00%.	13,655,000
$4,025,000 2021 Utility System Revenue Refunding Bonds, Series 2021 due in annual installments ranging from $190,000 to $640,000 through December 1, 2031; interest varying between 2.00% and 3.00%.	2,275,000
$5,520,000 2022 Utility System Revenue Bonds, Series 2022 due in annual installments ranging from $175,000 to $385,000 through December 1, 2041; interest varying between 3.00% and 5.00%.	4,975,000
$11,615,000 2023 Utility System Revenue Bonds, Series 2023 due in annual installments ranging from $350,000 to $385,000 through December 1, 2042; interest varying between 4.00% and 5.00%.	10,895,000
Total Revenue Bonds	$ 35,525,000

NOTE 12: LONG-TERM DEBT - (Continued)

C. Revenue Bonds - (Continued)

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

Year Ending September 30	Business-type Activities Principal	Interest	Total
2026	$ 3,590,000	$ 1,494,350	$ 5,084,350
2027	3,750,000	1,335,750	5,085,750
2028	3,445,000	1,178,700	4,623,700
2029	2,390,000	1,044,950	3,434,950
2030	2,505,000	926,575	3,431,575
2031-2035	11,375,000	2,955,325	14,330,325
2036-2040	5,215,000	1,154,500	6,369,500
2041-2043	3,255,000	175,250	3,430,250
Total	$ 35,525,000	$ 10,265,400	$ 45,790,400

The revenue bond debt agreements contain certain requirements regarding the establishment and funding of an interest and sinking fund which is required to be funded only after net revenues for any fiscal year are less than 1.35 times the average annual debt service requirements of all outstanding parity obligations. In addition, the agreements provide that the City maintain a coverage ratio of at least 1.25 times the average annual debt service or 1.10 times the maximum annual debt service.

The City has pledged future water customer revenues, net of specified operating expenses to repay $35.5 million in utility system revenue bonds issued. Proceeds from the bonds provided financing for improvements to the City's utility system. The bonds are payable from Water and Wastewater Fund net revenues and are payable through 2043. Average annual principal and interest payments on the bonds ($2,543,911) are expected to require approximately 27 percent of net revenues. Principal and interest paid for the current year and total net revenues were $5,084,350 and $9,507,504, respectively. The total principal and interest remaining to be paid on the bonds is $45,790,400.

The revenue bond debt agreements contain certain requirements regarding the establishment and funding of a debt service fund and a reserve fund. The City complied in all respects as of September 30, 2025.

NOTE 12: LONG-TERM DEBT - (Continued)

D. Financed Purchases

Financed purchases payable (direct borrowings) at September 30, 2025, are comprised of the following leases:

Financed purchase agreement on defibrillators for the Fire Department. The original amount of the financed purchase, entered into in 2022, was $291,991. The financed purchase is payable in annual installments of $43,097 and bears interest at a rate of 4.26%.	$ 41,352
Financed purchase agreement on a utility vehicles for the Golf Course. The original amount of the financed purchase, entered into in 2023, was $25,826. The financed purchase is payable in monthly installments of $508 and bears interest at a rate of 6.95%.	14,795
Financed purchase agreement on a tractor and backhoe for the Golf Course. The original amount of the financed purchase, entered into in 2023, was $58,026. The financed purchase is payable in monthly installments of $1,141 and bears interest at a rate of 6.95%.	33,242
Financed purchase agreement on defibrillators for the Fire Department. The original amount of the financed purchase, entered into in 2023, was $578,013. The financed purchase is payable in annual installments of $131,546 and bears interest at a rate of 4.764%.	359,822
Financed purchase agreement on street sweepers for the Public Works Department. The original amount of the financed purchase, entered into in 2023, was $676,194. The financed purchase is payable in annual installments of $63,083 and bears interest at a rate of 4.75%.	345,197
Financed purchase agreement on pumper/brush truck for the Fire Department. The original amount of the financed purchase, entered into in 2022, was $936,011. The financed purchase is payable in annual installments of $146,745 and bears interest at a rate of 2.38%.	420,081
Financed purchase agreement on public safety radios for the Police and Fire Departments. The original amount of the financed purchase, entered into in 2025, was $2,105,516. The financed purchase is payable in annual installments of $349,027 and bears interest at a rate of 4.81%.	2,105,516

NOTE 12: LONG-TERM DEBT - (Continued)

D. Financed Purchases - (Continued)

Financed purchase agreement on mowing equipment for the Golf Course. The original amount of the financed purchase, entered into in 2024, was $96,473. The financed purchase is payable in monthly installments of $1,960 and bears interest at a rate of 6.957%.	$ 65,097
	$ 3,385,102

Annual requirements to maturity for the financed purchases are as follows:

Year Ending	Governmental Activities			Business-type Activities			Combined
September 30	Principal	Interest	Total	Principal	Interest	Total	Total
2026	$ 725,418	$ 71,180	$ 796,598	$ 36,589	$ 6,715	$ 43,304	$ 839,902
2027	638,133	115,350	753,483	39,215	4,089	43,304	796,787
2028	665,302	88,182	753,484	35,381	1,328	36,709	790,193
2029	289,233	59,794	349,027	1,949	11	1,960	350,987
2030	303,146	45,882	349,028	-	-	-	349,028
2031-2032	650,736	47,318	698,054	-	-	-	698,054
Total	$ 3,271,968	$ 427,706	$ 3,699,674	$ 113,134	$ 12,143	$ 125,277	$ 3,824,951

E. Right-to-Use Leases

Right-to-Use leases payable at September 30, 2025, are comprised of the following leases:

Multiple lease agreements under a master lease agreement for various vehicles. The lease liabilities are recorded in the Building and Equipment Services Internal Service Fund. The leases are payable in fixed monthly installments over terms of either 48 or 60 months.	$ 1,417,312
Lease agreement for an LED system. The lease liability is recorded in the Radio Systems Internal Service Fund. The lease is payable in fixed monthly installments over 60 months.	5,501
Multiple lease agreements for various golf equipment for the Golf Course. The lease liabilities are recorded in the Golf Course Enterprise Fund. The leases are payable in fixed monthly installments over terms ranging from 48 to 60 months.	425,503
	$ 1,848,316

NOTE 12: LONG-TERM DEBT - (Continued)

E. Right-to-Use Leases - (Continued)

Annual requirements to maturity for the right-to-use lease liabilities are as follows:

Year Ending September 30	Governmental Activities Principal	Governmental Activities Interest	Governmental Activities Total	Business-type Activities Principal	Business-type Activities Interest	Business-type Activities Total	Combined Total
2026	$ 485,940	$ 79,308	$ 565,248	$ 157,500	$ 16,075	$ 173,575	$ 738,823
2027	411,255	51,671	462,926	153,831	9,025	162,856	625,782
2028	307,089	27,636	334,725	114,172	2,558	116,730	451,455
2029	185,203	8,728	193,931	-	-	-	193,931
2030	33,326	605	33,931	-	-	-	33,931
Total	$ 1,422,813	$ 167,948	$ 1,590,761	$ 425,503	$ 27,658	$ 453,161	$ 2,043,922

F. Subscription Liabilities

The City recognizes subscription liabilities for its payment obligations under subscription-based information technology arrangements (SBITAs), which convey to the City the right to use another party's information technology software. The City's SBITAs include cloud-based services and are recorded in the General Fund. The present value of future minimum subscription payments as of September 30, 2025, is recorded as a subscription liability in the government-wide financial statements.

Outflows of resources from SBITAs which are included in the measurement of the subscription liability balance as of September 30, 2025 were comprised of $80,157 of principal and $6,608 of interest.

Principal and interest requirements to maturity as of September 30, 2025, are as follows:

Year Ending September 30	Governmental Activities Principal	Governmental Activities Interest	Governmental Activities Total
2026	$ 95,794	$ 3,583	$ 99,377
2027	103,949	278	104,227
Total	$ 199,743	$ 3,861	$ 203,604

G. Rebatable Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five-year anniversary date of the bond issue. For the fiscal year ended September 30, 2025, the City had arbitrage liability of $1,168,875 in the governmental activities and $342,847 arbitrage liability in the business-type activities.

NOTE 13: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2025, were as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Construction (3036)	$ 102,250
	Capital Construction (3037)	2,960,348
	Nonmajor Governmental	587,022
	Other	440,194
Debt Service	General	50,000
Capital Construction (3036)	Capital Construction (3037)	81,733
	Water and Wastewater	2,893
Nonmajor Governmental	General	3,246
	Other	17,959
Environmental Services	Capital Construction (3037)	28,663
Nonmajor Business-type	General	975
	Other	2,995
Internal Service	Water and Wastewater	54,445
	Environmental Services	55,673
	Nonmajor Business-type	38,489
	Nonmajor Governmental	17,581
	Other	79,149
		$ 4,523,615

NOTE 13: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - (Continued)

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these are the planned transfers from the City's enterprise funds to specified governmental funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. During the current fiscal year, transfers between funds consisted of the following:

	Transfers In								
Transfers Out	General	Capital Construction (3036)	Capital Construction (3037)	Nonmajor Govt.	Water and Wwater	Environ. Svcs.	Nonmajor Bus.-type	Other	Total
General	$ -	$ -	$ 3,736,959	$ 339,966	$ -	$ -	$ -	$ -	$ 4,076,925
Capital Const. (3036)	-	-	-	-	-	-	-	158,000	158,000
Capital Const. (3037)	2,800,000	452,779	-	61,947	101,702	28,663	-	-	3,445,091
Nonmajor Govt.	450,038	-	-	1,170,159	-	-	450,000	102,000	2,172,197
Water and Wwater	2,703,900	514,525	-	-	-	-	-	30,000	3,248,425
Environmental Srvs.	587,167	-	-	-	-	-	-	8,000	595,167
Nonmajor Bus.-type	59,930	-	-	-	-	-	-	2,000	61,930
	$ 6,601,035	$ 967,304	$ 3,736,959	$ 1,572,072	$ 101,702	$ 28,663	$ 450,000	$ 300,000	$ 13,757,735

The City's budget also includes various fund transfers to support capital projects and operational needs. The General Fund transferred $3,736,959 primarily for capital projects in the City's Capital Improvement Plan, with additional transfers to the Emergency Operations Fund and local grant matches. Capital Construction (3036) transferred $158,000 for its contribution to the OPEB Trust. Capital Construction (3037) transferred $3,445,091 which included a return of excess project funds to the General Fund, Capital Construction Fund (3036), and the Water and Wastewater Fund. Nonmajor Governmental Funds moved $2,172,197, including transfers for capital projects, local grant matches, PTO payout program, and contributions from the Hotel Tax Fund to the CVB and Community Center Funds, as well as the OPEB Trust. In addition to the transfer of funds from the City's enterprise funds to specified governmental funds, $42,000 was also transferred to the OPEB Trust.

NOTE 14: RELATED PARTY TRANSACTIONS

During fiscal year 2025, the Sales Tax Development Corporation, a discretely presented component unit of the City paid $11,064,818 towards the I-69 Water and Sewer Utility Program, the Briggs Boulevard and Spring Creek Bridge Utility Relocation, the Regional Wastewater Treatment Plant Project Phase 1 Design, and a mill and overlay project on various thoroughfare streets in the City.

NOTE 15: PRIOR YEAR DEFEASANCE OF DEBT

In prior years the City defeased certain general obligation bonds and revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the bonds are not included in the City's financial statements. At September 30, 2025, $18,950,000 of bonds outstanding is considered defeased.

NOTE 16: COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2025, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Litigation

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

Chapter 380 Sales Tax Rebate Agreements

The City entered into a sales tax rebate agreement with the Victoria Mall (the "Mall") in November 2022. The rebate is contingent upon the Mall meeting an investment threshold on the site of $5 million and will be calculated based on 50% of the City's portion of sales tax collections generated by businesses at the Victoria Mall campus. The maximum amount of the rebate is $500,000 to be paid out over a five-year period. As of September 30, 2025, the Mall has not met its investment threshold to trigger the sales tax rebate. The payment of the rebate will come from the Victoria Sales Tax Development Corporation (VSTDC).

The City has agreed to a similar agreement with Halliburton Energy Services, Inc. (the "Company") for the next five years. The rebate is contingent upon the Company maintaining its operations in Victoria, Texas, as well as maintaining no less than forty employees each year for the term of the agreement. The maximum amount of the rebate is $500,000 based on annual sales tax collections. The payment of the rebate will come from the VSTDC and the City.

The City has entered into an agreement with Victoria Exchange Development, LP which will reimburse $1,000,000 for road infrastructure improvements to Broadmoor Street and 50% of sales and use tax within the first five years up to a maximum of $500,000 for a 90,000 square foot retail center. Development and road infrastructure must be completed by July 31, 2027.

The VSTDC has entered into a performance agreement with Hull Property Group to provide up to $500,000 in sales tax incentives for the redevelopment and upgrade of the Cinemark Theatre located at the Victoria Mall campus. In return, the VSTDC will reimburse up to $250,000 upon issuance of a Certificate of Occupancy for the theatre upgrades, with the remaining $250,000 disbursed as annual performance payments of $50,000 over five years or up to 10 years, contingent upon the theatre meeting minimum sales tax revenue thresholds (at least $6.5 million in total sales over the first five years).

NOTE 17: CLOSURE AND POST-CLOSURE CARE COSTS

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the useful life of the landfill. The estimated remaining useful life of the entire landfill at September 30, 2025, is 18 years.

As of September 30, 2025, the City is in compliance with state and federal laws and regulations concerning "financial assurances". The City currently has a contract with Republic Waste Services of Texas, Ltd., which is currently operating the landfill for the City. As per the contract agreement, Republic Waste Services of Texas, Ltd. "will be responsible for completing, at its cost, closure and post- closure of any area of the landfill in which new waste disposal cells are constructed by operator and which is filled to the final grades authorized in the permit by operator during the operating term." The City will be responsible for prior existing cells, and has established a closure/post-closure fund to accommodate those future liabilities. The total permitted landfill acres is 135.6. The landfill acres allocation for closure and post-closure liability responsibility is as follows:

- City of Victoria - 72.7 acres:
    - 46.6 acres (100%) was "capped" (final cover) in fiscal year 2015:
        - Closure cost liability, as of September 30, 2024: $0
        - Post-closure liability, as of September 30, 2024: $1,712,459
    - 26.1 acres (50%) has approximately 7 years useful life left.
        - Closure cost liability, as of September 30, 2024: $1,939,587
        - Post-closure liability, as of September 30, 2024: $1,091,768
- Republic Waste Services of Texas, Ltd. - 62.9 acres, responsible for closure and post-closure cost.

The City's estimated liability for landfill closure and post-closure care costs has a balance of $4,743,814, $4,743,814, and $4,642,769 as of September 30, 2025, 2024, and 2023 respectively, determined by calculating the lapsed portion of the landfill's life. In fiscal year 2015, the City capped 46.6 acres at a cost of $3.2 million. It is estimated that an additional $101k will be recognized as closure and post-closure care expense between the date of the balance sheet and the date the City's landfill acres is expected to be filled to capacity. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Beginning in November 2024, 379.6 acres will be the total permitted landfill acres which is an additional 244 acres.

NOTE 18: FUND BALANCES

The following is a detail of the governmental fund balances as of September 30, 2025:

	Governmental Fund Balances				
	Nonspendable	Restricted	Committed	Unassigned	Total
General					
Inventory	$ 324,544	$ -	$ -	$ -	$ 324,544
Prepaid items	28,211	-	-	-	28,211
Unassigned	-	-	-	28,179,250	28,179,250
Debt Service					
Retirement of long-term debt	-	1,843,487	-	-	1,843,487
Capital Construction (3036)					
Various capital projects	-	1,032,679	-	-	1,032,679
Capital Construction (3037)					
Various capital projects	-	17,904,317	-	-	17,904,317
Venue Tax					
Community Ctr venue tax project	-	2,124,586	-	-	2,124,586
Nonmajor Governmental					
General government	-	1,407,515	-	-	1,407,515
Arts, tourism and conventions	-	1,937,732	-	-	1,937,732
Police department	-	213,605	-	-	213,605
Fire department	-	70,791	-	-	70,791
Emergency management	-	16,265	-	-	16,265
Municipal court security and technology	-	414,628	-	-	414,628
City parks	-	641,633	-	-	641,633
Development	-	500,168	-	-	500,168
Special projects	-	-	1,636,671	-	1,636,671
Unassigned	-	-	-	(79,362)	(79,362)
	$ 352,755	$ 28,107,406	$ 1,636,671	$ 28,099,888	$ 58,196,720

NOTE 19: TAX ABATEMENTS

In June 1990, the Victoria City Council approved Resolution No. 90-73R, as required by Chapter 312 of the Texas Tax Code, to strengthen minimum guidelines and criteria governing tax abatement agreements in the City. The City has an ad valorem tax abatement program that abates property taxes on new value created as a result of the proposed project, with possible abatements available from the City, Victoria County, and as applicable, other taxing jurisdictions. Tax abatement guidelines were renewed in 2021. Tax abatements benefit the City as the abatements are temporary, and result in investment in the City that would otherwise not occur.

To be eligible to receive a tax abatement the guidelines stipulate that the company must add, at minimum, a value of $500,000 to the tax rolls, with the exact abatement percentage determined by a tiered structure related to the cumulative value of improvements and personal property. The City's maximum abatement duration is 10 years with abatement percentages ranging from 40% to 100%. To receive their abatement each year, companies must submit compliance documentation to the City as outlined in their respective tax abatement agreements. Compliance criteria may typically include, but are not limited to, the following requirements: minimum employee count, minimum average annual salary, minimum real, personal, and / or inventory value on tax roll, construction material / improvement receipts, minimum taxable sales, occupancy / lease requirements, and LEED certifications.

Additionally, each company is required to submit their tax abatement application to the Victoria Central Appraisal District ("VCAD") by April 30th of each year to receive their abatement. The VCAD will apply the abatement after confirming with the City that no deductions need to occur, which would only happen if a company did not meet a certain requirement of their tax abatement agreement. Each agreement outlines how deductions will be calculated if the noncompliance does not automatically result in a default for that year. The City typically includes a recapture clause in tax abatement agreements that requires the company to return all property taxes abated under the agreement with interest and penalties to the City should the City have to terminate the agreement due to noncompliance issues. The City's Legal Department performs an annual assessment of the compliance performance for companies receiving tax abatements.

The City did not have any active tax abatement agreements under contract for tax year 2024.

NOTE 20: ACCOUNTING CHANGES AND ERROR CORRECTIONS

Change in Accounting Principles

The City adopted GASB Statement No. 101 (GASB 101), Compensated Absences, for the fiscal year ended September 30, 2025. The objective of this Statement was to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The effect of implementing this Statement is reflected in the following table, which lists the restatement of beginning balances.

Correction of an Error

During the fiscal year ended September 30, 2025, the City discovered that long-term debt was understated in the prior year due to a failure to recognize arbitrage liabilities. As a result, beginning net position in governmental and business-type activities and the beginning net position in the Water and Wastewater Fund have been restated to correct this error.

NOTE 20: ACCOUNTING CHANGES AND ERROR CORRECTIONS - (Continued)

The change in accounting principles and correction of an error resulted in the restatement of beginning net position, as follows:

	Government-wide		Fund Level			
	Governmental Activities	Business-type Activities	Water and Wwater	Environ. Svcs.	Other Enterprise Funds	Governmental Activities Internal Service Funds
Net position at September 30, 2024, as previously reported	$ 174,671,233	$ 112,083,231	$ 99,298,308	$ 6,915,557	$ 5,869,366	$ 11,305,822
Change in accounting principle as of September 30, 2024	(1,923,526)	(378,815)	(254,289)	(110,589)	(13,937)	(131,195)
Error correction as of September 30, 2024	(695,153)	(326,722)	(326,722)	-	-	-
Net position at September 30, 2024, as restated	$ 172,052,554	$ 111,377,694	$ 98,717,297	$ 6,804,968	$ 5,855,429	$ 11,174,627

NOTE 21: SIGNIFICANT FORTHCOMING 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. 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 the Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 105, Subsequent Events - The objective of the Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and the impact has not yet been determined.

NOTE 22: SUBSEQUENT EVENTS

In March 2026, the City issued Certificates of Obligation, Series 2026 in the amount of $11,015,000. The Certificates are due in annual installments ranging from $340,000 to $820,000 through 2045 with interest of 5%. The proceeds from the sale of the Certificates will be used to fund the Bon Aire Phase 1 & 2 Street Reconstruction Project and to pay costs of issuance of the Certificates.

APPENDIX D

Form of Legal Opinion of Bond Counsel

[An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.]

__________ __, 2026

CITY OF VICTORIA, TEXAS
VENUE PROJECT REVENUE BONDS (COMBINED VENUE TAX), SERIES 2026
DATED AS OF AUGUST 15, 2026
IN THE AGGREGATE PRINCIPAL AMOUNT OF $____________

AS BOND COUNSEL FOR THE CITY OF VICTORIA, TEXAS (the "***City***") in connection with the issuance of the bonds described above (the "***Bonds***"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates and payable on the dates as stated in the text of the Bonds, and which are subject to redemption, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the ordinance authorizing the issuance of the Bonds (the "***Ordinance***"), (ii) one of the executed Bonds (Bond No. T-1), and (iii) the City's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the City in accordance with their terms except as the enforceability thereof may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion; that the City has the legal authority to issue the Bonds and to repay the Bonds; and that the Bonds are special obligations of the City, secured by and payable from an irrevocable lien on and pledge of the "Pledged Revenues", being a first and prior lien on and pledge of the Venue Hotel Occupancy Tax Revenues, a first and prior lien on and pledge of the Motor Vehicle Rental Tax Revenues, and a lien on and pledge of such other money, income, and revenues held in the Coverage Stabilization Account of the Venue Project Fund all as defined and set forth in the Ordinance.

THE CITY HAS RESERVED THE RIGHT, subject to the restrictions stated in the Ordinance, to issue subordinate lien obligations, which may be secured by and payable from the Venue Hotel Occupancy Tax Revenues, which lien on and pledge of revenues is immediately subordinate and inferior to the lien thereon and pledge thereof included in and a part of the Pledged Revenues, and (b) a subordinate lien on and pledge of the Motor Vehicle Rental Tax Revenues, which lien on and pledge of revenues is immediately subordinate and inferior to the lien thereon and pledge thereof included in and a part of the Pledged Revenues.

THE CITY ALSO HAS RESERVED THE RIGHT to amend the Ordinance, subject to the restrictions stated in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that under the statutes, regulations, published rulings and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners thereof for federal income tax purposes, and (ii) is not treated as a "preference item" in calculating the alternative minimum tax imposed on individuals and corporations under section 57(a)(5) of the Internal Revenue Code of 1986 (the "***Code***"). In expressing the aforementioned opinions, we have relied on, and assumed compliance by the City with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that failure by the City to comply with such representations and covenants may cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

IN EXPRESSING THE AFOREMENTIONED OPINIONS as to the exclusion of interest from federal income taxes, we have relied on certain representations, the accuracy of which we have not independently verified, and we have assumed compliance with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

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

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further given, and are based on our knowledge of facts, as of the date hereof. We assume no duty or obligation to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "***Service***"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds, and we have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of the City and the sufficiency of revenues of the City pledged to secure the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,