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

PRELIMINARY OFFICIAL STATEMENT DATED MAY 12, 2020

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates. See "TAX MATTERS" herein.

The Bonds have **NOT** been designated as "Qualified Tax-Exempt Obligations for Financial Institutions."

NEW ISSUE: BOOK-ENTRY-ONLY

RATINGS: Moody's......"Aa3"
See "SALE AND DISTRIBUTION OF THE CERTIFICATES – Municipal Bond Ratings"

$9,410,000*
CITY OF SEABROOK, TEXAS
(A political subdivision of the State of Texas located within Harris County)
CERTIFICATES OF OBLIGATION, SERIES 2020

Dated: June 1, 2020
Interest Accrues from Delivery Date

Due: September 1, as shown below

Principal of and interest on the $9,410,000* City of Seabrook, Texas, Certificates of Obligation, Series 2020 (the "Certificates") are payable by The Bank of New York Mellon Trust Company, N.A, Dallas, Texas, the initial paying agent/registrar (the "Paying Agent/Registrar"). The Certificates are initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in principal denominations of $5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which will make distribution of the amounts so paid to the beneficial owners of the Certificates. See "THE CERTIFICATES - Book-Entry-Only System" herein.

Interest on the Certificates will accrue from the Delivery Date (defined below) and is payable on March 1 and September 1 of each year, commencing September 1, 2020, to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar on the fifteenth calendar day of the month preceding each interest payment date (the "Record Date"). See "THE CERTIFICATES - Description."

The Certificates, when issued, will constitute valid and binding obligations of the City of Seabrook, Texas (the "City") and will be payable from the proceeds of a continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and will be further payable from a limited pledge of a subordinate lien on the net revenues of the City's waterworks and sanitary sewer system (the "System") in an amount not to exceed $1,000. See "THE CERTIFICATES - Source of Payment."

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Government Code, as amended, and an ordinance (the "Ordinance") to be approved by the City Council on May 19, 2020. See "THE CERTIFICATES – Authorization of the Certificates."

Proceeds from the sale of the Certificates will be used for (i) the construction of a new wastewater treatment plant; (ii) repair, renovation and construction of City-wide storm sewers, drainage ditches and other drainage improvements; (iii) the purchase, construction and installation of a smart water meter system; and (iv) to pay the costs of issuance of the Certificates. See "THE CERTIFICATES - Use of Proceeds" and "- Sources and Uses of Funds."

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND PRICES
(Due September 1)

Maturity September 1	Principal Amount*	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 811692 (b)	Maturity September 1	Principal Amount*	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 811692 (b)
2021	$ 20,000	%	%		2031(c)	$650,000	%	%	
2022	25,000				2032(c)	680,000			
2023	25,000				2033(c)	705,000			
2024	30,000				2034(c)	730,000			
2025	30,000				2035(c)	710,000			
2026	30,000				2036(c)	740,000			
2027	35,000				2037(c)	770,000			
2028	580,000				2038(c)	800,000			
2029	600,000				2039(c)	810,000			
2030	625,000				2040(c)	815,000			

* Preliminary, subject to change.

(a) The initial yields will be established by and are the sole responsibility of the Underwriters, and may subsequently be changed.

(b) CUSIP numbers have been assigned to the Certificates by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the registered owners of the Certificates. Neither the City, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

(c) The Certificates maturing on September 1, 2031* and thereafter, are subject to redemption on September 1, 2030* or any date thereafter, at the option of the City, at par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. See "THE CERTIFICATES - Redemption Provisions."

The Certificates are offered when, as and if issued and accepted by the underwriters listed below (the "Underwriters"), subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Bond Counsel for the City, as to the validity of the issuance of the Certificates under the Constitution and laws of the State of Texas. See "LEGAL MATTERS." Certain legal matters will be passed upon for the Underwriters listed below by Greenberg Traurig LLP, Houston, Texas. Delivery of the Certificates through DTC is expected to be on or about June 11, 2020 (the "Delivery Date").

FHN FINANCIAL CAPITAL MARKETS **SAMCO CAPITAL**

* Preliminary, subject to change.

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

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

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition of the City or other matters described herein since the date hereof.

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

NEITHER THE CITY, THE FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

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

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE CERTIFICATES IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

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 web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for any purposes.

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CITY OF SEABROOK, TEXAS

(A political subdivision of the State of Texas located within Harris County)

$9,410,000*
CERTIFICATES OF OBLIGATION, SERIES 2020

INTRODUCTORY STATEMENT

Information contained in this Official Statement, including its Appendices, has been obtained from the City of Seabrook, Texas (the "City") in connection with the offering by the City of its $9,410,000* Certificates of Obligation, Series 2020 (the "Certificates") identified on the cover page hereof.

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

SALE AND DISTRIBUTION OF THE CERTIFICATES

Underwriting

The underwriters listed on the cover page hereof (referred to herein as the "Underwriters") have agreed to purchase the Certificates from the City for $_____ (being the principal amount of the Certificates, plus a net premium of $_____ and less an Underwriters' discount of $_____). The Underwriters are obligated to purchase all of the Certificates, if any are purchased, such obligation being subject to certain conditions precedent.

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc., is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc., for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc.

On November 4, 2019 First Horizon and Iberia Bank announced its intention to enter into a merger, pending regulatory approval, creating a leading regional financial services company. The new company will retain the First Horizon name and will have its headquarters in Memphis, TN, while maintaining a significant operating presence in all of the markets in which both companies operate today. The transaction is expected to be completed in the second quarter of 2020, following the satisfaction of closing conditions, including approval by shareholders of both companies. Until all conditions, including regulatory approvals are provided, First Horizon and IberiaBank will continue to be separate, independent companies and until transaction closing, both companies will operate as they do today.

Prices and Marketability

The delivery of the Certificates is conditioned upon the receipt by the City of certificates executed and delivered by the Underwriters on or before the date of delivery of the Certificates stating the prices at which a substantial amount of the Certificates of each maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bondhouse, broker or similar person acting in the capacity of underwriter or wholesaler. The City has no control over trading of the Certificates after a bona fide offering of the Certificates is made by the Underwriters at the yields specified on the cover page. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

The prices and other terms respecting the offering and sale of the Certificates may be changed from time to time by the Underwriters after the Certificates are released for sale, and the Certificates may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Certificates into investment accounts. IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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* Preliminary, subject to change.

Securities Laws

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

Municipal Bond Ratings

In connection with the sale of the Certificates, the City has made application to Moody's Investors Service, Inc. ("Moody's") for a rating and a rating of "Aa3" has been assigned to the Certificates. The City has furnished to Moody's certain information and materials relating to the Certificates and the City, including certain information and materials which have not been included in this Official Statement.

An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such rating company, circumstances so warrant.

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OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

The Issuer	The City of Seabrook, Texas (the "City") is a political subdivision and home rule city of the State of Texas located within Harris County, Texas.
The Certificates	$9,410,000* Certificates of Obligation, Series 2020 (the "Certificates"), are dated June 1, 2020 and mature September 1, 2021 through September 1, 2040, inclusive. Interest on the Certificates accrues from the date of initial delivery, and is payable initially on September 1, 2020, and on each March 1 and September 1 thereafter until the earlier of maturity or prior redemption. See "THE CERTIFICATES - Description."
Other Characteristics	The Certificates are issued in fully registered form in integral multiples of $5,000. The Certificates maturing on and after September 1, 2031* are subject to redemption, at the option of the City, at a price of the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption, September 1, 2030* or any date thereafter. See "THE CERTIFICATES – Redemption Provisions."
Paying Agent/Registrar.....	The initial paying agent/registrar is The Bank of New York Mellon Trust Company, N.A, Dallas, Texas (the "Paying Agent/Registrar"). The City intends to use the book-entry-only system of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on behalf of the DTC to discontinue such system. (See "THE CERTIFICATES - Book-Entry-Only System.")
Source of Payment.....	The Certificates, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and will be further payable from a limited pledge of a subordinate lien on the net revenues of the City's waterworks and sanitary sewer system (the "System") in an amount not to exceed $1,000. See "THE CERTIFICATES - Source of Payment of the Certificates."
Use of Proceeds	Proceeds from the sale of the Certificates will be used for (i) the construction of a new wastewater treatment plant; (ii) repair, renovation and construction of City-wide storm sewers, drainage ditches and other drainage improvements; (iii) the purchase, construction and installation of a smart water meter system; and (iv) to pay the costs of issuance of the Certificates. See "THE CERTIFICATES - Use of Proceeds" and "- Sources and Uses of Funds."
Tax Exemption	In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates. The Bonds have **NOT** been designated as "Qualified Tax-Exempt Obligations for Financial Institutions."
Ratings.....	Moody's Investors Service, Inc. (Unenhanced)....."Aa3"

* Preliminary, subject to change.

- Selected Financial Information –
(Unaudited)

2019 Certified Taxable Assessed Valuation (100% of market value as of January 1, 2019) See "TAX DATA."	$ 1,310,944,169	(a)
Direct Debt:		
Outstanding Tax Supported Debt (as of April 1, 2020)	$ 30,007,254	
Plus: The Certificates	9,410,000	*
Less: Self Supporting General Obligation Debt	(8,545,000)	(b)
Total Tax Supported Debt	$ 30,872,254	*
Estimated Overlapping Debt	$ 62,213,941	
Direct and Estimated Overlapping Debt	$ 94,086,195	
Debt Service Fund Balance (as of April 22, 2020)	$ 3,691,144	(c)

	% of 2019 Assessed Valuation	Per Capita (14,826)
Debt Ratios:		
Direct Tax Supported Debt	2.35%	$2,082
Direct Tax Supported and Estimated Overlapping Debt	7.18%	$6,346

2019 Tax Rate (per $100 of Assessed Valuation)		
Maintenance and Operation	$ 0.403139	
Debt Service	0.148844	
Total	$ 0.551983	
Estimated Annual Debt Service Requirements: (d)		
Average (Fiscal Years 2020-2040)	$ 1,955,345	*
Maximum (2025)	$ 2,599,420	*

Tax Collections:	
Arithmetic Average, Tax Years (2014-2018) - Current Year Collections	98.80%
- Total Collections	99.35%

* Preliminary, subject to change.

(a) Certified by the Harris County Appraisal District (the "Appraisal District") and net of exemptions. Such value is further subject to change as additions, corrections and deletions are made to the tax roll. See "TAX DATA."

(b) Represents tax-supported debt that is considered self-supporting debt and is currently paid from revenues of the City's Waterworks and Sewer System (the "System") and Seabrook EDC (as defined herein) pursuant to a policy determination by City Council, which is subject to change. Includes a portion of the City's General Obligation Refunding Bonds, Series 2013, Certificates of Obligation, Series 2016 and Certificates of Obligation, Series 2016A.

(c) Unaudited.

(d) Includes the Certificates and excludes the self-supporting debt payable from revenues of the System and the Seabrook EDC. Preliminary, subject to change.

INTRODUCTION

This Official Statement and Appendices A and B hereto provide certain information with respect to the issuance by the City of Seabrook, Texas (the "City") of its $9,410,000* Certificates of Obligation, Series 2020 (the "Certificates").

The Certificates, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See "THE CERTIFICATES - Source of Payment."

There follows in this Official Statement descriptions of the Obligations, the plan of financing, 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 upon request. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the sale and issuance of the Certificates (the "Ordinance"), except as otherwise indicated herein.

THE CERTIFICATES

Description

The Certificates are dated June 1, 2020 and bear interest from the Delivery Date (as defined on the cover hereof) at the stated interest rates indicated on the cover page of this Official Statement, which interest is payable initially on September 1, 2020, and each March 1 and September 1 thereafter until the earlier of maturity or prior redemption. Interest on the Certificates will be calculated on the basis of 360-day year of twelve 30-day months.

The Certificates are issued in fully registered form in principal denominations of $5,000 each or any multiple thereof. Principal of the Certificates is payable at the principal payment office of The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Certificates will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. The record date (the "Record Date") for the interest payable on any interest payment date means the 15th day of the month next preceding such interest payment date. The Certificates initially will be registered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book- Entry-Only System described below.

In the event the Book-Entry-Only-System is discontinued, the Certificates may be transferred and exchanged on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Certificates are exchangeable for an equal principal amount of Certificates of the same maturity in any authorized denomination upon surrender of the Certificates to be exchanged at the principal payment office of the Paying Agent/Registrar. No service charge will be made for any transfer, but the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Redemption Provisions*

The Certificates maturing on September 1, 2031* and thereafter are subject to optional redemption prior to maturity, in whole or in part, on September 1, 2030*, or any date thereafter, at the option of the City at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date of redemption. If less than all of the Certificates are redeemed at any time, the maturities of Certificates to be redeemed shall be selected by the City. If less than all of a maturity of Certificates is to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot or other customary method that results in random selection, the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

* Preliminary, subject to change.

Notice of Redemption

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

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

Book-Entry-Only System

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

The City, the Financial Advisor and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, 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 Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct 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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

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

Redemption proceeds and principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable dates 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 in 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, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest 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 Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes not responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

Ownership

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

Successor Paying Agent/Registrar

Provision is made in the Ordinance for replacing the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor paying agent/registrar (the "Successor Paying Agent/Registrar"), and the Successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any Successor Paying Agent/Registrar selected by the City shall be a commercial bank or trust company organized under the laws of the State, or any other entity duly qualified and legally authorized to serve as and perform the duties and service or paying agent/registrar for the Certificates.

Defeasance

The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on such Certificates, 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 the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Government Securities to mature as to principal and interest in such amounts and at such times to insure 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 Certificates. The Ordinance provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, or (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government 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, such Certificates shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, that the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Source of Payment

The Certificates, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and will be further payable from a limited pledge of a subordinate lien on net revenues of the City's waterworks and sanitary sewer system (the "System") in an amount not to exceed $1,000.

Authorization of the Certificates

The Certificates are being issued pursuant to the applicable provisions of the Constitution and laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the provisions of the Ordinance.

Use of Proceeds

Proceeds from the sale of the Certificates will be used for (i) the construction of a new wastewater treatment plant; (ii) repair, renovation and construction of City-wide storm sewers, drainage ditches and other drainage improvements; (iii) the purchase, construction and installation of a smart water meter system; and (iv) to pay the costs of issuance of the Certificates.

Sources and Uses of Funds

The proceeds from the sale of the Certificates will be applied as follows:

SOURCES OF FUNDS:	
Principal Amount of the Certificates	$
[Net] Premium on the Certificates	
Total Sources of Funds	$
USES OF FUNDS	
Deposit to Construction Fund	$
Expenses:	
Underwriters' Discount	
Other Issuance Expenses (a)	
Total Uses of Funds	$

(a) Includes legal fees, financial advisory fees, fees of the paying agent/registrar, contingency and other costs of issuance.

Future Debt

The City has $2,000 of authorized but unissued bonds. The City has no plans to issue the remaining authorization. The City may also issue additional certificates of obligation for City projects without an election. Depending on the rate of development within the City, changes in assessed valuation, and the amounts, interest rates, maturities and time of issuance of additional certificates of obligation or bonds, increases in the City's annual ad valorem tax rate may be required to provide for the payment of the principal of and interest on the City's outstanding bonds, the Certificates, and such future certificates of obligation or bonds.

Remedies in the Event of Default

The Ordinance does not specify events of default with respect to the Certificates. If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates if there is no other available remedy at law to compel performance of the Certificates or Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the owners 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) ("*Tooke*"), 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, Certificate holders may not be able to bring such a suit against the City for breach of the Certificates 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 Certificates.

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 procuring goods or services. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the State. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

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

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general certificate 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 Certificate holders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY

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

Legal Investments

Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or

insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the governing body or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a

defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

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

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

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

Investment Policies

Under 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 and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under 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 for 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 Mayor and City Council of the City.

The City's policies require investments in accordance with applicable state law. The City's Investment Policy excludes certain investments allowable under State law described above under "Legal Investments." Investments specifically prohibited by the City's Investment Policy include (1) obligations for which the payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (interest only bonds); (2) obligations for which the payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (principal only bond); (3)

collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (inverse floaters); (5) certain securities lending programs of the nature permitted by Section 2256.0115 of the Public Funds Investment Act; and (6) commercial paper, including investment pools which invest in commercial paper.

Current Investments

The City's investment balance as of April 22, 2020 was as follows:

	Book Value	Market Value
TexPool	$ 1,560,201	$ 1,560,201
Cash	32,717,598	32,717,598
Total Portfolio	$34,277,799	$34,277,799

Additional Provisions

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording 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; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the 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.

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CITY TAX DEBT

Tax Supported Debt Statement

The following tables and calculations relate to the Certificates and to all other tax supported debt of the City. The City and various other political subdivisions of government which overlap all or a portion of the City are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of property within the City.

Bonded Indebtedness Payable from Ad Valorem Taxes

2019 Certified Taxable Assessed Valuation (100% of market value as of January 1, 2019) See "TAX DATA."	$ 1,310,944,169	(a)
Direct Debt:		
Outstanding Tax Supported Debt (as of April 1, 2020)	$ 30,007,254	
Plus: The Certificates	9,410,000	*
Less: Self Supporting General Obligation Debt	(8,545,000)	(b)
Total Tax Supported Debt	$ 30,872,254	*
Debt Service Fund Balance (as of April 22, 2020)	$ 3,691,144	(c)

* Preliminary, subject to change.

(a) Certified by the Harris County Appraisal District (the "Appraisal District") and net of exemptions. Such value is further subject to change as additions, corrections and deletions are made to the tax roll. See "TAX DATA."

(b) Represents tax-supported debt that is considered self-supporting debt and is currently paid from revenues of the City's Waterworks and Sewer System (the "System") and Seabrook EDC (as defined herein) pursuant to a policy determination by City Council, which is subject to change. Includes a portion of the City's General Obligation Refunding Bonds, Series 2013, Certificates of Obligation, Series 2016 and Certificates of Obligation, Series 2016A.

(c) Unaudited.

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Pro-Forma Tax Supported Debt Service Schedule

The following sets forth the principal and interest on the City's Outstanding Tax Supported Debt, plus the principal and estimated interest on the Certificates.

FY Ending 9/30	Outstanding Debt Service Requirements	Less: Self-Supported Debt Service (a)	Plus: The Certificates*			Total Debt Service Requirements*
			Principal*	Interest (b)	Total	
2020	$ 2,843,673	$ 739,967		$ 84,078	$ 84,078	$ 2,187,783
2021	2,842,784	735,562	$ 20,000	378,350	398,350	2,505,573
2022	2,840,576	736,056	25,000	377,350	402,350	2,506,870
2023	2,929,449	734,494	25,000	376,100	401,100	2,596,055
2024	2,931,303	737,689	30,000	374,850	404,850	2,598,464
2025	2,931,605	735,535	30,000	373,350	403,350	2,599,420
2026	2,778,931	583,124	30,000	371,850	401,850	2,597,658
2027	2,775,109	581,196	35,000	370,350	405,350	2,599,263
2028	1,705,230	583,869	580,000	368,600	948,600	2,069,962
2029	1,701,749	581,035	600,000	345,400	945,400	2,066,115
2030	1,705,596	582,894	625,000	321,400	946,400	2,069,102
2031	1,698,121	579,247	650,000	296,400	946,400	2,065,274
2032	1,504,592	385,200	680,000	270,400	950,400	2,069,792
2033	1,505,833	384,800	705,000	243,200	948,200	2,069,233
2034	1,505,919	384,000	730,000	215,000	945,000	2,066,919
2035	659,027	387,800	710,000	185,800	895,800	1,167,027
2036	657,107	386,000	740,000	157,400	897,400	1,168,507
2037	659,783	388,800	770,000	127,800	897,800	1,168,783
2038	656,854	386,000	800,000	97,000	897,000	1,167,854
2039	387,800	387,800	810,000	65,000	875,000	875,000
2040	384,000	384,000	815,000	32,600	847,600	847,600
2041	384,800	384,800				0
Totals	$37,989,841	$11,769,866	$9,410,000	$5,432,278	$14,842,278	$41,062,253

Estimated Average Annual Requirements (2020-2040).....	$1,955,345*(c)
Estimated Maximum Annual Requirement (2025).....	$2,599,420*(c)

* Preliminary, subject to change.

(a) Represents tax-supported debt that is considered self-supporting debt and is currently paid from revenues of the City's Waterworks and Sewer System (the "System") and Seabrook EDC (as defined herein) pursuant to a policy determination by City Council, which is subject to change. Includes a portion of the City's General Obligation Refunding Bonds, Series 2013, Certificates of Obligation, Series 2016 and Certificates of Obligation, Series 2016A.

(b) Interest estimated at current market rates, for illustrative purposes only.

(c) Includes the Certificates and excludes the self-supporting debt payable from the revenues of the System and the Seabrook EDC. Preliminary, subject to change.

Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding obligations payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes. The City has not independently verified the accuracy or completeness of the information shown below except for amounts related to the City.

Taxing Jurisdiction	Debt as of April 1, 2020	Overlapping Percent	Overlapping Amount
Clear Creek Independent School District	$ 979,890,000	5.53%	$54,187,917
Harris County	1,885,182,125	0.28	5,278,510
Harris County Department of Education	6,320,000	0.28	17,696
Harris County Flood Control District	83,075,000	0.28	232,610
Harris County Hospital District	55,005,000	0.28	154,014
Harris County MUD #373	1,740,000	100.00	1,740,000
Port of Houston	572,569,397	0.28	1,603,194
TOTAL ESTIMATED OVERLAPPING			$63,213,941
The City			30,872,254(a)
Total Direct and Estimated Overlapping Debt			$94,086,195

(a) Includes the Certificates and excludes the self-supporting debt payable from revenues of the System and the Seabrook EDC. Preliminary, subject to change.

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

Debt Ratios

	Direct Debt (a)	Direct and Overlapping Debt (a)
Per 2019 Assessed Valuation ($1,310,944,169)	2.35%	7.18%
Per Capita (14,826)	$2,082	$6,346

(a) Includes the Certificates and excludes the self-supporting debt payable from revenues of the System and the Seabrook EDC. Preliminary, subject to change.

TAX DATA

Ad Valorem Property Taxation

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

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

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

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "TAX DATA - City's Rights in the Event of Tax Delinquencies."

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

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

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

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

Local Option Homestead Exemptions. The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than $5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The City grants an additional 20% homestead exemption for the 2019 tax year. The City also grants a $25,000 exemption to persons over age 65.

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

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

Freeport Exemptions. Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1,1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the

purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

The City has taken official action and determined not to grant a "Goods-in Transit" exemption.

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

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

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

Public Hearing and Maintenance and Operation Tax Rate Limitations

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

> "adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.
>
> "de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional $500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.
>
> "no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).
>
> "special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per $100 of taxable value.
>
> "unused increment rate" means the cumulative difference between a city's voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city's tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.
>
> "voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the "unused increment rate".

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

Beginning with the 2020 tax year, the procedures in this paragraph and the following paragraphs apply. A city must annually calculate its "voter-approval tax rate" and "no-new-revenue tax rate" (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

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

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

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

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

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

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

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

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

Debt Tax Rate Limitations

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

Levy and Collection of Taxes

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

City's Rights in the Event of Tax Delinquencies

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

Historical Analysis of Tax Collection

- Collection Ratios –

Tax Year	Net Assessed Valuation	Tax Rate Per $100 of Assessed Valuation	Adjusted Tax Levy	% of Collections		Fiscal Year Ending 9/30
				Current Year	Current and Prior Years	
2010	$ 844,501,995	$0.626807	$5,214,919	98.41%	99.73%	2011
2011	836,828,339	0.649978	5,389,311	98.85	99.81	2012
2012	845,917,965	0.665232	5,627,317	98.47	99.80	2013
2013	895,700,929	0.651229	5,766,934	98.84	99.81	2014
2014	919,496,155	0.640030	5,984,940	98.72	99.71	2015
2015	1,029,306,515	0.612611	6,329,284	98.73	99.65	2016
2016	1,164,299,182	0.565177	6,411,690	98.95	99.45	2017
2017	1,186,692,077	0.574911	6,960,493	98.96	99.30	2018
2018	1,245,026,528	0.574911	6,997,431	98.64	98.64	2019
2019	1,310,944,169	0.551983	7,658,687	96.77(a)	96.77(a)	2020

(a) Collections as of April 2, 2020.

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Harris County Appraisal District, State Comptroller's Office, Property Tax Division, and information supplied by the City.

- Tax Rate Distribution -

	Tax Year 2019	Tax Year 2018	Tax Year 2017	Tax Year 2016	Tax Year 2015
Maintenance	$0.403139	$0.403139	$0.419405	$0.394574	$0.423456
Debt Service	0.148844	0.148844	0.155506	0.170603	0.189155
Total	$0.551983	$0.551983	$0.574911	$0.565177	$0.612611

Analysis of Tax Base

- Tax Base Distribution -

	2019 Tax Roll (a)		2018 Tax Roll (a)	
Type of Property	Amount	%	Amount	%
Residential	$1,187,945,537	75.39%	$1,159,671,272	81.15%
Commercial	195,229,757	12.39	162,556,015	11.37
Industrial	2,759,023	0.18	2,759,051	0.19
Utilities	15,509,421	0.98	15,930,746	1.11
Vacant	26,805,474	1.70	20,206,509	1.41
Lots/Tracts/Acreage	30,246,312	1.92	24,555,258	1.72
Minerals	3,280	0.00	28,360	0.00
Other Personal	117,209,074	7.44	43,402,831	3.04
Gross Assessed Value	$1,575,707,878	100.00%	$1,429,110,042	100.00%
Less: Exemption	(264,763,709)		(184,083,514)	
Net Assessed Value	$1,310,944,169		$1,245,026,528	

Source: Harris County Appraisal District.

(a) Values may differ from those shown in the District's financial statement and elsewhere in this Official Statement due to subsequent adjustments.

- Exemptions -

Type	2019	2018
Homestead	$239,269,076	$159,861,177
Surviving Spouse	1,060,700	906,325
Over 65	16,629,500	16,391,896
Disability	1,743,750	1,872,750
Disabled Veteran	5,927,149	4,934,026
Other	133,534	117,340
Total Exemptions	$264,763,709	$184,083,514

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- Principal Taxpayers -

Principal Taxpayer	Type of Property	2019 Taxable Assessed Valuation	2018 Taxable Assessed Valuation
Western Rim Investors 2014 1 LP	Apartments, Retail, Commercial	$ 57,509,990	$45,935,452
Regatta Bay Property Corp.	Apartments	27,732,878	27,384,113
DMH 90 Concierge Management	Apartments, Condo, Land	21,379,005	16,085,818
Vista Shores 2011 LP	Apartments	20,596,691	17,015,120
Duke Realty Limited Partnership	Warehouse	18,860,000	17,712,600
Sinbad Landing Corp.	Apartments	17,351,978	16,139,001
Seabrook Properties LLC	Commercial	14,845,887	(a)
3000 Nasa Parkway LLC	Real Estate, Hotel	11,104,000	10,488,240
Lamrock 3/2001 LP	Marina, Retail	11,032,920	10,035,589
CenterPoint Energy Inc.	Utility	9,284,160	(a)
NASA Road Apartments LLC	Apartments	(a)	8,193,715
Axiom Bay Park LLC	Apartments	(a)	7,858,233
Total Ten Principal Taxpayers		$209,697,509	$176,847,881
Percentage Ten Principal Taxpayers Comprise of Tax Roll		16.00%	14.20%

(a) Not a principal taxpayer in such tax year.
Source: City of Seabrook, Tax Department.

- Tax Adequacy -

Estimated Average Annual Debt Service Requirements (2020-2040).....	$1,955,345 (a)
Tax Rate of $0.158 per $100 assessed valuation against the 2019 Certified Assessed Valuation at 95% collection produces.....	$1,967,727
Estimated Maximum Annual Tax Debt Service Requirements (2025).....	$2,599,420 (a)
Tax Rate of $0.209 per $100 assessed valuation against the 2019 Certified Assessed Valuation at 95% collection produces.....	$2,602,880

(a) Includes the Certificates and excludes the self-supporting debt payable from revenues of the System and the Seabrook EDC. Preliminary, subject to change.

Sales Tax

The City levies a 1% sales tax pursuant to the provisions of Chapter 321, Texas Tax Code, for general fund purposes. Sales tax revenues are not pledged to the payment of the Certificates. The sales tax information contained in the following table does not include revenues from the sales taxes levied and collected for the benefit of the Seabrook Economic Development Corporation ("Seabrook EDC") or the Seabrook Crime Control and Prevention District (the "District").

Fiscal Year	Sales Tax Collected (a)	Fiscal Year	Sales Tax Collected (a)
2011	$1,382,511	2016	$1,830,686
2012	1,423,134	2017	1,954,712
2013	1,503,446	2018	1,891,325
2014	1,603,170	2019	1,804,154
2015	1,770,303	2020(b)	1,108,654

(a) See "INFECTIOUS DISEASE OUTBREAK – COVID-19" for a discussion on the Pandemic's potential impact to the City's finances.
(b) Unaudited. As of April 22, 2020.

The Seabrook EDC is a Type B economic development corporation created by the City in 1992 under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting and enhancing economic and related development activities on behalf of the City. The City levies one-half cent sales tax for the benefit of the Seabrook EDC.

The District was created under the authority granted by Chapter 363 of the Texas Local Government Code and Section 323.105 of the Texas Tax Code for the purpose of strengthening and enhancing crime control activities of the City. An election was held in 2005 to create the District and allow for the collection of a one-half cent sales tax to fund its operations. The District is governed by a Board of Directors comprised of the City Council members.

SELECTED FINANCIAL DATA

Historical Operations of the City's General Fund

The following is a condensed statement of revenues and expenses of the City's General Fund for the past five fiscal years. The inclusion of the following table is not intended to imply that any revenues of the City, other than the revenues described in the respective ordinances authorizing the issuance of such debt, are pledged to pay principal and interest on the Certificates and the City's Outstanding Tax Supported Debt.

	Fiscal Year Ended September 30,				
	2020 (a)(b)	2019	2018	2017	2016
Revenues:					
Property Taxes	$ 5,454,446	$ 5,104,758	$ 5,088,483	$ 4,534,899	$ 4,429,046
Sales and Use Taxes	1,108,654	1,947,035	2,054,703	2,120,836	2,019,776
Franchise Fees & Local Taxes	472,429	792,656	781,063	765,796	796,501
License and Permits	141,287	291,126	392,499	346,990	162,395
Fines and Forfeits	388,291	510,511	472,956	572,371	530,806
Charges for Services	63,743	84,266	86,671	84,164	82,649
Intergovernmental	326,947	432,945	487,907	282,408	334,239
Investment Revenue	59,380	221,041	137,185	59,879	24,591
Other Revenue	210,282	388,101	840,706	384,146	1,987,912
Total Revenues	$ 8,225,459	$ 9,772,439	$10,342,173	$ 9,151,489	$10,367,915
Expenditures:					
General Government	$ 2,444,441	$ 3,405,490	$ 3,484,058	$ 3,068,543	$ 3,048,444
Public Safety	3,478,424	5,641,744	5,355,650	5,203,264	4,934,075
Public Works	608,974	2,060,525	2,175,847	1,836,522	1,908,722
Total Expenditures	$ 6,531,839	$11,107,759	$11,015,555	$10,108,329	$ 9,891,241
(Deficiency) of Revenues (Under) Expenditures	$ 1,693,620	($ 1,335,320)	($ 673,382)	($ 956,840)	$ 476,674
Other Financing Sources (Uses)					
Operating Transfers In	$ 1,068,524	$ 2,186,658	$ 1,829,915	$ 1,774,820	$ 1,756,686
Operating Transfers Out	(916,425)	(350,745)	(522,183)	(80,163)	(787,127)
Total Other Financing Sources (Uses)	$ 152,099	$ 500,593	$ 634,350	$ 737,817	$ 1,446,233
Fund Balance, Beginning of Year	$ 8,595,223	$ 8,934,066	$ 8,299,716	$ 7,561,899	$ 6,115,666
Fund Balance	$10,440,942	$ 9,434,659	$ 8,934,066	$ 8,299,716	$ 7,561,899

Source: Except as noted, Comprehensive Annual Financial Report of the City of Seabrook.

(a) Unaudited. As of April 22, 2020.

(b) See "INFECTIOUS DISEASE OUTBREAK – COVID-19" for a discussion on the Pandemic's potential impact to the City's finances.

Pension Fund

The City participates in the Texas Municipal Retirement System (TMRS), an agent multi-employer defined contribution plan, covers all eligible employees except firefighters. The City's contributions to the pension plans are actuarially determined and result in contribution rates that over time remain level as a percent of payroll.

For fiscal year 2019, the City contributed 15.57% of covered payroll a contribution of $1,046,439 for eligible employees to TMRS with those employees contributing 7.00%. For fiscal year 2018, the City contributed 15.96% of covered payroll (a contribution of $976,004) for eligible employees to TMRS with those employers contributing 7.00%. The City's unfunded pension obligation for this plan totaled $6,491,143 at December 31, 2018, which will be amortized over twenty-five years. For additional information, see "APPENDIX B – Audited Financial Statements of the City", Note IV.C. p. 68-72.

Other Post-Employment Benefits

The City participates in a cost-sharing multiple-employer defined benefits group term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund ("SDBF"). The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500. The City offers the supplemental death benefit to both active and retired employees. The City contributes to the SDBF at a contractually required rate determined by annual actuarial valuation. For the fiscal year ended September 30, 2019, the City's contribution was $1,877. For additional information, see "APPENDIX B – Audited Financial Statements of the City", Note IV-D, p. 73-75.

Financial Statements

A copy of the City's audited Financial Statements for the fiscal year ended September 30, 2019, is attached hereto in APPENDIX B. Copies of such statements for preceding years are available, for a fee, upon request.

ADMINISTRATION OF THE CITY

Mayor and City Council

Policy-making functions are the responsibility of and are vested in the Mayor and City Council of the City, under provisions of the "Charter of the City of Seabrook" (the "Charter") approved by the electorate August 11, 1979, and amended in 1985, 1990, 1995, 2000 and 2005. The Council is composed of seven members, including the Mayor, whom are elected at-large. All members serve three-year terms. The Mayor is entitled to vote on all matters before the Council, but has no power to veto Council action. Members of the Council are described below:

Council Members	Position	Term Expires (May)	Occupation
Thom Kolupski	Mayor	2021	Owner of Architectural/Engineering Project Management firm
Ed Klein	Council Member Position 1	2022	Retired
Laura Davis	Council Member Position 2	2021	School Director
Jeff Larson	Council Member Position 3	2022	Toxicologist
Natalie Picha	Council Member Mayor Pro Tem Position 4	2021	Financial Advisor
Buddy Hammann	Council Member Position 5	2022	HR Consultant
Joe Machol	Council Member Position 6	2021	Sports Official and Business Owner

Administration

Under provisions of the Charter, the Council enacts local legislation, adopts budgets, determines policies and appoints the City Manager, who is charged with the duties of executing the laws and administering the government of the City. As the chief executive officer and head of the administrative branch of the City government, the City Manager is given the power and duties to:

(1) Appoint and remove all department heads and all other employees in the administrative service of the City and may authorize the head of a department to appoint and remove subordinates in his respective department;

(2) Prepare the budget annually, submit it to Council, and be responsible for its administration;

(3) Prepare and submit to Council a complete report on the finances and administrative activities of the City;

(4) Keep Council advised of the financial condition and future needs of the City and make appropriate recommendations; and

(5) Perform such other necessary duties as prescribed by the Charter or required by the Council.

Members of the Administrative Staff are described below:

Staff Member	Position	Years in Position	Years of Service
Gayle Cook	City Manager	6 Years	17 Years
Sean Landis	Deputy City Manager	6 Years	11 Years
Sean Wright	Director of Public Safety	6 Years	28 Years
Kevin Padgett	Director of Public Services	3 Years	28 Years
Robin Lenio	City Secretary	5 Years	5 Years
Michael Gibbs	Finance Director	7 Years	12 Years

Consultants

The City has retained several consultants to perform professional services in connection with the independent auditing of its books and records, the sale of the Certificates and other City activities. Several of these consultants are identified below:

Bond Counsel ..... Orrick, Herrington & Sutcliffe LLP
Houston, Texas

Auditor ..... Belt Harris Pechacek, LLLP
Houston, Texas

Financial Advisor ..... BOK Financial Securities, Inc.
Houston, Texas

LEGAL MATTERS

Legal Opinions

The delivery of the Certificates is subject to the approving opinion of the Attorney General of Texas to the effect that the Certificates are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the City, and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as APPENDIX C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent upon the sale and delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Greenberg Traurig LLP, Houston, Texas, Counsel for the Underwriters. The legal fee of such firm is contingent upon the sale and delivery of the Certificates.

Bond Counsel was engaged by, and only represents, the City. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as

Bond Counsel, such firm has reviewed the information appearing under the captions "SALE AND DISTRIBUTION OF THE CERTIFICATES – Securities Laws", "THE CERTIFICATES" (except under the subcaptions "Book-Entry-Only System," "Sources and Uses of Funds" and "Remedies in the Event of Default"), "TAX DATA – Tax Rate Limitations," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance With Prior Undertakings") and the subcaptions "Legal Matters" (except for the last two sentences of the first paragraph thereof), and "Legal Investments in Texas" under the caption "OTHER INFORMATION," and such firm is of the opinion that the information relating to the Certificates and the legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Certificates, such information conforms to the Ordinance.

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

No-Litigation Certificate

The City will furnish a certificate, dated as of the date of delivery of the Certificates, executed by appropriate City officials, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Certificates; restraining or enjoining the issuance, execution or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Certificates; or affecting the validity of the Certificates.

No Material Adverse Change

The obligations of the Underwriters to take and pay for the Certificates, and of the City to deliver the Certificates, are subject to the condition that, up to the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition (financial or otherwise) of the City subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

Legal Investments in Texas

Pursuant to the Texas Public Securities Procedures Act, Chapter 1201, Texas Government Code, as amended, the Certificates, whether rated or unrated, are (a) legal investments for insurance companies, fiduciaries and trustees and (b) legal investments for the sinking funds of political subdivisions or public agencies of the State. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, and such political subdivisions may impose a requirement consistent with such act that the Certificates have a rating of not less than "A" or its equivalent to be legal investments for such entity’s funds. See "SALE AND DISTRIBUTION OF THE CERTIFICATES - Municipal Bond Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations.

The City has not made any investigations of any other laws, rules, regulations or investment criteria that might affect the suitability of the Certificates for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Certificates.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Certificates which is excluded from gross income for federal

income tax purposes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Certificates. Beneficial Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Certificates, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Certificates being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Certificates. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Certificates may adversely affect the value of, or the tax status of interest on, the Certificates. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Certificates is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Certificates to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Certificates to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Certificates ends with the issuance of the Certificates, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an

audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Certificates for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Certificates, and may cause the District or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE OF INFORMATION

The City in the Ordinance has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB") in an electronic format as prescribed by the MSRB. Information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The City will provide certain financial information and operating data to the MSRB annually via EMMA. 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 under the headings "INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY – Current Investments," "TAX DATA," "CITY TAX DEBT" (except under the subheading "Estimated Overlapping Debt"), "SELECTED FINANCIAL DATA," and in APPENDIX "B". The City will update and provide this information within six months after the end of each fiscal year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12"), as amended and in effect from time to time. 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 commissioned or are not available by the required time, the City will provide unaudited financial statements and audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix "B" or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

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

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City; and the City intends the words used in the immediately preceding paragraphs (15) and (16) and the definition of Financial Obligation in this Section to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018 (the "2018 Release") and any further written guidance provided by the SEC or its staff with respect to the amendment to Rule 15c2-12 effected by the 2018 Release.

Availability of Information

The City has agreed to provide the foregoing information only to the MSRB. The information will be available to the public at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from a breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement. The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an Underwriters to purchase or sell Certificates in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the owners of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent Underwriters from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

SEVERE WEATHER EVENTS

The City is located near the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. The greater Houston area, including the City, has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" event) since 2015. Several of these storms, including Hurricane Harvey, resulted in damages to City facilities, and also resulted in damages to residential and commercial properties in the City which comprise the City's ad valorem tax base. If a future weather event significantly damaged all or part of the properties comprising the tax base within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the City's tax rate. Further, Texas law allows cities to increase property tax rates without voter approval upon the occurrence of certain natural disasters such as floods and upon a gubernatorial or presidential declaration of disaster. There can be no assurance that a casualty loss to taxable property within the City will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that

any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the City. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the City could be adversely affected.

INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. Executive Order GA-16, among other things, addressed limitations on social gatherings and in-person contact except where necessary to provide or obtain essential services or reopened services (including certain retail services) as such services are defined in state and federal guidance and future executive orders or proclamations of the Governor. Executive Order GA-16 temporarily closed public and private schools throughout the state to in-person classroom attendance through the end of the 2019-2020 school year. In addition to the actions by the state and federal officials, certain local officials, have declared a local state of disaster and have issued "shelter-in-place" orders. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values and/or the collection of sales tax revenues and ad valorem tax revenues within the City. See "TAX DATA" and "SELECTED FINANCIAL DATA". The Bonds are secured by an ad valorem tax (within the limits prescribed by law), and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the City's operations and maintenance expenses. See "TAX DATA - Ad Valorem Property Taxation – Public Hearing and Maintenance and Operations Tax Rate Limitations" and "– Debt Tax Rate Limitations". Additionally, the City collects a sales and use tax on all taxable transactions within the City's boundaries. A reduction in the collection of sales tax revenues may negatively impact the City's operating budget and overall financial condition.

The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition.

FINANCIAL ADVISOR

BOK Financial Securities, Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. The Financial 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.

GENERAL CONSIDERATIONS

Sources and Compilation of Information

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

The information contained in this Official Statement in the section entitled "APPENDIX B - Audited Financial Statements of the City" has been provided by Belt Harris Pechacek, LLLP, Houston, Texas and has been included herein in reliance upon their authority as an expert in the fields of auditing and accounting.

Neither this Official statement nor any statement that may have been made orally or in writing is to be constructed as or as part of a contract with the original purchasers or subsequent owners of the Certificates.

Audited Financial Statements

Belt Harris Pechacek, LLLP, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Belt Harris Pechacek, LLLP relating to City's financial statements for the fiscal year ended September 30, 2019 is included in this Official Statement in APPENDIX B; however, Belt Harris Pechacek, LLLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

Forward Looking Statements

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

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

Updating of Official Statement

The City will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the City and, to the extent that information comes to its attention, in the other matters described in the Official Statement, until the delivery of the Certificates to the Underwriters.

This Official Statement was duly authorized and approved by the City Council of the City of Seabrook, Texas; as of the date specified on the first page hereof.

/s/ _____
Mayor
City of Seabrook, Texas

ATTEST:

/s/ _____
City Secretary
City of Seabrook, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY OF SEABROOK, TEXAS

The following information has been derived from various sources, including the U.S. Census data, Texas Workforce Commission, and City of Seabrook, Texas officials. While such sources are believed to be reliable, no representation is made as to the accuracy thereof.

ECONOMIC BACKGROUND

General

The City of Seabrook is located approximately 30 miles southeast of downtown Houston on Galveston Bay. The 2010 population was 11,952, a 26.6% increase since 2000. The City has experienced rapid growth because of its proximity to the Houston Ship Channel. Several industries have been attracted to the City by NASA.

- History and Location -

Harris County is the sixth largest manufacturing county in the United States with a population of over four million people and is 1,788 square miles in area.

- The Port of Houston Authority -

The Port of Houston, one of the world's largest ports, is a 25-mile long (40-kilometer) complex of diversified public and private facilities just a few hours' sailing time from the Gulf of Mexico. The Port of Houston's location makes it an ideal gateway between interior U.S. markets and foreign countries throughout the world. The port ranks first in the United States in foreign waterborne commerce and second in total tonnage.

The Port of Houston Authority owns and operates the public facilities along the Houston Ship Channel and is the channel's official sponsor. The Authority is an autonomous political subdivision of the State of Texas and is governed by a board of seven commissioners.

As one of the world's busiest ports, the Port of Houston is a large and vibrant component of the regional economy. A 2018 study by Martin Associates says ship channel-related businesses contribute 1,350,695 jobs throughout Texas, up more than 15 percent compared to a 2014 study. This activity helped generate more than $339 billion in statewide economic impact, up nearly 28 percent. Additionally, more than $5.7 billion in state and local tax revenues are generated by business activities related to the port, up 12.7 percent.

ECONOMIC AND GROWTH INDICATORS

U.S. Census of Population

	City of Houston		Harris County	
	Number	% Change	Number	% Change
1970	1,232,802	+31.40	1,741,912	+40.12
1980	1,573,630	+27.70	2,409,544	+38.33
1990	1,630,553	+3.62	2,818,199	+16.96
2000	1,953,631	+19.28	3,400,578	+20.66
2010	2,099,451	+7.46	4,092,459	+20.35

(a) Source: U.S. Census Bureau.

Employment Statistics

State of Texas

	2020 (a)	2019	2018	2017	2016
Labor Force	14,075,576	14,045,312	13,816,690	13,574,795	13,335,578
Employed	13,409,275	13,551,791	13,285,118	12,989,682	12,720,226
Unemployed	666,301	493,521	531,572	585,113	615,352
Unemployment Rate	4.7%	3.5%	3.8%	4.3%	4.6%

Harris County, Texas

	2020 (a)	2019	2018	2017	2016
Labor Force	2,331,536	2,317,346	2,286,360	2,265,691	2,249,341
Employed	2,211,222	2,228,703	2,186,339	2,150,927	2,129,674
Unemployed	120,314	88,643	100,021	114,764	119,667
Unemployment Rate	5.2%	3.8%	4.4%	5.1%	5.3%

(a) As of March 31, 2020.
Source: Texas Workforce Commission.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY

City of Seabrook, Texas

Comprehensive Annual Financial Report

Fiscal Year 2018-2019

SEABROOK

"The City of Seabrook is responsive, innovative and fiscally sound in delivering services that preserve, protect and enhance quality of life."

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

of the

CITY OF SEABROOK, TEXAS

For the Year Ended
September 30, 2019

Prepared by
City Administration and the Finance and Accounting Office

Gayle Cook
City Manager

Sean Landis
Assistant City Manager

Michael Gibbs
Director of Finance

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INTRODUCTORY SECTION

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SEABROOK

March 13, 2020

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

The City of Seabrook, Texas (the "City") is required to publish each year a complete set of financial statements presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the City for the fiscal year ended September 30, 2019.

This report consists of management's representations concerning the finances of the City and deems the enclosed data to be accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of all City activities and funds. Therefore, management assumes full responsibility for the completeness and reliability of all information presented in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements. The City also acknowledges all disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City's financial statements have been audited by Belt Harris Pechacek, LLLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2019 are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial presentation. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion that the financial statements for the year ended September 30, 2019 are fairly presented in conformity with U.S. GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

As required by U.S. GAAP, management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement the MD&A, and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Seabrook, incorporated in 1961, is in southeastern Harris County and is located in the Clear Lake area, which is approximately 25 miles southeast of Houston. The City is surrounded by Galveston Bay to the east; Clear Lake to the south; and the cities of Pasadena, El Lago, and Taylor Lake Village to the north and west.

The City of Seabrook is a home-rule city and has adopted a Council-Manager form of government. The City Council is comprised of a mayor and six council members. The Mayor and City Council Members are elected at large to serve four-year terms. The City Manager is appointed by the City Council and is responsible for implementation of City Council's policies and all day-to-day operations of the City.

A full range of municipal services is provided by the City including police and fire protection, emergency medical services, solid waste, water and wastewater utilities, public improvements, repair and maintenance of infrastructure, recreational and community activities, planning and zoning, and general administrative services.

As an independent political subdivision of the State of Texas, the City is considered a primary government. Pursuant to standards established by the Governmental Accounting Standards Board (GASB), the City reports all funds for which the City, as a primary government, is financially accountable. As such, this report includes financial activities of two component units as follows:

- The Seabrook Economic Development Corporation was created by the City in 1992 under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and related development activities on behalf of the City.

- The Seabrook Crime Control and Prevention District was created under the authority granted by Chapter 363 of the Texas Local Government Code and Section 323.105 of the Texas Tax Code for the purpose of strengthening and enhancing crime control activities of the City.

Local Economy

The Clear Lake area, of which Seabrook is a part, is home to NASA's Johnson Space Center and is known to be the third largest boating center in the United States. The regional economy is very diverse and not driven by just one or two industries. Everything from tourism, boating, and recreation industries to aerospace, petrochemical, and biomedical facilities can be found in the immediate Clear Lake area.

The city experienced slight decrease in the overall projected ad valorem and sales tax under budgeted amount. However, the city Seabrook remains in a strong financial standing as planned decreases in these revenue resources have forecasted relatively close after substantial decreases ahead of the SH 146 Expansion project and over 75 businesses were closed.

After an additional delay in starting, the SH 146 expansion began officially on February 13, 2019, with the planned project duration for 60 months (5 years). The remaining businesses within the Texas Department of Transportation (TxDOT) right-of-way completed closing and building demolitions continued. For FY2019, Phase I began with an estimated 15 month duration consisting of the widening of the northbound side of existing bridge by adding one travel lane and one 14-foot wide pedestrian lane. Included within Phase I, the project provides for the utility relocations, and for the city this includes the water line and sanitary sewer line along the SH 146 corridor.

With the right-of-way acquisition completed, some additional out of phase work started to include construction of the northbound frontage road in Seabrook between the bridge and NASA Parkway. Further, the southbound arterial bridge widening and foundation piles for express bridge were started.

In November 2019, the city saw the start of the Red Bluff expansion project. This project on the north side of the city includes bridge construction, additional lanes, paving improvements and drainage improvements.

The Port of Houston Rail Spur project is approved and anticipated to begin construction in first quarter of 2020. The rail will traverse SH 146 on the northern boundary of the city and create three (3) new at grade crossing on SH 146 and Old SH 146.

Economic Condition and Outlook

Existing property values maintained at $1.2 billion for the fiscal and economic development continues to project high growth opportunities with the newly established highway frontage along the SH 146 corridor and future Grand Parkway project with TxDOT.

Residential and Multi-Family

Chesapeake Bay 55+ apartment complex part of a Planned Unit Development (PUD) finished substantial completion in the last quarter of 2019 and began leasing. This project includes 269 units with total improvements of approximately $23 million. Phase 3 and 4 of this project beyond FY 2019 are planned and underway.

Seaside Lodge at Chesapeake Bay complex part of a Planned Unit Development (PUD) near the corner of Elam St and Larabee St began permitting requirements through the Harris County Affordable Rental Housing Program and is planned to begin construction in the next fiscal year. The project is planned to develop approximately 92 units in a single 3-story building on 4.118 acres.

A new residential community, Lake Mija Village, continued construction with over 50 single family homes on the northern section of the city adjacent to Lake Mija. Home prices range from $350,000 and up. El Mar Village townhomes development on E. Meyer continued its development with an overall of twenty (20) homes planned in the price range of $225,000 – $270,000.

Old Seabrook Village, a revised Planned Unit Development (PUD) for single family homes along E. Meyer, also submitted for revisions and began groundwork in 2018. By the end of the fiscal, infrastructure was substantially completed; however, house construction was pending. The ultimate development will consist of 88 lots and will have the traditional front accessed garages and unobstructed back yards.

Commercial

The city continues to see progress on the traffic circle development called Seabrook Town Center. Near SH 146 and Repsdorph, the project was approved for a zoning change in 2014, and allowed for new commercial frontage along the soon to be expanded SH 146. The completion of Phase I occurred in 2018 and now has CVS Pharmacy and Autozone. Both businesses are relocations due to the highway expansion.

The Commons at Seabrook, a retail center and a Planned Unit Development (PUD) approved 2013, was delayed in starting due to revisions to the original planned unit development were required due to the TxDot right of way acquisition. Revisions and replats were completed, but the planned frontage road for the acquisition did not begin construction. The site will be 6.5 acres immediately

in front of the Towers Luxury Apartments and will include 16,000 square feet of retail space and now two (2) stand-alone pad sites with frontage abutting SH 146. The draft proposed for revision on this project, will allow for a convenient store with gas pumps on one of the pad sites and a design modification splitting the retail space building into two separate structures. Final approval was in October 2017, and construction is pending a certain percent of confirmed leases.

The Holiday Inn Express on NASA Parkway opened in September 2019 and the Seaside RV Resort and Cabanas on Red Bluff and Old SH 146 opened in December 2019.

McDonald's successfully relocated along the SH 146 corridor and opened in July 2019.

Lighthouse Daycare, a new commercial start, will include an 11,200 sf childcare facility to be located on Lakeside near the Repsdorph traffic circle. The project purchased land from the city for the new facility and the transaction closed in February, 2019. The anticipated opening is Summer 2020.

Long-Term Financial Planning

Debt Management Policy

The City Council has adopted a series of financial standards and policies for operating and debt management. To establish guidelines for debt financing, the City Council approved Resolution 2015-01, Debt Management Policy, for expenditures including facilities, land, capital equipment, and infrastructure improvements. The policy minimizes the impact of debt payments on current and future revenues.

Comprehensive Master Plan and Thoroughfare Plan

In August 2016, the 2035 Comprehensive Master Plan was completed and approved by the Master Plan Review Committee and the City Council. The finished plan compiled all of the public input from a community survey to citizen involvement through a very interactive Community Workshop that was attended by over 300 people. The finished product successfully communicates all the public input themes that were taken from the process and put into the guiding principles for the plan.

The Thoroughfare Plan was approved in July 2016. This document is referenced and has appendixes in the Comprehensive Master Plan. The plan outlines the classifications of each thoroughfare in addition to a new proposed thoroughfare map.

Capital Improvement Plan

The City annually adopts a five-year Capital Improvement Plan with the approval of a one-year annual budget during the current fiscal year that includes the short-term improvement plan for water, wastewater, drainage, and other municipal facilities. For this fiscal year, multiple projects were identified for initiation in water, wastewater, and streets. Additional sections to the program were added to include Facility Projects, Economic Development Projects and Park and Trail Projects. Additional sources of revenue were addressed for the needs and timelines presented that resulted in the issuance of Certificates of Obligation along with the General Obligation bonds approved in 2014.

Water and Sewer Rate Study

In April 2019, the City began a new water rate study. At the close of the fiscal, research and ongoing negotiations with the city's supply contract through the City of Pasadena were continuing and the study was not completed.

Recommendations from the study will allow the City to update its rate structure accordingly and comply with American Water Works Association standards. As a result of the city's last water and sewer rate study in 2015, the City created a Water Rate Stabilization Fund.

SH 146 Expansion Stabilization Fund
In December 2011, the City adopted an ordinance establishing a Budget Stabilization Fund. Using surplus revenues from both the general and the enterprise funds from 2011, $800,000 was set aside to offset any adverse impact caused from the construction on SH 146. This is a separate fund and is in addition to the City's 25% of operating expenditure and additional unrestricted fund balance in the general fund and the 15% in the enterprise fund. To date, the city has not utilized this special fund.

State Infrastructure Bank (SIB)
In August 2018, the City agreed to loan terms with the SIB in an amount of $3,700,000. The City is required to relocate its water and sewer utility lines along State Highway 146 due to the State's highway widening project. The SIB loan will be used to pay for the utility relocation.

Bond Program 2014
In November 2014, the City held an election to issue General Obligation Bonds. There were four propositions on the ballot and all were approved by the voters. The propositions were as follows:

- Proposition 1 was for $6,850,000 to build a new Public Works/Animal Adoption facility. **Completed – August 2017**
- Proposition 2 was for $725,000 to purchase a fire truck. – **In operation**
- Proposition 3 was for $525,000 to install a fiber optic network. – **Eastside fiber ring is complete and westbound connection is under construction.**
- Proposition 4 was for $450,000 to construct splash pads in two City parks. – **Completed**

Certificates of Obligation
In 2016, the City issued Certificates of Obligation in the amount of $2,500,000. This project made way for commercial development in the Seabrook Town Center development. The City entered into an agreement with the Seabrook Economic Development Corporation to make the debt service payments on the Certificates of Obligation as they relate to economic development. The project for this issuance were as follows:

- Ground water storage tank and water plant (CIP# W4)

In 2017, the City issued Certificates of Obligation, Series 2016A for the amount $6,165,000. Projects included in this issuance were as follows:

- Todville Sewer Line Replacement from Main Street to Meyer (CIP# WW4)
- Wastewater Treatment Plant Upgrades – Phase 2 (Clarifier) (CIP# WW6)
- Wastewater Treatment Plant at Pine Gully (CIP# WW9)

Major Initiatives

NASA Rd 1 and Old Seabrook Waterline (CIP# W6 and W14)
State Highway 146 Waterline Relocation (CIP# W7)
Todville Sanitary Sewer Line Replacement Project (CIP# WW4)
Wastewater Treatment Plant Upgrades Phase 2 – Clarifier (CIP# WW6)
State Highway 146 Wastewater Relocation (CIP# WW8)
Chloramine Conversion Wastewater Plan (CIP# W13)
Pine Gully and Hester Gully Waterlines (CIP# W17 and W18)

Pine Gully Wastewater Treatment Plant (CIP # WW9)*
Marvin Circle Paving and Waterline (CIP# S10)
Du Lac Trace, Waterway and Seascape Outfalls (CIP# D9)
SCADA System for Water (CIP # FAC1)

*The city had proposed a multi-phased approach to the relocation of the wastewater treatment plant in the city's CIP as noted by project WW9. Phase 1A was initiated and funded and would have allowed for a .5 MGD capacity and start of the new plant. In June 2019, a new mitigation program through the Hazard Mitigation Grant Program (HMGP) for a retrofit of the facility was determined eligible and the project was resubmitted for funding. Notification of award on this grant program is expected in the last quarter of 2019.

Certificate of Achievement

The City of Seabrook received the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the year ended September 30, 2018. This was the 40th consecutive year that the City has received this prestigious award. The year ending September 30, 2019 awards are still pending by GFOA.

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

A Certificate of Achievement is valid for a period of one year only. We believe our current report conforms to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for an award.

Acknowledgments

The preparation of this report was accomplished with the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the departments who assisted and contributed to its preparation. We would also like to thank the Mayor, members of the City Council, and the City Manager for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

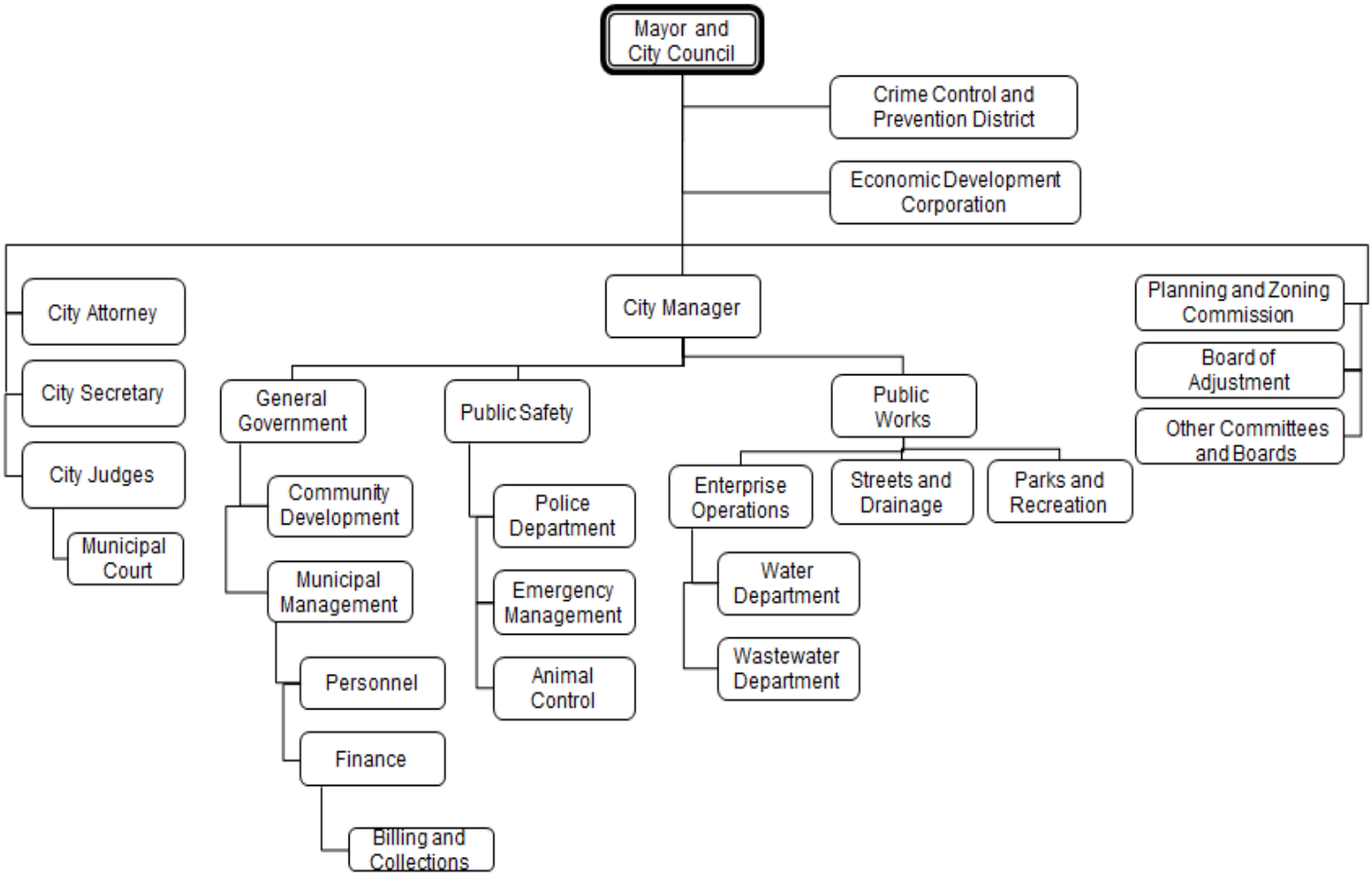
Gayle Cook
City Manager

Michael Gibbs
Director of Finance

CITY OF SEABROOK, TEXAS

ORGANIZATIONAL CHART

September 30, 2019



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CITY OF SEABROOK, TEXAS

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

September 30, 2019

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Seabrook

Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

September 30, 2018

Christopher P. Morrill

Executive Director/CEO

CITY OF SEABROOK, TEXAS

PRINCIPAL OFFICIALS

September 30, 2019

City Officials	Elective Position	Term Expires
Thomas G. Kolupski	Mayor	05/2021
Ed Klein	Council Member – Position One	05/2022
Laura Davis	Council Member – Position Two	05/2021
Jeff Larson	Council Member – Position Three	05/2022
Natalie Picha (Mayor Pro Tem)	Council Member – Position Four	05/2021
Walter "Buddy" Hammann III	Council Member – Position Five	05/2022
Joe Machol	Council Member – Position Six	05/2021

Key Staff	Position
Gayle Cook	City Manager
Sean Landis	Assistant City Manager
Michael Gibbs	Director of Finance
Robin Hicks	City Secretary
Sean Wright	Director of Public Safety
Kevin Padgett	Director of Public Services
Carolyn Webbon	Municipal Judge

FINANCIAL SECTION

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AUDITING TEXAS GOVERNMENTS WITH EXCELLENCE

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Seabrook, Texas (the "City"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Houston · Austin · Bellville · Woodville
3210 Bingle Rd., Ste. 300, Houston, TX 77055 // P: 713.263.1123 // info@txauditors.com // www.texasauditors.com
AICPA GAQC Member

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of changes in net pension and total other postemployment benefits liabilities and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining statements and schedules, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 13, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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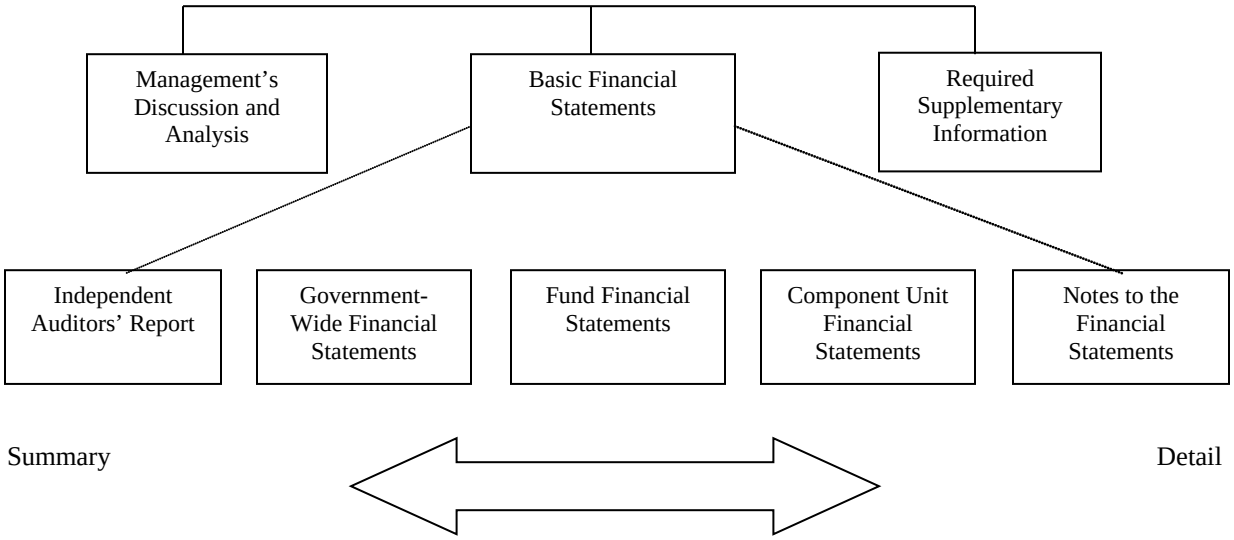
The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Seabrook, Texas (the "City") for the year ending September 30, 2019. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City's basic financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



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

Government-Wide Statements

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

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

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

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

1. *Governmental Activities* – Most of the City's basic services are reported here including public safety, public works, economic development, and general administrative services. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.

2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, sewer, and sanitation services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The crime control and prevention district, although also legally separate, functions for all practical purposes as a department of the City and, therefore, has been included as an integral part of the primary government.

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains 10 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, and debt service fund, which are considered to be major funds for reporting

purposes as well as the capital projects fund which is not considered major but the City has elected to present it as major due to its significance.

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

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 its water, sewer, and sanitation operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for the management of its public safety vehicles and equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $57,074,287 as of September 30, 2019. This compares with $54,998,706 from the prior fiscal year. The largest portion of the City's net position, 62 percent, reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

SUMMARY OF STATEMENT OF NET POSITION

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Current and other assets	$ 17,451,289	$ 16,099,446	$ 12,830,110	$ 12,961,900	$ 30,281,399	$ 29,061,346
Capital assets, net	44,732,540	45,508,558	22,221,517	21,845,750	66,954,057	67,354,308
Total Assets	62,183,829	61,608,004	35,051,627	34,807,650	97,235,456	96,415,654
Deferred charge on refunding	251,852	288,961	25,012	-	276,864	288,961
Deferred outflows - pensions	2,458,125	1,088,428	362,445	183,120	2,820,570	1,271,548
Deferred outflows - OPEB	16,578	19,844	-	-	16,578	19,844
Total Deferred Outflows of Resources	2,726,555	1,397,233	387,457	183,120	3,114,012	1,580,353
Long-term liabilities	24,903,629	23,622,558	15,995,203	16,311,753	40,898,832	39,934,311
Other liabilities	986,336	981,760	1,297,293	1,134,277	2,283,629	2,116,037
Total Liabilities	25,889,965	24,604,318	17,292,496	17,446,030	43,182,461	42,050,348
Deferred inflows - pensions	74,444	803,565	95	143,388	74,539	946,953
Deferred inflows - OPEB	18,181	-	-	-	18,181	-
Total Deferred Inflows of Resources	92,625	803,565	95	143,388	92,720	946,953
Net Position:						
Net investment in capital assets	27,201,835	26,318,825	8,283,669	8,812,420	35,485,504	35,131,245
Restricted	4,672,760	4,757,197	3,145,604	2,674,389	7,818,364	7,431,586
Unrestricted	7,053,199	6,521,332	6,717,220	5,914,543	13,770,419	12,435,875
Total Net Position	$ 38,927,794	$ 37,597,354	$ 18,146,493	$ 17,401,352	$ 57,074,287	$ 54,998,706

A portion of the primary government's net position, $7,818,364 or 14 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, $13,770,419 or 24 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position increased by $2,075,581 as compared to the prior year. This increase is largely the result of increases in property tax revenue and investment earnings.

As of September 30, 2019, the City reported deferred outflows and inflows of resources related to its pension plan of $2,820,570 and $74,539, respectively. In addition, the City reported a net pension liability of $6,491,143, which is part of the $40,898,832 reported in long-term liabilities. The detail of these amounts is further discussed in the notes to the financial statements.

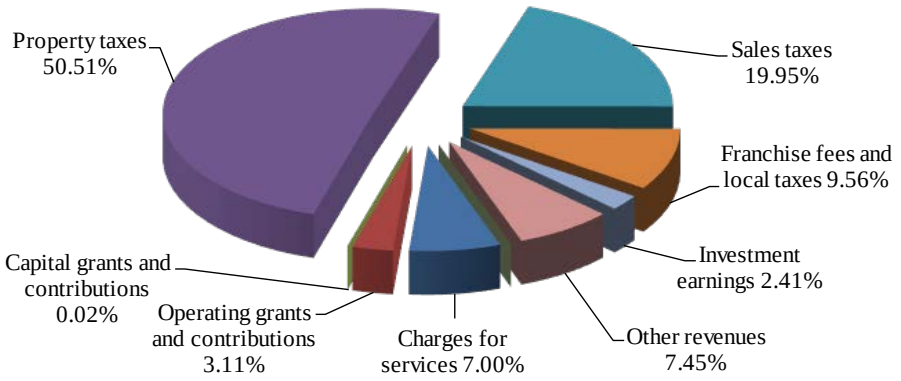
Statement of Activities

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

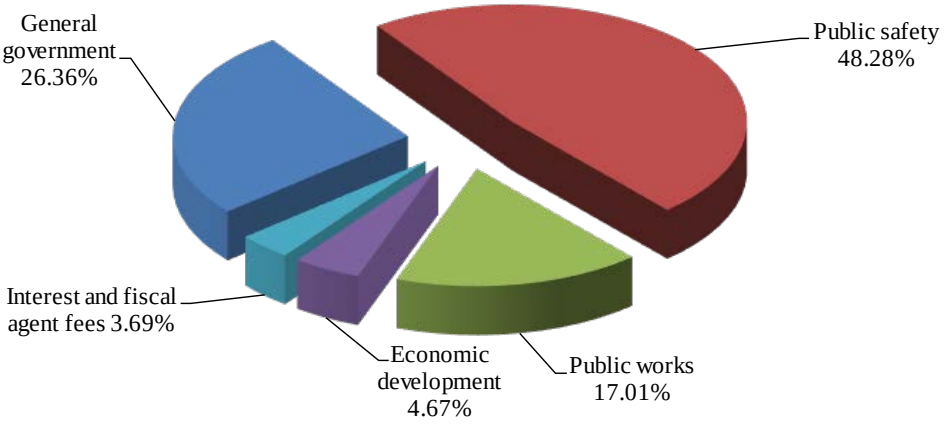
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Revenues						
Program revenues:						
Charges for services	$ 973,666	$ 1,035,570	$ 7,905,427	$ 8,000,219	$ 8,879,093	$ 9,035,789
Operating grants and contributions	432,945	487,907	-	-	432,945	487,907
Capital grants and contributions	2,453	294,298	303,446	427,662	305,899	721,960
General revenues:						
Property taxes	7,027,755	6,975,344	-	-	7,027,755	6,975,344
Sales taxes	2,776,366	2,946,279	-	-	2,776,366	2,946,279
Franchise fees and local taxes	1,329,757	1,426,481	298,573	299,010	1,628,330	1,725,491
Investment earnings	334,911	229,697	263,537	203,399	598,448	433,096
Other revenues	1,036,348	1,064,992	224,385	212,727	1,260,733	1,277,719
Total Revenues	13,914,201	14,460,568	8,995,368	9,143,017	22,909,569	23,603,585
Expenses						
General government	3,890,689	3,900,540	-	-	3,890,689	3,900,540
Public safety	7,124,146	6,629,558	-	-	7,124,146	6,629,558
Public works	2,509,691	2,438,285	-	-	2,509,691	2,438,285
Economic development	689,091	812,566	-	-	689,091	812,566
Interest and fiscal agent fees	543,882	592,887	-	-	543,882	592,887
Utilities	-	-	6,076,489	6,035,659	6,076,489	6,035,659
Total Expenses	14,757,499	14,373,836	6,076,489	6,035,659	20,833,988	20,409,495
Excess (Deficiency) of Revenues Over (Under) Expenses	(843,298)	86,732	2,918,879	3,107,358	2,075,581	3,194,090
Transfers	2,173,738	1,822,415	(2,173,738)	(1,822,415)	-	-
Change in Net Position	1,330,440	1,909,147	745,141	1,284,943	2,075,581	3,194,090
Beginning net position	37,597,354	35,688,207	17,401,352	16,116,409	54,998,706	51,804,616
Ending Net Position	$ 38,927,794	$ 37,597,354	$ 18,146,493	$ 17,401,352	$ 57,074,287	$ 54,998,706

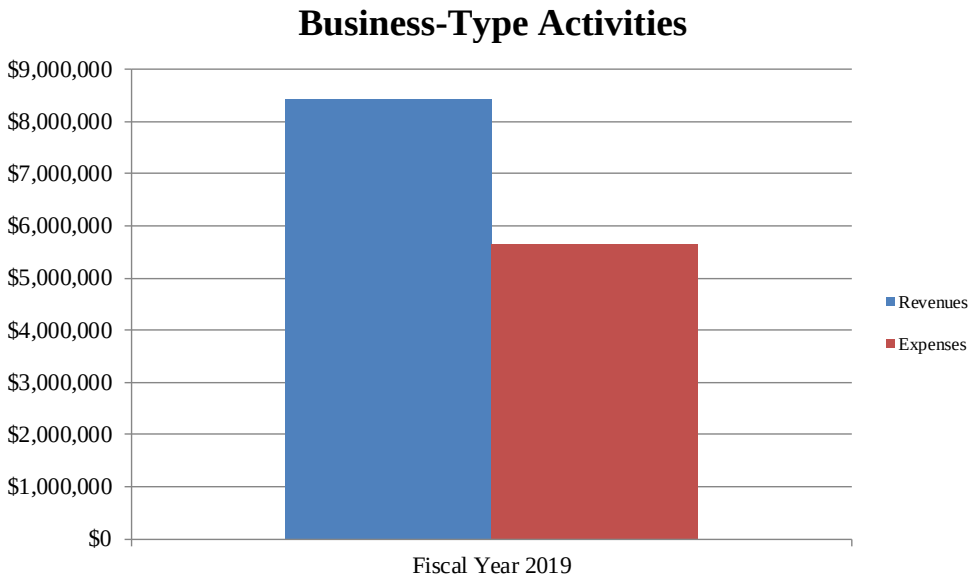
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

Governmental Revenues



Governmental Expenses





For the year ended September 30, 2019, revenues from governmental activities totaled $13,914,201, which is a decrease of $546,367 from the prior year. This decrease is primarily related to a decrease in sales tax revenue as a result of businesses closing due to the State Highway 146 project as well as decreases in capital grants and contributions related to decreases in assets purchased for governmental activities by others.

For the year ended September 30, 2019, expenses from governmental activities totaled $14,757,499, which is an increase of $383,663 from the prior year. This change can be attributed to increases in public safety and public works expenses. Public safety expenses increased in the current year primarily due to increases in new staff and salaries. Public works expenses primarily increased related to the hire of new employees, as well as new repair projects within the City.

Operating revenues for business-type activities decreased from the prior year. Charges for services decreased by $94,792, or 1 percent, because of a decrease in water consumption during fiscal year 2019. Operating expenditures for business-type activities increased from the prior year. Utilities expenses increased by $40,830 primarily due to increases in salaries and wages as well as new repair projects during the year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of $15,043,924. Of this, $130,221 is nonspendable, $5,023,848 is restricted for various purposes, $841,637 is committed for a stabilization fund to cover potential future budget shortfalls, $1,600,000 is committed for a sound mitigation project, and $522,655 is assigned for capital projects. The remaining balance of $6,925,563 is unassigned in the general fund.

There was a net increase in the combined fund balance of $726,053 compared to the prior year, primarily due to a sale of land within the general fund.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was $6,925,563, while total fund balance reached $9,434,659. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 62 percent of total general fund expenditures, while total fund balance represents 85 percent of the same amount. The general fund demonstrated an overall increase of $500,593, primarily due to a sale of land.

The debt service fund has a total fund balance of $1,795,562, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was $9,843, which is due to higher than anticipated interest income.

The fund balance in the capital projects fund was $873,743, which is an increase of $270,297 when compared to the prior year. This increase is attributed to transfers in from the general fund.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned decrease in budgeted fund balance in the amount of $861,053 in the general fund. However, the net change in fund balance increased by $481,358, resulting in a positive variance of $1,342,411 from budgeted as amended over actual. This was largely due to lower than anticipated expenditures across all functions.

Actual general fund revenues were more than original and amended budgeted revenues by $416,912 during 2019. This variance is primarily due to an increase in other revenue sources than originally anticipated as well as more sales tax revenue than originally anticipated.

Actual expenditures were less than original and amended budgeted expenditures by $456,372 during 2019. This variance is primarily due to less public safety expenses than anticipated as a result of decreases in costs related to the municipal court. This was offset by a positive variance in public works primarily related to projects that were budgeted for but did not take place in the fiscal year.

CAPITAL ASSETS

At the end of the current year, the City's governmental and business-type activities had invested $44,732,540 and $22,221,517, respectively, in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net decrease of $776,018 for governmental activities and a net increase of $375,767 for business-type activities.

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

- Completion of the Brookwood Court and Lakepointe Forest Drive streets for $329,405
- Police vehicles and related equipment for $331,944

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

LONG-TERM DEBT

At the end of the current year, the City had total bonds and certificates of obligation outstanding of $32,116,195. Of this amount, $18,225,000 was general obligation debt, $2,039,000 was revenue bond debt, $8,220,000 was certificates of obligation, and the remaining $3,632,195 was a loan from the State Infrastructure Bank.

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

Current underlying ratings on debt issues are as follows:

Debt Type	Moody's Investors Services	Standard and Poor's
General obligation bonds	Aa3	AA
Revenue bonds	Aa3	AA

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council provided staff with their vision for the future of the City and specific policy guidance with which to propose the fiscal year 2020 budget. The City's general fund revenue is principally made up of property taxes, sales taxes, and franchise fees. The revenue projections for the budget are based on historical data and estimates from the finance department and individual department heads, but they have been projected conservatively.

City Council approved a general fund budget of $14 million for the 2020 fiscal year. The 2020 budget incorporated the same tax rate as the 2019 fiscal year of $0.5519831 per $100 of valuation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michael Gibbs, Director of Finance, City Hall, 1700 First Street, Seabrook, TX, 77586; telephone (281) 291-5677; or for general City information, visit the City's website at www.seabrooktx.gov.

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BASIC FINANCIAL STATEMENTS

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CITY OF SEABROOK, TEXAS

STATEMENT OF NET POSITION

September 30, 2019

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
Assets				
Cash and cash equivalents	$ 15,913,688	$ 2,485,568	$ 18,399,256	$ 2,858,674
Receivables, net of allowances	1,405,243	955,439	2,360,682	183,165
Due from component unit	2,137	-	2,137	-
Prepaids and other assets	130,221	260	130,481	3,000
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	9,388,843	9,388,843	-
	17,451,289	12,830,110	30,281,399	3,044,839
Capital assets:				
Nondepreciable capital assets	15,343,588	7,813,000	23,156,588	-
Depreciable capital assets, net	29,388,952	14,408,517	43,797,469	-
	44,732,540	22,221,517	66,954,057	-
Total Assets	62,183,829	35,051,627	97,235,456	3,044,839
Deferred Outflows of Resources				
Deferred charge on refunding	251,852	25,012	276,864	-
Deferred outflows - pensions	2,458,125	362,445	2,820,570	-
Deferred outflows - OPEB	16,578	-	16,578	-
Total Deferred Outflows of Resources	2,726,555	387,457	3,114,012	-
Liabilities				
Accounts payable and accrued liabilities	906,933	1,280,526	2,187,459	15,670
Due to primary government	-	-	-	2,137
Unearned revenue	41,125	-	41,125	-
Accrued bond interest	38,278	16,767	55,045	-
Noncurrent liabilities:				
Portion due within one year	1,871,301	778,442	2,649,743	-
Portion due in more than one year	23,032,328	15,216,761	38,249,089	-
Total Liabilities	25,889,965	17,292,496	43,182,461	17,807
Deferred Inflows of Resources				
Deferred inflows - pensions	74,444	95	74,539	-
Deferred inflows - OPEB	18,181	-	18,181	
Total Deferred Inflows of Resources	92,625	95	92,720	-
Net Position				
Net investment in capital assets	27,201,835	8,283,669	35,485,504	-
Restricted for:				
Debt service	1,795,562	-	1,795,562	-
Public safety	1,309,781	-	1,309,781	-
Parks	143,741	-	143,741	-
Tourism	1,208,165	-	1,208,165	-
Governmental programming	200,964	-	200,964	-
Capital projects	-	3,145,604	3,145,604	-
Animal control	14,547	-	14,547	-
Economic development	-	-	-	3,027,032
Unrestricted	7,053,199	6,717,220	13,770,419	-
Total Net Position	$ 38,927,794	$ 18,146,493	$ 57,074,287	$ 3,027,032

See Notes to Financial Statements.

CITY OF SEABROOK, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	$ 3,890,689	$ 126,093	$ -	$ -
Public safety	7,124,146	556,447	432,945	-
Public works	2,509,691	291,126	-	2,453
Economic development	689,091	-	-	-
Interest and fiscal agent fees	543,882	-	-	-
Total Governmental Activities	14,757,499	973,666	432,945	2,453
Business-Type Activities				
Utilities	6,076,489	7,905,427	-	303,446
Total Business-Type Activities	6,076,489	7,905,427	-	303,446
Total Primary Government	$ 20,833,988	$ 8,879,093	$ 432,945	$ 305,899
Component Unit				
Seabrook Economic Development Corp	$ 1,338,805	$ -	$ -	$ -
Total Component Unit	$ 1,338,805	$ -	$ -	$ -

General Revenues:	
Property taxes	
Sales taxes	
Franchise fees and local taxes	
Other taxes	
Investment revenue	
Other revenues	
Gain on sale of capital asset	
Transfers	
Total General Revenues, and Transfers	
Change in Net Position	
Beginning net position	
Ending Net Position	

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
$ (3,764,596)	$ -	$ (3,764,596)	$ -
(6,134,754)	-	(6,134,754)	-
(2,216,112)	-	(2,216,112)	-
(689,091)	-	(689,091)	-
(543,882)	-	(543,882)	-
(13,348,435)	-	(13,348,435)	-
-	2,132,384	2,132,384	-
-	2,132,384	2,132,384	-
(13,348,435)	2,132,384	(11,216,051)	-
-	-	-	(1,338,805)
-	-	-	(1,338,805)
7,027,755	-	7,027,755	-
2,776,366	-	2,776,366	902,077
834,213	298,573	1,132,786	-
495,544	-	495,544	-
334,911	263,537	598,448	72,581
659,939	224,385	884,324	1,200
376,409	-	376,409	-
2,173,738	(2,173,738)	-	-
14,678,875	(1,387,243)	13,291,632	975,858
1,330,440	745,141	2,075,581	(362,947)
37,597,354	17,401,352	54,998,706	3,389,979
$ 38,927,794	$ 18,146,493	$ 57,074,287	$ 3,027,032

CITY OF SEABROOK, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Governmental
Assets				
Cash and cash equivalents	$ 9,401,440	$ 1,795,247	$ 875,272	$ 2,667,022
Receivables, net	1,009,346	78,325	-	317,572
Due from other funds	-	317	-	36,153
Due from component unit	2,137	-	-	-
Prepaid items	67,459	-	-	62,762
Total Assets	$ 10,480,382	$ 1,873,889	$ 875,272	$ 3,083,509
Liabilities				
Accounts payable and accrued liabilities	$ 675,063	$ -	$ 1,529	$ 102,424
Due to other funds	36,470	-	-	-
Due to others	127,917	-	-	-
Unearned revenue	-	-	-	41,125
Total Liabilities	839,450	-	1,529	143,549
Deferred Inflows of Resources				
Unavailable revenue - property taxes	206,273	78,327	-	-
Fund Balances				
Nonspendable:				
Prepaids	67,459	-	-	62,762
Restricted for:				
Debt service	-	1,795,562	-	-
Public safety	-	-	-	1,309,781
Parks	-	-	-	143,741
Tourism	-	-	-	1,208,165
Governmental programming	-	-	-	200,964
Animal control	-	-	-	14,547
Capital projects	-	-	351,088	-
Committed for:				
Stabilization fund	841,637	-	-	-
Sound mitigation project	1,600,000	-	-	-
Assigned for:				
Capital projects	-	-	522,655	-
Unassigned	6,925,563	-	-	-
Total Fund Balances	9,434,659	1,795,562	873,743	2,939,960
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 10,480,382	$ 1,873,889	$ 875,272	$ 3,083,509

See Notes to Financial Statements.

	Total Funds
$	14,738,981
	1,405,243
	36,470
	2,137
	130,221
$	16,313,052
$	779,016
	36,470
	127,917
	41,125
	984,528
	284,600
	130,221
	1,795,562
	1,309,781
	143,741
	1,208,165
	200,964
	14,547
	351,088
	841,637
	1,600,000
	522,655
	6,925,563
	15,043,924
$	16,313,052

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CITY OF SEABROOK, TEXAS

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

September 30, 2019

Total fund balances - governmental funds	$	15,043,924
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		
Capital assets, nondepreciable		15,343,588
Capital assets, net depreciable		28,861,048
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		284,600
Internal service funds are used by management to charge the costs of certain capital assets and maintenance to individual funds. The assets and liabilities of the internal service fund is included in the governmental activities in the Statement of Net Position.		
Unrestricted net position		1,174,707
Net investment in capital assets		527,904
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Accrued interest payable		(38,278)
Deferred charge on refunding		251,852
Deferred outflows - pensions		2,458,125
Deferred inflows - pensions		(74,444)
Deferred outflows - OPEB		16,578
Deferred inflows - OPEB		(18,181)
Noncurrent liabilities due in one year		(1,871,301)
Noncurrent liabilities due in more than one year		(23,032,328)
Net Position of Governmental Activities	$	38,927,794

See Notes to Financial Statements.

CITY OF SEABROOK, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Governmental
Revenues				
Property taxes	$ 5,104,758	$ 1,884,255	$ -	$ -
Sales taxes	1,947,035	-	-	829,331
Franchise fees and local taxes	792,656	-	-	41,557
Other taxes	-	-	-	495,544
Licenses and permits	291,126	-	-	-
Fines and forfeitures	510,511	-	-	45,936
Charges for services	84,266	-	-	41,827
Intergovernmental	432,945	-	-	2,453
Investment revenue	221,041	61,265	20,377	54,589
Other revenue	388,101	-	-	210,897
Total Revenues	9,772,439	1,945,520	20,377	1,722,134
Expenditures				
Current:				
General government	3,405,490	-	-	17,305
Public safety	5,641,744	-	-	750,161
Public works	2,060,525	-	-	54
Economic development	-	-	-	681,919
Capital outlay	-	-	100,825	118,628
Debt service:				
Principal	-	1,410,000	-	-
Interest and fiscal agent fees	-	525,677	-	-
Total Expenditures	11,107,759	1,935,677	100,825	1,568,067
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,335,320)	9,843	(80,448)	154,067
Other Financing Sources (Uses)				
Refunding bonds issued	-	-	-	-
Sale of capital assets	496,578	-	-	-
Transfers in	1,690,080	-	350,745	-
Transfers (out)	(350,745)	-	-	(208,747)
Total Other Financing Sources (Uses)	1,835,913	-	350,745	(208,747)
Net Change in Fund Balances	500,593	9,843	270,297	(54,680)
Beginning fund balances	8,934,066	1,785,719	603,446	2,994,640
Ending Fund Balances	$ 9,434,659	$ 1,795,562	$ 873,743	$ 2,939,960

See Notes to Financial Statements.

	Total Funds
$	6,989,013
	2,776,366
	834,213
	495,544
	291,126
	556,447
	126,093
	435,398
	357,272
	598,998
	13,460,470
	3,422,795
	6,391,905
	2,060,579
	681,919
	219,453
	1,410,000
	525,677
	14,712,328
	(1,251,858)
	-
	496,578
	2,040,825
	(559,492)
	1,977,911
	726,053
	14,317,871
$	15,043,924

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City of Seabrook, Texas

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

For the Year Ended September 30, 2019

Net changes in fund balances - total governmental funds	$	726,053
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		1,111,861
Capital contributions		-
Disposal of capital assets, net		(128,077)
Depreciation expense		(1,759,802)
The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Net Position.		
Principal payments		1,410,000
Amortization of premium		15,840
Amortization of deferred charges		(37,109)
Accrued interest		3,064
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.		38,742
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		(44,996)
Net pension liability		(2,665,888)
Total OPEB liability		3,973
Change in deferred outflows - pensions		(76,569)
Change in deferred inflows - pensions		2,175,387
Change in deferred outflows - OPEB		(3,266)
Change in deferred inflows - OPEB		(18,181)
Internal service funds are used by management to charge the costs of certain capital assets and maintenance to individual funds. The net revenue (expense) is reported with governmental activities.		579,408
Change in Net Position of Governmental Activities	$	1,330,440

See Notes to Financial Statements.

CITY OF SEABROOK, TEXAS

STATEMENT OF NET POSITION (Page 1 of 2)

PROPRIETARY FUNDS

September 30, 2019

	Business-Type Activities	Governmental Activities
	Utility Enterprise	Internal Service
Assets		
Current assets		
Cash and cash equivalents	$ 2,485,568	$ 1,174,707
Accounts receivable (net of allowance for uncollectibles)	955,439	-
Restricted cash and cash equivalents	9,388,843	-
Prepaid expense	260	-
Total Current Assets	12,830,110	1,174,707
Noncurrent assets		
Capital assets:		
Land	1,605,575	-
Buildings	3,119,466	-
Infrastructure	20,081,226	-
Equipment	2,976,376	744,102
Construction in progress	6,207,425	-
Less accumulated depreciation	(11,768,551)	(216,198)
Total Capital Assets (Net)	22,221,517	527,904
Total Noncurrent Assets	22,221,517	527,904
Total Assets	$ 35,051,627	$ 1,702,611
Deferred Outflows of Resources		
Deferred charge on refunding	25,012	-
Deferred outflows - pensions	362,445	-
Total Deferred Outflows of Resources	387,457	-

CITY OF SEABROOK, TEXAS

STATEMENT OF NET POSITION (Page 2 of 2)
PROPRIETARY FUNDS

September 30, 2019

	Business-Type Activities	Governmental Activities
	Utility Enterprise	Internal Service
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 665,442	$ -
Accrued interest payable	16,767	-
Customer deposits	615,084	-
Bonds payable - current	653,000	-
Notes payable - current	69,941	-
Compensated absences	55,501	-
Total Current Liabilities	2,075,735	-
Noncurrent liabilities		
Bonds payable - noncurrent (net of premiums and discounts)	10,680,440	-
Note payable - noncurrent	3,562,254	-
Net pension liability	930,382	-
Compensated absences	43,685	-
Total Noncurrent Liabilities	15,216,761	-
Total Liabilities	17,292,496	-
Deferred Inflows of Resources		
Deferred inflows - pensions	95	-
Total Deferred Inflows of Resources	95	-
Net Position		
Net investment in capital assets	8,283,669	527,904
Restricted for:		
Capital projects - impact fees	3,145,604	-
Unrestricted net position	6,717,220	1,174,707
Total Net Position	$ 18,146,493	$ 1,702,611

See Notes to Financial Statements.

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CITY OF SEABROOK, TEXAS

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

For the Year Ended September 30, 2019

	Business-Type Activities	Governmental Activities
	Utility Enterprise	Internal Service
Operating Revenues		
Water service	$ 3,001,018	$ -
Sewer service	2,785,475	-
Sanitation service	2,118,934	-
Franchise fees	298,573	-
Other revenue	224,385	60,941
Total Operating Revenues	8,428,385	60,941
Operating Expenses		
Personnel services	1,275,871	-
Supplies and materials	46,779	-
Contractual services	3,272,818	-
Repairs and maintenance	443,870	-
Depreciation	600,061	168,956
Total Operating Expenses	5,639,399	168,956
Operating Income (Loss)	2,788,986	(108,015)
Nonoperating Revenues (Expenses)		
Gain on sale of capital assets	-	29,831
Investment revenue	263,537	38,580
Interest expense and fiscal charges	(437,090)	-
Total Nonoperating Revenues (Expenses)	(173,553)	68,411
Income (Loss) Before Contributions and Transfers	2,615,433	(39,604)
Contributions and Transfers		
Capital contribution - impact fees	303,446	88,661
Transfers in	-	692,405
Transfers (out)	(2,173,738)	-
Total Contributions and Transfers	(1,870,292)	781,066
Change in Net Position	745,141	741,462
Beginning net position	17,401,352	961,149
Ending Net Position	$ 18,146,493	$ 1,702,611

See Notes to Financial Statements.

CITY OF SEABROOK, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2019

	Business-Type Activities	Governmental Activities
	Utility Enterprise	Internal Service
Cash Flows from Operating Activities		
Receipts from customers and users	$ 8,360,658	$ 60,941
Payments to suppliers	(3,668,336)	-
Payments to employees	(1,181,546)	-
Net Cash Provided By Operating Activities	3,510,776	60,941
Cash Flows from Noncapital Financing Activities		
Transfers from (to) other funds, net	(2,173,738)	692,405
Net Cash Provided (Used) by Noncapital Financing Activities	(2,173,738)	692,405
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(975,828)	(331,010)
Proceeds from sale of capital assets	-	29,831
Interest and fiscal charges	(429,985)	-
Principal paid on capital debt	(697,805)	-
Capital contribution - impact fees	303,446	88,661
Net Cash (Used) by Capital and Related Financing Activities	(1,800,172)	(212,518)
Cash Flows from Investing Activities		
Interest on investments	263,537	38,580
Net Cash Provided by Investing Activities	263,537	38,580
Net Increase (Decrease) in Cash and Cash Equivalents	(199,597)	579,408
Cash and cash equivalents, beginning of year	12,074,008	595,299
Ending Cash and Cash Equivalents	$ 11,874,411	$ 1,174,707
Ending Cash and Cash Equivalents:		
Unrestricted cash and cash equivalents	$ 2,485,568	$ 1,174,707
Restricted cash and cash equivalents	9,388,843	-
Ending Cash and Cash Equivalents	$ 11,874,411	$ 1,174,707

See Notes to Financial Statements.

CITY OF SEABROOK, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2019

	Business-Type Activities	Governmental Activities
	Utility Enterprise	Internal Service
Reconciliation of Operating Income (Loss)		
to Net Cash Provided (Used) by Operating Activities		
Operating income (Loss)	$ 2,788,986	$ (108,015)
Adjustments to reconcile operating income (Loss)		
to net cash provided by operating activities:		
Depreciation	600,061	168,956
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Current Assets:		
Accounts receivable	(67,727)	-
Prepaids	(80)	-
Deferred outflows - pensions	(179,325)	-
Increase (Decrease) in Current Liabilities:		
Accounts payable and accrued liabilities	60,642	-
Compensated absences	(13,175)	-
Customer deposits	36,031	-
Net pension liability	430,118	-
Deferred inflows - pensions	(143,293)	-
Net Cash Provided by Operating Activities	$ 3,510,776	$ 60,941

See Notes to Financial Statements.

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Seabrook, Texas (the "City") was incorporated on October 14, 1961 and adopted the "Home Rule Charter" on August 11, 1979, pursuant to the laws of the State of Texas which provide for a Council-Manager form of government.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the City Council for the administration of all the affairs of the City. The City Manager is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety to include police and fire services, municipal court, drainage, building and code inspection, planning, engineering, street repair and maintenance, park maintenance, recreational activities for citizens, and general administrative services.

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

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

Discretely Presented Component Unit

Seabrook Economic Development Corporation

Seabrook Economic Development Corporation (the "Corporation") has been included in the reporting entity as a discretely presented component unit. The Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors (the "Board") is appointed by, and serves at the discretion of, the City Council. The

Corporation's Board is comprised of the Mayor, a City Council member, and five members who are not employees or City officials, all of whom are appointed by City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position of the Corporation shall be conveyed to the City. The operations of the Corporation are presented as a governmental fund type. Separate financial statements of the Corporation may be obtained from the finance department of the City.

Blended Component Unit

Crime Control and Prevention District

The Seabrook Crime Control and Prevention District (the "District") has been included in the reporting entity as a blended component unit. The District was created by the City under the authority granted by Chapter 36 of the Texas Local Government Code and Section 323.105 of the Texas Tax Code for the purpose of strengthening and enhancing crime control activities of the City. Management of the City has operational responsibility for the component unit. The District provides services exclusively to the City.

An election was held on May 7, 2005 approving the creation of the District and the collection of a one-half cent sales tax to fund its operations, effective on October 1, 2005.

The Board of Directors (the "Board") is substantively the same as City Council. Their respective positions on the Board will be held until their City Council seat is vacated, at which time the incoming elected member of City Council will fill the position on the Board. The District was to remain in existence for a period of five years and may then be extended upon approval by the voters. On May 8, 2010, voters approved the renewal of the District for a period of 20 years. In the event of dissolution, net position of the District shall be conveyed to the City.

The District is reported as a special revenue fund and does not issue separate financial statements.

B. Government-Wide Financial Statements

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

C. Basis of Presentation – Government-Wide Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these

charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

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

The City reports the following governmental funds:

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

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

The *special revenue funds* are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The special revenue funds are considered nonmajor funds for reporting purposes.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition of capital facilities and other capital assets. The capital projects fund is considered a nonmajor fund, however, the City has elected to present it as major for reporting purposes due to its significance.

The City reports the following enterprise fund:

The *enterprise fund* is used to account for the operations that provide water and wastewater collection and the construction of related facilities. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The acquisition, maintenance, and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), and other City funds.

Additionally, the City reports the following fund type:

The *internal service fund* accounts for fleet management provided to other departments on a cost-reimbursement basis.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are

made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

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

1. Cash and Cash Equivalents

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

The City maintains pooled cash and investment accounts. Each fund whose monies are deposited in the pooled cash and investment accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "cash and cash equivalents."

2. Investments

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

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

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

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased (i.e., the consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Restricted Assets

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

5. Capital Assets

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Buildings and improvements	50 years
Machinery and equipment	5 to 25 years
Water and sewer system	40 to 50 years
Infrastructure	10 to 50 years

6. Deferred Outflows/Inflows of Resources

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

Deferred outflows/inflows of resources are amortized as follows:

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

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

7. Compensated Employee Absences

Employees earn vacation based on years of service with the City. Amounts accumulated may be paid to employees upon termination of employment or during employment. Employees must take vacation within 12 months after earning it. Vacation not taken within 12 months after earning may be accumulated from one year to the next, not to exceed 240 hours.

Sick leave and long-term disability are not accrued but recognized when paid, since no liability exists upon termination of employment, with the exception of Civil Service employees. Civil Service personnel are compensated for accrued sick leave for up to 90 days upon termination of employment.

The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

8. Long-Term Obligations

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

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

9. Net Position Flow Assumption

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

10. Fund Balance Flow Assumptions

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

11. Fund Balance Policies

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

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

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

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

The City strives to maintain an unassigned fund balance equivalent to 25 percent of budgeted expenditures, based on current year expenditures. The purpose of the unassigned fund balance is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services to citizens. Should unassigned fund balance fall below the goal or have a deficiency, the City will seek to adjust budget resources in the subsequent fiscal years to restore the balance.

The City approved an ordinance to establish a stabilization fund to supplement the budget and to compensate for the potential loss of revenue caused by the future construction on State Highway (SH) 146. The stabilization fund will be used to afford the City one budget year to assess the impact of SH 146 expansion and construction, allowing the City to adjust services, personnel, and operations to cover any operating deficit due to business and/or property losses. It is the City's policy that City Council may commit fund balance for this purpose since this potential revenue shortfall is outside the normal course of the City's operations.

12. Estimates

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

13. Pensions

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

14. Other Postemployment Benefits

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

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

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes

as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital projects fund, which adopts a project length budget. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the charter in the approved budget is the department level. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2019. The hotel/motel occupancy tax fund, municipal court programs fund, park improvement fees fund, crime control and prevention district fund, public safety programs fund, and cable PEG fees fund are all special revenue funds that have adopted budgets.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2019, the City had the following investments:

Investment Type		Value	Weighted Average Maturity (Years)
TexPool		$ 30,328,030	0.09
	Total	$ 30,328,030	
Portfolio weighted average maturity			0.09

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

Credit risk. The City's investment policy limits investments in public fund investment pools rated as to investment quality not less than "A" or "AAAm," or an equivalent rating by at least one nationally recognized rating service. Investments in SEC-registered and regulated money market mutual funds must have an investment quality not less than "AAA-," or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2019, the City's investment in TexPool was rated "AAAm" by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2019, fair market values of pledged securities and FDIC coverage exceeded bank balances.

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

TexPool

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

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

B. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general fund, the debt service fund, the nonmajor governmental funds in the aggregate, and the component unit, including the applicable allowances for uncollectible accounts.

Governmental Funds

	General	Debt Service	Nonmajor	Component Unit
Property taxes	$ 323,322	$ 124,204	$ -	$ -
Sales taxes	366,313	-	151,854	182,805
Franchise fees	76,978	-	10,193	-
Other taxes	38,868	-	147,406	-
Other receivables	320,915	-	8,119	360
Less allowance	(117,050)	(45,879)	-	-
	$ 1,009,346	$ 78,325	$ 317,572	$ 183,165

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. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable - general fund	$ 206,273	$ -
Delinquent property taxes receivable - debt service fund	78,327	-
Grants and revenues prior to meeting all eligibility requirements	-	41,125
Total	$ 284,600	$ 41,125

C. Capital Assets

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

	Primary Government			
	Beginning Balance	**Increases**	**(Decreases)/ Reclassifications**	**Ending Balance**
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 14,566,587	$ 190,729	$ (150,000)	$ 14,607,316
Construction in progress	667,285	398,392	(329,405)	736,272
Total capital assets not being depreciated	15,233,872	589,121	(479,405)	15,343,588
Other capital assets:				
Infrastructure	24,552,486	266,740	-	24,819,226
Buildings and improvements	19,247,722	-		19,247,722
Machinery and equipment	9,392,078	735,405	(309,134)	9,818,349
Total other capital assets	53,192,286	1,002,145	(309,134)	53,885,297
Less accumulated depreciation for:				
Infrastructure	(11,495,810)	(538,570)	-	(12,034,380)
Buildings and improvements	(5,301,834)	(501,723)	10,837	(5,792,720)
Machinery and equipment	(6,119,956)	(719,509)	170,220	(6,669,245)
Total accumulated depreciation	(22,917,600)	(1,759,802)	181,057	(24,496,345)
Other capital assets, net	30,274,686	(757,657)	(128,077)	29,388,952
Governmental Activities Capital Assets, Net	$ 45,508,558	$ (168,536)	$ (607,482)	44,732,540
			Plus deferred loss on refunding	251,852
			Plus unspent bond proceeds	351,088
			Less associated debt	(18,133,645)
			Net Investment in Capital Assets	$ 27,201,835

Depreciation was charged to governmental functions as follows:

General government	$ 410,388
Public safety	461,512
Public works	887,902
Total Governmental Activities Depreciation Expense	$ 1,759,802

Construction in progress and remaining commitments under related construction contracts for governmental fund projects at year end are as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Contract
Old Seabrook	$ 370,604	$ 505,998	$ (135,394)
Department of Transportation weigh station	325,848	446	325,402
Marvin Circle	318,779	229,828	88,951
	$ 1,015,231	$ 736,272	$ 278,959

A summary of changes in capital assets for business-type activities for the year end is as follows:

	Beginning Balance	Increases	(Decreases)/ Reclassifications	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 1,605,575	$ -	$ -	$ 1,605,575
Construction in progress	5,319,232	888,618	(425)	6,207,425
Total capital assets not being depreciated	6,924,807	888,618	(425)	7,813,000
Other capital assets:				
Water and sewer system	20,081,226	-	-	20,081,226
Buildings and improvements	3,119,466	-	-	3,119,466
Machinery and equipment	2,928,926	112,066	(64,616)	2,976,376
Total other capital assets	26,129,618	112,066	(64,616)	26,177,068
Less accumulated depreciation for:				
Water and sewer system	(7,139,751)	(400,813)		(7,540,564)
Buildings and improvements	(2,012,186)	(79,952)		(2,092,138)
Machinery and equipment	(2,056,738)	(123,587)	44,476	(2,135,849)
Total accumulated depreciation	(11,208,675)	(604,352)	44,476	(11,768,551)
Other capital assets, net	14,920,943	(492,286)	(20,140)	14,408,517
Business-Type Activities Capital Assets, Net	$ 21,845,750	$ 396,332	$ (20,565)	22,221,517
			Plus unspent bond proceeds	1,027,787
			Less associated debt	(14,965,635)
			Net Investment in Capital Assets	$ 8,283,669

Depreciation was charged to business-type functions as follows:

Water and sewer	$ 604,352
Total Business-Type Activities Depreciation Expense	$ 604,352

Construction in progress and remaining commitments under related construction contracts for proprietary fund projects at year end are as follows:

Project Description	Authorized Contract	Contract Expenditures	Remaining Contract
Thoroughfare	$ 70,000	$ 6,300	$ 63,700
Pine Gully treatment plant	703,700	635,229	68,471
Todville sewer line	2,476,150	1,143,488	1,332,662
SH146 utility relocation	4,100,971	4,029,476	71,495
Water line expansions	2,075,699	392,932	1,682,767
	$ 9,356,520	$ 6,207,425	$ 3,149,095

D. Long-Term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance		Amounts Due Within One Year
Governmental Activities:						
Direct borrowings/placements:						
General obligation bonds	$ 18,710,000	$ -	$ (1,350,000)	$ 17,360,000		$ 1,380,000
Certificates of obligation	600,000	-	(60,000)	540,000		60,000
Deferred amounts:						
For issuance discounts/premiums	249,485	-	(15,840)	233,645		-
	19,559,485	-	(1,425,840)	18,133,645	*	1,440,000
Other liabilities:						
Net pension liability	2,894,873	2,665,888	-	5,560,761		-
Total OPEB liability	260,796	-	(3,973)	256,823		-
Compensated absences	907,404	326,548	(281,552)	952,400		431,301
Total Governmental Activities	$ 23,622,558	$ 2,992,436	$ (1,711,365)	$ 24,903,629		$ 1,871,301

Long-term debt due in more than one year	$ 23,032,328
***Debt associated with governmental activities capital assets**	$ 18,133,645

	Beginning Balance	Additions	Reductions	Ending Balance		Amounts Due Within One Year
Business-Type Activities:						
Direct borrowings/placements:						
Note - State loan	$ 3,700,000	$ -	$ (67,805)	$ 3,632,195		$ 69,941
Revenue bonds	2,209,000	-	(170,000)	2,039,000		183,000
Bonds, notes, and other payables:						
General obligation bonds	1,000,000	-	(135,000)	865,000		140,000
Certificates of obligation	8,005,000	-	(325,000)	7,680,000		330,000
Deferred amounts:						
For issuance discounts/premiums	785,128	-	(35,688)	749,440		-
	15,699,128	-	(733,493)	14,965,635	*	722,941
Other liabilities:						
Net pension liability	500,264	430,118	-	930,382		-
Compensated absences	112,361	53,580	(66,755)	99,186		55,501
Total Business-Type Activities	$ 16,311,753	$ 483,698	$ (800,248)	$ 15,995,203		$ 778,442
			Long-term debt due in more than one year	$ 15,216,761		
			***Debt associated with business-type activities capital assets**	$ 14,965,635		

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

The City's long-term debt includes all outstanding bonded debt secured by the full faith and credit of the City. The bonds are certificates of obligation and general obligation bonds that are secured by the full faith and credit of the City and are paid from taxes levied on all taxable property located within the City.

The following is a summary of the terms of general obligation bonds, certificates of obligation, and revenue bonds outstanding as of September 30, 2019:

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Bonds		
Series 2003	4.40%	$ 2,085,000
Series 2013 refunding	1.86%	2,890,000
Series 2015	2.00-3.25%	7,395,000
Series 2017 refunding	1.96%	4,990,000
Total General Obligation Bonds		17,360,000
Certificates of Obligation		
Series 2010	3.642%	540,000
Total Certificates of Obligation		540,000
Total Governmental Activities Long-Term Debt		$ 17,900,000
Business-Type Activities		
General Obligation Bonds		
Series 2013 refunding	1.86%	$ 865,000
Total General Obligation Bonds		865,000
Certificates of Obligation		
Series 2016	2.13%	2,060,000
Series 2016A	2.00%	5,620,000
Total Certificates of Obligation		7,680,000
Revenue Bonds		
Series 2003 refunding	4.45%	830,000
Series 2008	4.12%	1,209,000
Total Revenue Bonds		2,039,000
State Loan		
State Infrastructure Bank Loan 2018	3.15%	$ 3,632,195
Total State Loan		3,632,195
Total Business-Type Activities Long-Term Debt		$ 14,216,195

Annual debt service requirements to retire outstanding obligations and direct borrowings are as follows:

Year Ending	Governmental Activities Direct borrowings/placement: Principal	Governmental Activities Direct borrowings/placement: Interest	Business-Type Activities Direct borrowings/placement: Principal	Business-Type Activities Direct borrowings/placement: Interest	Business-Type Activities Principal	Business-Type Activities Interest
2020	$ 1,440,000	$ 480,450	$ 252,941	$ 200,059	$ 470,000	$ 269,967
2021	1,480,000	444,004	263,144	189,868	475,000	260,562
2022	1,515,000	406,337	274,416	179,261	485,000	251,056
2023	1,555,000	367,539	372,460	166,767	495,000	239,494
2024	1,595,000	326,280	386,735	152,501	510,000	227,689
2025-2029	6,435,000	1,032,540	1,994,801	506,220	2,110,000	954,757
2030-2034	3,880,000	366,105	1,107,952	249,868	1,680,000	636,141
2035-2039	-	-	1,018,746	65,425	1,595,000	341,400
2040-2042	-	-	-	-	725,000	43,800
Total	$ 17,900,000	$ 3,423,255	$ 5,671,195	$ 1,709,969	$ 8,545,000	$ 3,224,866

Federal Arbitrage

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

E. Interfund Transactions

The composition of interfund balances as of year end was as follows:

Receivable Fund	Payable Fund		Amounts
Debt service	General		$ 317
Nonmajor governmental	General		36,153
		Total	$ 36,470

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

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

Transfer Out	Transfer In		Amounts
General	Capital projects		350,745
Utility	General		1,690,080
Utility	Internal service		483,658
Nonmajor governmental	Internal service		208,747
		Total	$ 2,733,230

Transfers to the general fund from the utility fund were subsidies for administrative expenditures. Other transfers between funds are utilized to move unrestricted fund revenues to finance various programs that must be accounted for in other funds in accordance with budgetary authorizations, including amounts provided as matching funds for grant programs and governmental expenditures.

F. Restricted Assets

The utility enterprise fund has restricted certain cash and investments for customer deposits and construction.

IV. OTHER INFORMATION

A. Risk Management

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

The City also provides workers' compensation insurance through the TML Workers' Compensation Fund (the "Fund"). Workers' compensation premiums are subject to change when audited by the Fund. At September 30, 2019, the City believed the amounts paid on workers' compensation would not change significantly from the amounts recorded.

B. Contingent Liabilities

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

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

C. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the "Board"). Although the Governor, with the advice and consent of the

Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report 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 benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member's deposits and interest.

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

	2019	2018
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
	100% Repeating	100% Repeating
Updated service credit	Transfers	Transfers
Annuity increase (to retirees)	30% of CPI Repeating	30% of CPI Repeating

Employees Covered by Benefit Terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits		73
Inactive employees entitled to, but not yet receiving, benefits		40
Active employees		95
	Total	208

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rate for the City was 15.57 percent and 15.96 percent in calendar years 2019 and 2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019 were $1,046,439, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
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, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and annuity purchase rate are based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the EAN actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.30%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.39%
Real Return	10.00%	3.78%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.56%
Private Equity	5.00%	7.75%
Total	100.00%	

Discount Rate

The discount rate used to measure the TPL was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the 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 TPL.

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability (A)	**Plan Fiduciary Net Position (B)**	**Net Pension Liability (A) - (B)**
Changes for the year:			
Service cost	$ 1,039,984	$ -	$ 1,039,984
Interest	2,378,239	-	2,378,239
Changes in current period benefits	-	-	-
Difference between expected and actual experience	136,392	-	136,392
Changes in assumptions	-	-	-
Contributions - employer	-	1,001,258	(1,001,258)
Contributions - employee	-	439,538	(439,538)
Net investment income	-	(962,606)	962,606
Benefit payments, including refunds of employee contributions	(1,652,132)	(1,652,132)	-
Administrative expense	-	(18,609)	18,609
Other changes	-	(972)	972
Net Changes	1,902,483	(1,193,523)	3,096,006
Balance at December 31, 2017	35,539,241	32,144,104	3,395,137
Balance at December 31, 2018	$ 37,441,724	$ 30,950,581	$ 6,491,143

Sensitivity of the NPL to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	$ 11,460,950	$ 6,491,143	$ 2,372,296

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/Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2019, the City recognized net pension expense of $1,723,565.

At September 30, 2019, 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	$ 311,172	$ 74,539
Changes in actuarial assumptions	93,081	-
Difference between projected and actual investment earnings	1,654,322	-
Contributions subsequent to the measurement date	761,995	-
Total	$ 2,820,570	$ 74,539

$761,995 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 NPL for the fiscal year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30:	Pension Expense
2019	$ 809,547
2020	297,185
2021	232,790
2022	644,515
2023	-
Thereafter	-
Total	$ 1,984,037

D. Other Postemployment Benefits

TMRS – Supplemental Death Benefit

Plan Description

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

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

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

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2018 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	51
Inactive employees entitled to, but not yet receiving, benefits	1
Active employees	95
Total	147

Total OPEB Liability

The City's total OPEB liability of $256,823 was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.71%*
Retirees' share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates-service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Changes in the Total OPEB Liability

	Total OPEB Liability
Changes for the year:	
Service cost	$ 10,638
Interest	8,777
Differences between expected and actual experience	(1,835)
Changes of assumptions	(19,676)
Benefit payments*	(1,877)
Net Changes	(3,973)
Beginning balance	260,796
Ending Balance	$ 256,823

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

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

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

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

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

	1% Decrease in Discount Rate (2.71%)	Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
City's Total OPEB Liability	$ 309,657	$ 256,823	$ 215,634

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

At September 30, 2019, 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
Changes in actuarial assumptions	$ 15,112	$ 16,630
Difference between expected and actual experience	-	1,551
Contributions subsequent to the measurement date	1,466	-
Total	$ 16,578	$ 18,181

$1,466 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction the of total OPEB liability for the fiscal year ending September 30, 2020.

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

Year Ended September 30	OPEB Expense
2020	$ 58
2021	58
2022	58
2023	58
2024	(1,769)
Thereafter	(1,532)
Total	$ (3,069)

E. Tax Abatements and Economic Incentives

The City and SEDC, have authority under Texas Local Government Code, Chapters 380 and 505, to adopt programs that promote local economic development, spur economic improvement, stimulate commercial activity, generate additional sales tax, and enhance the property tax base of the City. These programs may abate or rebate property taxes and sales taxes that are paid by the recipient. The programs may also include incentive payments or reductions in fees that are not tied to taxes. Recipients may be eligible to receive economic assistance based on the employment impact,

economic impact, or community impact of the project requesting assistance. Recipients receiving assistance generally commit to building or remodeling real property and related infrastructure, demolishing and redeveloping outdated properties, expanding operations, renewing facility leases, or bringing targeted businesses into the City. Agreements generally contain recapture provisions which mandate repayment or termination if recipients do not meet the required provisions of the economic incentives.

Programs may rebate a flat amount or percentage of property taxes or sales taxes that are received by the City or the Corporation. They may result in fee reductions such as utility charges or building inspection fees. Some agreements may take the form of one-time incentive payments to offset moving expenses, tenant finish-outs, demolition costs, infrastructure, or other expenses. As of fiscal year 2018, the Corporation has granted the following incentive agreements:

The Corporation agreed to rebate one-half of one percent sales tax payable to Corporation collected from The Asparagus Group, LLC in an amount not to exceed $100,000, or for a period of up to ten years, whichever occurs first. During fiscal year 2019, the Corporation rebated $25,581 in sales tax paid by The Asparagus Group, LLC.

The Corporation agreed to rebate the amount of Corporation tax paid by Merloaded, LLC relating to a restaurant in an amount not to exceed $40,000, or for a period of up to ten years, whichever occurs first. During fiscal year 2019, the Corporation rebated $4,470 in sales taxes paid by Merloaded LLC.

The Corporation agreed to rebate the amount of Corporation sales tax paid by Mario’s Pizza (the “Business”) relating to the restaurant in an amount not to exceed $74,813, for a period of up to ten years after the Business completes relocation. During fiscal year 2019, the Corporation rebated $2,788 in sales taxes paid by the Business.

APPENDIX C

FORM OF BOND COUNSEL OPINION

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June 11, 2020

We have acted as Bond Counsel in connection with the issuance by the City of Seabrook, Texas (the "City") of its Certificates of Obligation, Series 2020 (the "Certificates"), dated June 1, 2020, in the aggregate principal amount of $_____. The Certificates are issuable in fully registered form only, in denominations of $5,000 or integral multiples thereof, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Ordinance").

In such connection, we have reviewed the Ordinance, the tax certificate of the City dated the date hereof (the "Tax Certificate"), certificates of the City, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Ordinance and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Certificates to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Ordinance and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

(1) The Obligations constitute the valid and binding obligations of the City.

(2) The Certificates are payable, both as to principal and interest, from the receipts of all annual ad valorem tax levied, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Certificates and a pledge of a subordinate lien of the surplus revenues of the City's water and sewer system not to exceed $1,000.

(3) Interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Certificates is not a specific preference item for purposes of federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates.

ORRICK, HERRINGTON & SUTCLIFFE LLP