OFFICIAL STATEMENT

DATED AUGUST 3, 2020

Rating: S&P: "AA-"
See ("OTHER RATING" herein)

INFORMATION -
NEW ISSUE - BOOK-ENTRY-ONLY

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE CERTIFICATES IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE ALTERNATIVE MINIMUM TAX. SEE "TAX MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE CERTIFICATES **HAVE BEEN** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

$7,735,000
CITY OF FREEPORT, TEXAS
(Brazoria County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION
SERIES 2020

Dated Date: August 1, 2020 **Due: April 1, as shown on page 2**
Interest Accrual Date: Date of Delivery

PAYMENT TERMS . . . Interest on the $7,735,000 City of Freeport, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates") will accrue from the date of initial delivery (expected August 24, 2020) to the purchaser thereof (the "Delivery Date") and will be payable April 1 and October 1 of each year commencing April 1, 2021, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "The Certificates - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE CERTIFICATES - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Subchapter C of Chapter 271, Texas Government Code (the "Act"), as amended, and constitute direct obligations of the City, payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, as provided in the ordinance authorizing the issuance of the Certificates (the "Ordinance") and from a limited pledge of a subordinate lien on the surplus revenues of the City's water and sewer system in an amount not to exceed $1,000 (see "THE CERTIFICATES – AUTHORITY FOR ISSUANCE").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (i) construction of improvements to and the equipment of city streets, sidewalks and related infrastructure; (ii) construction of improvements to and the equipment of city drainage facilities; (iii) the construction of improvements to and the equipment of city hall; (iv) construction of improvements to and the equipment of city parks and recreational facilities; and (v) the costs of professional services related thereto.

SEE MATURITY SCHEDULE ON PAGE 2

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after April 1, 2031, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on April 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (See "THE CERTIFICATES – OPTIONAL REDEMPTION").

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser (the "Initial Purchaser") and subject to the approving opinions of the Attorney General of Texas and of Bracewell LLP, Houston, Texas, Bond Counsel (see Appendix C, "FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed on for the City by Bracewell LLP as Special Disclosure Counsel to the City.

DELIVERY . . . It is expected that the Certificates will be available for delivery through the Depository Trust Company on or about August 24, 2020.

$7,735,000
CITY OF FREEPORT, TEXAS
(Brazoria County)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION
SERIES 2020

MATURITY SCHEDULE

$6,765,000 Serial Certificates

Due April 1	Principal Amount		Interest Rate	Initial Reoffering Yield(2)	CUSIP Number(3)
2021	$ 415,000		4.125 %	0.250 %	356838 FK3
2022	50,000		4.125	0.300	356838 FL1
2023	55,000		4.125	0.350	356838 FM9
2024	360,000		1.750	0.400	356838 FN7
2025	365,000		1.500	0.500	356838 FP2
2026	370,000		1.500	0.600	356838 FQ0
2027	375,000		1.375	0.700	356838 FR8
2028	380,000		4.125	0.800	356838 FS6
2029	395,000		4.125	0.900	356838 FT4
2030	410,000		4.125	1.000	356838 FU1
2031	430,000	(1)	1.125	1.100	356838 FV9
2032	435,000	(1)	1.125	1.150	356838 FW7
2033	440,000	(1)	1.125	1.200	356838 FX5
2034	445,000	(1)	1.375	1.300	356838 FY3
2035	450,000	(1)	1.375	1.350	356838 FZ0
2036	455,000	(1)	1.500	1.450	356838 GA4
2037	465,000	(1)	1.625	1.500	356838 GB2
2038	470,000	(1)	1.625	1.600	356838 GC0

$970,000 Term Certificates

$970,000 Term Certificates due April 1, 2040(1)(4), 356838 GE6(3), 2.000% Interest Rate, 1.620% Yield(2)

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(1) The City reserves the right, at its option, to redeem Certificates having stated maturities on and after April 1, 2031, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on April 1, 2030, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption.

(2) The initial reoffering prices or yields on the Certificates are furnished by the Initial Purchaser and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser at any time. The initial yields on premium Certificates are calculated to the earlier of maturity or the first optional redemption date.

(3) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor, nor Bond Counsel shall be responsible for the selection or correctness of CUSIP numbers shown herein.

(4) The Term Certificates (as defined herein) are subject to mandatory sinking fund redemption as described herein. (See "THE CERTIFICATES – MANDATORY SINKING FUND REDEMPTION").

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

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described.

None of the City, the Financial Advisors, or the Initial Purchasers make any representation or warranty with respect to the information contained in the Official Statement regarding the Depository Trust Company ("DTC") or its Book-Entry-Only System as described under "THE CERTIFICATES- BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC.

All the summaries of the statutes, ordinances, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made 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, copies of which are available from the City.

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

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 Official Statement for purposes of, and as that term is defined in Rule 15c2-12 of the United States Securities and Exchange Commission.

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

OFFICIAL STATEMENT SUMMARY

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

THE CITY..............................The City of Freeport, Texas (the "City") is a political subdivision and municipal corporation of the State of Texas, located in Brazoria County, Texas. The City covers approximately 15 square miles (see "INTRODUCTION - DESCRIPTION OF CITY").

THE CERTIFICATES ....The Certificates are issued as $7,735,000 Combination Tax and Revenue Certificates of Obligation, Series 2020. The Certificates are issued as serial Certificates maturing April 1, 2021 through and including April 1, 2038, and as term Certificates maturing on April 1, 2040 (the "Term Certificates"). (see "THE CERTIFICATES—DESCRIPTION OF THE CERTIFICATES").

PAYMENT OF INTEREST ....Interest on the Certificates accrues from the date of delivery and is payable April 1, 2021, and each October 1 and April 1 thereafter until maturity or prior redemption (see "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES" and "THE CERTIFICATES - OPTIONAL REDEMPTION").

AUTHORITY FOR ISSUANCE..The Certificates are issued pursuant to the general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code and an ordinance passed by the City Council of the City (see "THE CERTIFICATES - AUTHORITY FOR ISSUANCE").

SECURITY FOR THE CERTIFICATES ....The Certificates constitute direct obligations of the City, payable from the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City and a limited pledge of a subordinate lien on the surplus revenues of the City's water and sewer system in an amount not to exceed $1,000 (see "THE CERTIFICATES - SECURITY AND SOURCE OF PAYMENT").

REDEMPTION................................The City reserves the right, at its option, to redeem Certificates having stated maturities on and after April 1, 2031, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on April 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES—OPTIONAL REDEMPTION"). The Term Certificates are also subject to mandatory sinking fund redemption as more fully described herein (see "THE CERTIFICATES—MANDATORY SINKING FUND REDEMPTION").

QUALIFIED TAX-EXEMPT OBLIGATIONS ....The City has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see "TAX MATTERS – PURCHASE OF TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS").

TAX EXEMPTION ....In the opinion of Bond Counsel, under existing law, interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See "TAX MATTERS - TAX EXEMPTION" for a discussion of the opinion of Bond Counsel.

USE OF PROCEEDS ....Proceeds from the sale of the Certificates will be used for (i) construction of improvements to and the equipment of city streets, sidewalks and related infrastructure; (ii) construction of improvements to and the equipment of city drainage facilities; (iii) the construction of improvements to and the equipment of city hall; (iv) construction of improvements to and the equipment of city parks and recreational facilities; and (v) the costs of professional services related thereto.

RATING..The Certificates are rated "AA-" by S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") without regard to credit enhancement (see "OTHER INFORMATION - RATING").

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

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	General Obligation (G.O.) Tax Debt	Per Capita G.O. Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	Percent of Total Tax Collections
2015	12,075	$ 337,346,095	$ 27,938	$ 2,015,000	$ 167	0.60%	97.81%
2016	12,071	380,089,641	31,488	1,795,000	149	0.47%	98.06%
2017	12,194	401,425,569	32,920	1,565,000	128	0.39%	97.93%
2018	12,209	418,710,642	34,295	1,325,000	109	0.32%	97.29%
2019	12,136	467,237,067	38,500	1,080,000	89	0.23%	97.83%
2020	12,136	503,354,698	41,476	8,295,000 (3)	684 (3)	1.65% (3)	93.01% (4)

(1) Source: The City.
(2) As reported by the Brazoria County Appraisal District; subject to change during the ensuing year.
(3) Includes the Certificates.
(4) As of May 31, 2020.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Beginning Balance	$ 10,122,308	$ 5,931,308 (1)	$ 9,329,804	$ 9,744,776 (2)	$ 6,461,640
Total Revenue	16,573,080	20,233,750	12,792,868	13,484,450	16,513,650
Total Expenditures	18,149,179	15,540,001	14,276,430	13,260,311	12,412,475
Other Financing Sources (Uses)	277,413	(502,749)	(890,825)	(639,111)	(614,358)
Ending Balance	$ 8,823,622	$ 10,122,308	$ 6,955,417	$ 9,329,804	$ 9,948,457

(1) Restated due to adoption of GASB No. 75 and the reclassification by the City of the golf course and ambulance business-type activities as part of the general fund.
(2) Restated due to adoption of GASB No. 72.

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Title	Length of Service	Term Expires
Brooks Bass	Mayor	7 months	May 2021
Ken Green	Council Member	2 years	Nov 2020
Jerry Cain	Council Member	7 months	May 2021
Sandra Loeza	Mayor Pro Tem	2 years	Nov 2020
Roy Yates	Council Member	1 year	May 2021

SELECTED ADMINISTRATIVE STAFF

Name	Title	Service to City	Total Governmental Service
Tim Kelty	City Manager	1.7 years	19 years
Stephanie Russell	Assistant City Manager/Finance Director	1 year	12 years
Betty Wells	City Secretary	14 years	14 years
Chris Duncan	City Attorney	1 year	19 years

CONSULTANTS AND ADVISORS

Auditor..Whitley Penn LLP

Bond Counsel and Disclosure Counsel.. Bracewell LLP
Houston, Texas

Financial Advisor .... Masterson Advisors LLC
Houston, Texas

For additional information regarding the City, please contact either:

Tim Kelty
City of Freeport
200 W. 2nd Street
Freeport, Texas 77541
(979) 233-3526 Phone
(979) 233-8867 Fax

Drew Masterson
Masterson Advisors LLC
3 Greenway Plaza, Suite 1100
Houston, Texas 77046
(713) 814-0555 Phone
(713) 814-0581 Fax

OFFICIAL STATEMENT

RELATING TO

$7,735,000
CITY OF FREEPORT, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION
SERIES 2020

INTRODUCTION

This Official Statement, which includes the cover page, Schedule, and Appendices hereto, provides certain information regarding the issuance of the $7,735,000 City of Freeport, Texas Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates"). Capitalized terms used in this Official Statement, except as otherwise indicated herein, have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Certificates (the "Ordinance"), adopted on August 3, 2020.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City of Freeport, Texas (the "City") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Masterson Advisors LLC, Houston, Texas, by electronic mail or upon payment of reasonable handling, mailing, and delivery charges.

DESCRIPTION OF THE CITY

The City is a home-rule city of the State of Texas, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1917, and first adopted its Home Rule Charter on June 20, 1960. The City operates under a Council-Manager form of government with a City Council comprised of the Mayor and four Councilmembers elected on a "ward" system. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the terms of the other two Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. The 2010 Census population for the City was 12,049 and the 2019 Census estimate was 12,136. The City covers approximately 15 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated August 1, 2020 and mature on April 1 in each of the years and in the amounts shown on page 2 hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on April 1 and October 1, commencing April 1, 2021. The definitive Certificates will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "BOOK-ENTRY-ONLY SYSTEM" herein.

AUTHORITY FOR ISSUANCE

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State") including particularly Subchapter C of Chapter 271, Texas Local Government Code, and as provided in the Ordinance.

SECURITY AND SOURCE OF PAYMENT

All taxable property within the City is subject to an annual ad valorem tax levied, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates. The Certificates are also payable from and secured by a limited pledge of a subordinate lien on the surplus revenues of the City's water and sewer system in an amount not to exceed $1,000.

USE OF PROCEEDS

Proceeds from the sale of the Certificates will be used for the purpose of paying all or any part of the costs associated with (i) construction of improvements to and the equipment of city streets, sidewalks and related infrastructure; (ii) construction of improvements to and the equipment of city drainage facilities, (iii) the construction of improvements to and the equipment of city hall; (iv) construction of improvements to and the equipment of city parks and recreational facilities; and (v) the costs of professional services related thereto.

Par Amount of the Bonds	$ 7,735,000.00
Net Premium	442,774.50
Total Sources of Funds	$ 8,177,774.50
Deposit to Project Fund	$ 8,000,000.00
Costs of Issuance(1)	92,883.84
Initial Purchaser's Discount	84,890.66
Total Uses of Funds	$ 8,177,774.50

(1) Includes professional costs, rating agency fees, fees of the Paying Agent/Registrar, rounding amount and other costs of issuance.

TAX RATE LIMITATION

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 requires that the City demonstrate at the time of issuance of the Certificates that the maximum annual debt service on all ad valorem tax supported debt of the City, including the Certificates, could be paid from an allocation of $1.50 of the $2.50 maximum tax rate, as calculated at the time of issuance.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after April 1, 2031, in whole or from time to time in part in principal amounts of $5,000 or any integral multiple thereof, on April 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City shall determine the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION

The Certificates maturing on April 1, 2040 (the "Term Certificates"), shall be subject to mandatory sinking fund redemption, in whole or in part (at a redemption price equal to the principal amount thereof and any accrued interest thereon to the date set for redemption), on April 1 in each of the years and in the amounts set forth below:

$970,000 Term Certificates
Due April 1, 2040

Mandatory Redemption Date	Principal Amount
2039	$ 480,000
2040 (maturity)	490,000

The particular Term Certificates to be mandatorily redeemed shall be selected by lot or other customary random selection method by the Paying Agent/Registrar. The principal amount of the Term Certificates to be mandatorily redeemed on such mandatory redemption date shall be reduced at the option of the City by the principal amount of such Term Certificate which, by the 45th day prior to such mandatory redemption date, (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

NOTICE OF REDEMPTION

The Paying Agent/Registrar shall give notice of any redemption of Certificates by sending notice by United States mail, first class, postage prepaid, not less than thirty (30) days before the date fixed for redemption, to the Owner of each Certificate (or part thereof) to be redeemed, at the address shown on the registration books at the close of business on the Business Day next preceding the date of mailing such notice. The notice shall state the redemption date, the redemption price, the place at which the Certificates are to be surrendered for payment, and, if less than all the Certificates outstanding are to be redeemed, an identification of the Certificates or portions thereof to be redeemed. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The City reserves the right to give notice of its election or direction to redeem Certificates under "Optional Redemption" herein 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 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 where redemption has been rescinded shall remain Outstanding.

DEFEASANCE

The Ordinance provides for the defeasance of the Certificates in any manner now or hereafter provided by law.

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 The Depository Trust Company, New York, New York, ("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 Initial Purchaser believe the source of such information to be reliable, but none of the City, the Financial Advisor nor the Initial Purchaser take any responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the 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 United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

DTC may discontinue providing its services as 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, Certificates are required to 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 no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement…In reading this Official Statement it should be understood that while the 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.

Effect of Termination of Book-Entry-Only System…In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed bonds will be issued to the holders and the Certificates will be subject to transfer, exchange, and registration provisions as set forth in the Ordinance and summarized under "THE CERTIFICATES - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

OWNERSHIP

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Certificate is registered as the absolute owner of such Certificates for the purposes of making payment of the principal thereof and the interest thereon and for all other purposes, whether or not such Certificate is overdue. Neither the City nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary. All payments made to the registered owner of such Certificate in accordance with the Ordinance will be valid and effectual and will discharge the liability of the City and the Paying Agent/Registrar for such Certificate to the extent of the sums paid.

TRANSFERS AND EXCHANGES

In the event the book-entry-only system should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owners, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office or the Paying Agent/Registrar, or sent by United States mail, first class postage prepaid, to the new registered owner or his designee.

The ownership of a Certificate may be transferred only upon the presentation and surrender of the Certificate to the Paying Agent/Registrar at the Designated Payment/Transfer Office with such endorsement or other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. No transfer of any Certificate shall be effective until entered in the Register. The Certificates shall be exchangeable upon the presentation and surrender thereof at the Designated Payment/Transfer Office for a Certificate or Certificates of the same maturity and interest rate and in any Authorized Denominations, and in an aggregate principal amount equal to the unpaid principal amount of the Certificates presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver Certificates transferred or exchanged in accordance with the Ordinance.

A new Certificate or Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificate being transferred or exchanged, at the Designated Payment/Transfer, or sent by United States mail, first class, postage prepaid, to the Owner or his designee. Each Certificate delivered by the Paying Agent/Registrar in accordance with this Section shall constitute an original contractual obligation of the City and shall be entitled to the benefits and security of the Ordinance to the same extent as the Certificate or Certificates in lieu of which such Certificate is delivered.

No service charge shall be made to the Owner for the initial registration, any subsequent transfer, or exchange for a different denomination of any of the Certificates. The Paying Agent/Registrar, however, may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer or exchange of a Certificate.

Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Certificate called for redemption, in whole or in part, where such redemption is scheduled to occur within 45 days after the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the Owner of the uncalled principal balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the 15th day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date," which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

REMEDIES IN THE EVENT OF DEFAULT

The Ordinance does not establish specific events of default with respect to the Certificates or any remedies to a registered owner if the City defaults on the payment of the principal of or interest on any Certificates. Further, the Ordinance does not provide for the appointment of a trustee to protect and enforce the interest of the registered owners upon the occurrence of such a default. If a registered owner of a Certificate does not receive payment of principal or interest when due, the registered owner may seek a writ of mandamus from a court of competent jurisdiction requiring the City to levy and collect taxes. The mandamus remedy, however, may be impractical and difficult to enforce. There is no provision for the acceleration of maturity of principal of a Certificate in the event of a default. A registered owner of a Certificate could file suit against the City if a default occurred in the payment of principal of or interest on any such Certificates; however, a suit for monetary damages could be vulnerable to the defense of sovereign immunity as discussed below, and any judgment could not be satisfied by execution against any property of the City.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, registered owners 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.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (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 Wasson, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

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 restrict the waiver of immunity when a city performs a proprietary function. The Court remanded the case so that the appellate court could rule on whether the contract at issue was proprietary or governmental. *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018). On remand, the appellate court found for the City of Jacksonville by holding the contract claim arose from the City's performance of a governmental function, and thus the claim was barred by immunity. After granting Wasson's petition for review of the appellate decision, the Court held that to determine if the City was engaged in a proprietary or governmental function, the focus of the inquiry is on the nature of the contract at the time of execution, not the nature of the breach at the time of the breach.

The City is also 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 taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Obligation 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 Ordinance and the obligations are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

REPLACEMENT CERTIFICATES

If any Certificate is mutilated, destroyed, stolen or lost, a new Certificate in the same principal amount as the Certificate so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Certificate, such new Certificate will be delivered only upon presentation and surrender of such mutilated Certificate to the Paying Agent/Registrar. The City or the Paying Agent/Registrar may require the owner to pay all expenses and charges in connection therewith. In the case of any Certificate issued in lieu of and in substitution for a Certificate which has been destroyed, stolen or lost, such new Certificate will be delivered only once the owner (a) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction or theft of such Certificate, (b) furnishes security or indemnity as may be required by the Paying Agent/Registrar and the City, (c) pays all expenses and charges in connection therewith and (d) satisfies any other reasonable requirements imposed by the City and the Paying Agent/Registrar.

TAX INFORMATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. 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 (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Brazoria 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.

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 Operations 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 FOR VETERANS

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

LOCAL OPTION HOMESTEAD EXEMPTIONS

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than $5,000) and (2) an additional exemption of the appraised 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.

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.

OTHER EXEMPT PROPERTY

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

TAX INCREMENT REINVESTMENT ZONES

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries, 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 or benefitting the TIRZ and are not available for the payment of other obligations of such taxing units.

TAX ABATEMENT AGREEMENTS

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

For a discussion of how the various exemptions described on the prior page are applied by the City, see "– CITY APPLICATION OF PROPERTY TAX CODE" herein.

PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS

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

> "adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.
>
> "de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional $500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.
>
> "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.

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 Certificates.

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.

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. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1.

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.

PENALTIES AND INTEREST

As of January 1 of each year, the City has a lien granted by statute for unpaid taxes on real property, which shall be levied for that tax year. In the event a taxpayer fails to make timely payment owing to the City on real property, a penalty of 6% of the unpaid taxes is incurred in the first month of delinquency and 1% is added monthly until July 1 when the penalty becomes 12%. In addition, interest on delinquent taxes accrues at the rate of 1% per month until paid. If an account is delinquent in July, the City may also impose an additional penalty to defray costs of collection by an attorney, not to exceed 20% of the total amount due.

THE 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.

CITY APPLICATION OF PROPERTY TAX CODE

The City does grant an exemption to the market value of the residence homestead of persons 65 years of age or older of $80,000; the disabled are also granted an exemption of $80,000.

The City has not granted an additional exemption of the market value of residence homesteads.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

Ad valorem taxes are levied by the City against the exempt value of residence homesteads for the payment of debt. Capped at 20%.

The City does tax nonbusiness personal property (residential inventory).

The Brazoria County Tax Office collects taxes for the City.

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

The City does tax Freeport Property.

The City does not exempt taxes on Goods-in-Transit.

The City does not collect an additional sales tax for reduction of ad valorem taxes.

The City does have an adopted a tax abatement policy, adopted June 15, 2020.

The City has one TIRZ within its City limits established in 2019.

MUNICIPAL SALES TAX COLLECTIONS

For information regarding the City's municipal sales tax see "FINANCIAL INFORMATION – TABLE 13 – MUNICIPAL SALES TAX HISTORY."

SELECTED ISSUER INFORMATION

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City has no authorized but unissued debt outstanding. Under State law, the City may issue certain obligations, such as the Certificates, secured by ad valorem taxes without an election.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City does not anticipate issuing any additional general obligation debt in the next twelve months.

OTHER OBLIGATIONS

The City is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled $710,284 at September 30, 2019. The following is a schedule of future minimum lease payments under capital leases:

Payments Due Year Ending September 30,	
2020	$ 135,444
2021	44,782
2022	44,782
2023	145,432
Minimum lease payments for all capital leases	370,440
Imputed Interest	(29,961)
Present value - minimum lease payments	$ 340,479
Assests under capital leases	$ 340,479

PENSION FUND

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX B, "Excerpts from the City's Annual Financial Report" - Note 8.)

OTHER POST-EMPLOYMENT BENEFITS

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees. Additionally, the City participates in a defined-benefit group-term life insurance plan, both for current and retired employees, administered by the TMRS. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. See APPENDIX B, "Excerpts from the City's Annual Financial Report" - Note 9.

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TABLE 1 – VALUATION, EXEMPTION AND GENERAL OBLIGATION DEBT

2019/2020 Market Valuation Established by Brazoria County Appraisal District (excluding totally exempt property)		$ 599,372,682 [(1)]
Less Exemptions/Reductions at 100% Market Value:		
Over 65	$ 36,233,841	
Disabled Persons	8,271,223	
Disabled Veteran	1,376,389	
Homestead Cap Adjustment	31,349,338	
Pollution Control	1,509,850	
Productivity Loss	1,246,256	
Abatement	16,031,087	$ 96,017,984
2019/2020 Taxable Assessed Valuation		$ 503,354,698
General Obligation Debt as of 8/1/2020		
Certificates of Obligation, Series 2008[(2)]	$ 560,000	
The Certificates	7,735,000	$ 8,295,000
Less: Interest and Sinking Fund as of September 30, 2019		$ 78,408
Net General Obligation Debt Payable from Ad Valorem Taxes		$ 8,216,592
Ratio General Obligation Tax Debt to Taxable Assessed Valuation		1.63%

2020 Estimated Population - 12,136

Per Capita Taxable Assessed Valuation - $41,476

Per Capita Gross General Obligation Debt Payable from Ad Valorem Taxes - $684

Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - $677

(1) As reported by the Brazoria County Appraisal District. Subject to change due to protest and arbitration process.
(2) Private Placement.

TABLE 2 – TAXABLE ASSESSED VALUATION BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2020		2019		2018	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 235,692,179	39.32%	$ 214,968,381	39.01%	$ 210,756,793	41.61%
Real, Residential, Multi-Family	36,237,332	6.05%	33,059,077	6.00%	31,053,340	6.13%
Real, Vacant Lots/Tracts	10,455,497	1.74%	10,244,053	1.86%	10,951,990	2.16%
Real, Acreage (Land Only)	1,321,384	0.22%	1,255,610	0.23%	1,307,310	0.26%
Real, Farm and Ranch Improvements	2,056,255	0.34%	2,845,455	0.52%	1,726,288	0.34%
Real, Commercial & Industrial	164,513,565	27.45%	135,008,516	24.50%	129,213,540	25.51%
Real and Intangible Personal Utilities	32,615,810	5.44%	27,134,510	4.92%	24,401,290	4.82%
Tangible Personal, Commercial & Industrial	113,329,180	18.91%	124,049,930	22.51%	94,919,340	18.74%
Tangible Personal, Other	543,340	0.09%	576,390	0.10%	415,970	0.08%
Real Property Inventory	1,189,840	0.20%	829,740	0.15%	696,403	0.14%
Special Inventory	1,418,300	0.24%	1,134,380	0.21%	1,037,560	0.20%
Total Appraised Value Before Exemptions	599,372,682	100.00%	551,106,042	100.00%	506,479,824	100.00%
Less: Total Exemptions/Reductions	96,017,984		83,868,975		87,769,182	
Taxable Assessed Value	$ 503,354,698		$ 467,237,067		$ 418,710,642	

	ıxable Appraised Value for Fiscal Year Ended September :			
	2017		2016	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 197,840,581	40.51%	$ 172,190,425	38.08%
Real, Residential, Multi-Family	27,920,370	5.72%	20,669,040	4.57%
Real, Vacant Lots/Tracts	11,374,557	2.33%	11,444,610	2.53%
Real, Acreage (Land Only)	1,307,310	0.27%	1,307,310	0.29%
Real, Farm and Ranch Improvements	1,747,625	0.36%	1,751,717	0.39%
Real, Commercial & Industrial	122,146,286	25.01%	116,452,179	25.75%
Real and Intangible Personal Utilities	28,235,140	5.78%	22,571,670	4.99%
Tangible Personal, Commercial & Industrial	93,904,860	19.23%	103,345,630	22.85%
Tangible Personal, Other	360,360	0.07%	340,930	0.08%
Real Property Inventory	954,790	0.20%	717,511	0.16%
Special Inventory	2,582,560	0.53%	1,425,240	0.32%
Total Appraised Value Before Exemptions	488,374,439	100.00%	452,216,262	100.00%
Less: Total Exemptions/Reductions	86,948,870		72,126,621	
Taxable Assessed Value	$ 401,425,569		$ 380,089,641	

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

TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population[(1)]	Taxable Assessed Valuation[(2)]	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2016	12,071	$ 380,089,641	$ 31,488	$ 1,795,000	0.47%	$ 462
2017	12,194	401,425,569	32,920	1,565,000	0.39%	418
2018	12,209	418,710,642	34,295	1,325,000	0.32%	109
2019	12,136	467,237,067	38,500	1,080,000	0.23%	89
2020	12,136	503,354,698	41,476	8,295,000 (3)	1.65% (3)	684 (3)

(1) Source: The City.
(2) As reported by the Brazoria County Appraisal District; subject to change during the ensuing year.
(3) Includes the Certificates.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2016	$ 0.648564	$ 0.500500	$ 0.148064	$ 2,457,724	94.51%	98.06%
2017	0.628005	0.485915	0.142090	2,514,737	94.59%	97.93%
2018	0.628005	0.492570	0.135435	2,628,424	93.90%	97.29%
2019	0.628005	0.503854	0.124151	2,938,067	95.00%	97.83%
2020	0.628005	0.517972	0.110033	3,128,468	90.00% (1)	93.01% (1)

(1) Collections as of May 31, 2020.

TABLE 5 – INDUSTRIAL DISTRICT AGREEMENTS

The City has three Industrial Development Agreements ("IDAs"): Brazosport IDA, Freeport IDA, and Freeport LNG. The total amount received under these contracts during the fiscal year ended September 30, 2019 was $7,532,865.

	Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Agreement:					
Brazosport IDA	$ 4,273,312	$ 3,842,354	$ 3,751,194	$ 3,685,242	$ 3,627,206
Freeport IDA	1,484,553	1,278,997	1,100,561	1,384,954	1,405,749
Freeport LNG IDA	1,775,000	850,000	850,000	1,300,000	5,000,000
	$ 7,532,865	$ 5,971,351	$ 5,701,755	$ 6,370,196	$ 10,032,955

Brazosport IDA

In December 2011, the City, in conjunction with the Cities of Clute and Lake Jackson, renewed a contract with the Dow Chemical Company ("Dow"), BASF Corporation, and the Brock interests. In this contract the City removed the need to determine what value was in each City's jurisdiction and instead simply created an all inclusive "district" where all industrial value is "taxed" at 50% of value at a set 55 cent district "tax rate" as one of the potential growth factors.

This 15-year contract has a floor payment of $9 million. The payment is based on the higher percentage growth factor of either the Department of Labor's CPI-U or the value-based formula described above. Payments split proportionally amongst the cities as follows: the City (38.89%), Lake Jackson (45.56%), and Clute (15.55%).

A ceiling was also set in which no payment could exceed what would be generated by the industrial values at 80% at the 55 cent Industrial District tax rate. Payments could only drop below the $9 million floor in the event of a natural disaster (such as a hurricane) negatively affecting property values.

The payment for the fiscal year ended September 30, 2019 was split as follows:

City	Amount	Percent
Clute	$ 1,708,665	15.55%
Freeport	4,273,311	38.89%
Lake Jackson	5,006,224	45.56%
	$ 10,988,200	100.00%

Freeport IDA

The Freeport Industrial District contracts were entered into in 2013 and last through 2026. Under these contracts, companies within the District pay the final assessed value (V) for the preceding tax year, less any tax abatement or exemptions (A), multiplied by the City's preceding year tax rate (R) and the percentages (P) outlined by year below. The payment is split semi-annually and due without demand on January 31 and July 31 each year.

(V-A) x R x P = Total Annual Payment

Year	Percent
2013	55%
2014	55%
2015	56%
2016	57%
2017	58%
2018	59%
2019	60%
2020	61%
2021	62%
2022	63%
2023	64%
2024	64%
2025	65%
2026	65%

The City received a total of $1,484,553 from the nine companies within the District for the fiscal year ended September 30, 2019.

Freeport LNG

In 2014, the City and the City of Oyster Creek entered into an Industrial Development Agreement with Freeport LNG Development. Under this agreement, the City receives a lump sum annual payment as follows:

March 1	Annual Payment
2014 (1)	$ 15,000
2015	4,985,000
2016	1,300,000
2017	850,000
2018	850,000
2019	1,775,000
2020	1,775,000
2021	2,000,000
2022	2,000,000
2023	2,000,000
2024	2,000,000
2025	3,000,000
2026	3,000,000
2027	3,000,000
2028	2,000,000
2029	2,000,000
	$ 32,550,000

(1) Partial year payment.

The City received a total of $1,775,000 from Freeport LNG for the fiscal year ended September 30, 2019.

TABLE 6 – TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2019/2020 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
American Rice Inc	Industrial	$ 38,143,090	7.58%
Bankers Commercial Corporation	Industrial	23,442,450	4.66%
Freeport LNG Development LP	Industrial	15,963,780	3.17%
Wells Fargo Equipment Finance Inc	Leased Equipment	15,512,970	3.08%
Centerpoint Energy Inc	Electric Companies	15,108,840	3.00%
Freeport Welding & Fab Inc	Industrial	10,585,115	2.10%
Air Liquide Large Industries US LP	Industrial	6,560,320	1.30%
ZT East Houston Property LLC	Commercial	5,248,890	1.04%
NV2 Sienna Villas	Multi-Family	5,196,830	1.03%
Wolverine Kings Road LP	Multi-Family	4,989,830	0.99%
		$ 140,752,115 (1)	27.96%

(1) Approximately 27.96% of the City's total taxable value is concentrated in its top ten taxpayers. Adverse development affecting such taxpayers could adversely affect the taxable assessed valuation in the City resulting in less local tax revenue or future increase in ad valorem tax rates.

TABLE 7 – TAX ADEQUACY

Average Annual General Obligation Debt Service Requirements (2021-2040)	$ 499,185	(1)
$0.10120 Tax Rate at 98% Collection Produces	$ 499,207	
Maximum Annual General Obligation Debt Service Requirements (2021)	$ 533,403	(1)
$0.10814 Tax Rate at 98% Collection Produces	$ 533,441	

(1) Includes the Certificates.

TABLE 8 – ESTIMATED OVERLAPPING DEBT

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

	2019/2020 Taxable Assessed Value	2019/2020 Tax Rate	Total G.O. Debt as of 5/31/2020	Estimated % Applicable	City's Overlapping G.O Debt As of 5/31/2020
City of Freeport	$ 503,354,698	$ 0.628005	$ 8,295,000 (1)	100.00%	$ 8,295,000 (1)
Brazoria County	31,106,500,475	0.415233 (2)	139,678,313 (3)	1.56%	2,178,982
Brazosport College District	9,525,446,042	0.300177	49,155,000	5.08%	2,497,074
Brazosport ISD	16,161,179,997	1.185300	348,049,985	5.20%	18,098,599
Port Freeport	14,145,517,170	0.040000	31,795,000	3.25%	1,033,338
Velasco Drainage District	8,657,976,286	0.084550	5,045,000	5.29%	266,881
Total Direct and Overlapping Debt					$ 32,369,873

Ratio of Direct and Overlapping Debt to Taxable Assessed Valuation	6.43%
Per Capita Direct and Overlapping Debt	2,667
Total Direct and Overlapping G.O. Debt	$ 32,369,873

(1) Includes the Certificates.
(2) Includes the Brazoria County Road and Bridge Fund.
(3) Includes debt issued by Brazoria County Toll Road Authority.

DEBT INFORMATION

TABLE 9 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt	The Certificates Principal	The Certificates Interest	The Certificates Total	Total Debt Service Requirements
2020	$ 294,258				$ 294,258
2021	21,224	$ 415,000	$ 97,179	$ 512,179	533,403
2022	296,224	50,000	144,100	194,100	490,324
2023	295,802	55,000	142,038	197,038	492,839
2024	-	360,000	139,769	499,769	499,769
2025	-	365,000	133,469	498,469	498,469
2026	-	370,000	127,994	497,994	497,994
2027	-	375,000	122,444	497,444	497,444
2028	-	380,000	117,288	497,288	497,288
2029	-	395,000	101,613	496,613	496,613
2030	-	410,000	85,319	495,319	495,319
2031	-	430,000	68,406	498,406	498,406
2032	-	435,000	63,569	498,569	498,569
2033	-	440,000	58,675	498,675	498,675
2034	-	445,000	53,725	498,725	498,725
2035	-	450,000	47,606	497,606	497,606
2036	-	455,000	41,419	496,419	496,419
2037	-	465,000	34,594	499,594	499,594
2038	-	470,000	27,038	497,038	497,038
2039	-	480,000	19,400	499,400	499,400
2040	-	490,000	9,800	499,800	499,800
	$ 907,508	$ 7,735,000	$ 1,635,442	$ 9,370,442	$ 9,983,691

TABLE 10 – INTEREST AND SINKING FUND BUDGET PROJECTIONS

Gross Debt Service Requirements, Fiscal Year Ending 9/30/2020		$ 294,258
Interest and Sinking Fund, 9/30/2019	$ 78,408	
Budgeted Property Tax Collection	564,832	
Cash Defeasance[1]	(278,317)	$ 364,923
Estimated Interest and Sinking Fund Balance, 9/30/2020		$ 70,665

(1) The City used approximately $278,317 of Interest and Sinking Funds to defease the 2021 maturity of the Series 2008 Certificates on February 1, 2020.

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FINANCIAL INFORMATION

TABLE 11 – CHANGE IN NET POSITION

	For Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Revenues:					
Property Taxes	$ 3,123,786	$ 2,675,705	$ 2,553,095	$ 2,539,494	$ 2,328,836
Sales and Use Taxes	3,279,952	3,275,074	-	-	-
Other Taxes	614,940	610,991	3,912,991	3,896,907	3,778,677
Grants and Contributions not restricted to Specific Programs	517,456	135,674	504,271	368,883	222,247
Program Revenues	2,500,148	3,125,059	1,647,095	1,742,930	1,935,358
Industrial District	7,532,865	5,971,351	5,701,755	6,370,196	10,032,955
Investments Earnings	249,377	175,392	60,518	30,785	5,105
Gain on Disposition of Capital Assets	-	-	-	75,795	129,871
Miscellaneous	443,621	6,062,400 (1)	108,468	42,000	45,620
Total Revenues	$ 18,262,145	$ 22,031,646	$ 14,488,193	$ 15,066,990	$ 18,478,669
Expenses:					
General Government and Administration	$ 2,160,475	$ 2,163,604	$ 2,300,977	$ 2,414,504	$ 2,063,459
Public Safety	8,060,384	7,006,492	6,425,039	5,931,778	5,373,438
Streets and Drainage	1,851,391	1,864,572	2,045,578	1,771,064	1,521,757
Sanitation	899,603	962,293	975,899	914,275	810,919
Service Center	221,588	167,702	270,207	161,099	139,371
Marina Operations	-	-	-	-	219,735
Library	-	-	52,860	44,783	63,439
Culture and Recreation	3,700,755	3,407,081	2,857,891	2,056,169	1,855,714
Economic Development	382,586	295,738	331,790	438,353	210,816
Interest on Long-Term Debt	115,029	154,901	186,382	239,139	221,279
Total Expenses	$ 17,391,811	$ 16,022,383	$ 15,446,623	$ 13,971,164	$ 12,479,927
Special Items:					
Operating Transfers In (Out)	(959,159)	(502,749)	(890,825)	(1,050,659)	(750,952)
Change in Net Position	$ (88,825)	$ 5,506,514	$ (1,849,255)	$ 45,167	$ 5,247,790
Net Position at Beginning of Year	20,637,551 (2)	15,499,499 (2)	17,750,030	17,704,863	$ 12,457,073
Net Position at End of Year	$ 20,548,726	$ 21,006,013	$ 15,900,775	$ 17,750,030	$ 17,704,863

Source: The City's audited financial statements.

(1) The City received $5.5 million of lease revenue reported as miscellaneous income related to a Dow Subsurface lease agreement. The $5.5 million consisted of a one-time infusion of $5 million along with the payment for the first year of the agreement in the amount of $0.5 million.

(2) Restated.

TABLE 12 – GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	For Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Revenue:					
Property Taxes	$ 2,423,536	$ 2,079,806	$ 1,996,289	$ 2,096,452	$ 1,759,554
Sales and Use Taxes	2,134,644	2,802,128	-	-	-
Other Taxes	656,340	-	2,818,794	2,821,956	2,727,691
Industrial District	7,532,865	5,971,351	5,701,755	6,370,196	10,032,955
Intergovernmental Revenues	283,820	146,660	464,480	345,812	114,387
Revenue Producing Facilities	-	-	981,969	1,075,084	1,116,285
Fines, Licenses, Permits and Fees	479,563	641,119	643,867	615,826	514,876
Investment Income	246,756	174,914	60,118	30,089	4,828
Charges for Services	2,355,053	2,249,824	-	-	-
Lease Income	261,127	5,767,361 (3)	-	-	-
Miscellaneous Income	199,376	400,587	125,596	129,035	243,074
Total Revenues	$ 16,573,080	$ 20,233,750	$ 12,792,868	$ 13,484,450	$ 16,513,650
Expenditure:					
General Government and Administration	$ 1,773,256	$ 2,004,917	$ 1,999,706	$ 2,146,337	$ 1,660,661
Public Safety	6,756,492	6,898,256	6,534,977	5,940,988	4,895,315
Streets and Drainage	1,135,290	1,906,959	1,713,732	2,008,648	1,045,290
Sanitation	899,603	962,293	975,899	914,275	810,919
Service Center	157,600	154,297	254,726	171,530	118,712
Library	-	-	27,010	18,933	38,487
Culture and Recreation	2,940,884	3,499,870	2,688,289	1,977,510	1,614,892
Economic Development	25,000	15,000	-	-	-
Capital Outlay	3,179,214 (1)	-	-	-	2,228,199
Principal Payments	1,222,117	87,491	73,045	82,090	-
Interest and Other Charges	59,723	10,918	9,046	-	-
Total Expenditures	$ 18,149,179	$ 15,540,001	$ 14,276,430	$ 13,260,311	$ 12,412,475
Excess (Deficit) of Revenues Over Expenditures	$(1,576,099)	$ 4,693,749	$(1,483,562)	$ 224,139	$ 4,101,175
Other Financing Sources (Uses):					
Transfers In (Out) (2)	$(1,112,613)	$ (502,749)	$ (890,825)	$(1,068,659)	$ (750,952)
Proceeds from Capital Leases	1,353,113	-	-	387,548	-
Insurance Recoveries	36,913	-	-	-	-
Proceeds from Sale of Capital Assets	-	-	-	42,000	136,594
Total Other Financing Sources (Uses)	$ 277,413	$ (502,749)	$ (890,825)	$ (639,111)	$ (614,358)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	(1,298,686)	4,191,000	(2,374,387)	(414,972)	3,486,817
Fund Balance, Beginning of Year	10,122,308	5,931,308 (4)	9,329,804	9,744,776 (5)	6,461,640
Fund Balance, End of Year	$ 8,823,622	$ 10,122,308	$ 6,955,417	$ 9,329,804	$ 9,948,457

Source: The City's audited financial statements.
(1) Includes approximately $1.4 million for new vehicles and equipment (including a new fire truck) and approximately $1.22 million for infrastructure.
(2) Includes annual transfers to the City's Water and Sewer Fund.
(3) The City received $5.5 million of lease revenue reported as miscellaneous income related to the Dow Subsurface lease agreement. The $5.5 million consisted of a one-time infusion of $5 million along with the first years agreed upon payment amount of $0.5 million.
(4) Restated due to adoption of GASB No. 75 and the City reclassified the Golf Course and Ambulance business-type activities as part of the general fund.
(5) Restated due to adoption of GASB No. 72.

TABLE 13 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Texas Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City. The proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are affected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On November 2, 1999, the voters approved an additional sales and use tax of one-half of one percent (½ of 1%) to promote economic development within the City. This one-half of one percent sales and use tax is for the benefit of the Freeport Economic Development Corporation (the "Corporation"), which operates as a Type B corporation under Chapter 501, et. seq of the Texas Local Government Code.

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2015	$ 2,965,840	129.66%	0.8792	$ 246
2016	3,229,113	131.39%	0.8496	268
2017	3,277,027	130.31%	0.8163	269
2018	2,983,492	113.51%	0.7125	244
2019	3,395,862	115.58%	0.7268	280
2020 (1)	2,287,784	73.13%	0.4545	189

Source: Texas Comptroller of Public Accounts
(1) Collections through June 30, 2020.

The sales tax breakdown for the City is as follows:

State Sales and Use Tax	6.25%
County Sales and Use Tax	0.50%
City Sales and Use Tax	1.00%
Corporation Sales and Use Tax	0.50%
TOTAL	8.25%

FINANCIAL POLICIES

Basis of Accounting . . . Budgets for the General, Special Revenue and Debt Service funds are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). The budgetary basis of accounting is different than the basis of accounting for auditing purposes. The City does not budget for all component units that are accounted for in the Comprehensive Annual Financial Report (CAFR).

General Fund Balance . . . The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund Balance . . . The City will establish a Debt Service Fund in connection with the issuance of the Bonds. Such Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Budgetary Procedures . . . The budget process starts many months before the adoption of the annual budget. In the month of May or June each year, the departments submit their budgetary needs to the City Manager. On or before the first day of August each year, the City Manager is required to submit a budget to the City Council for the ensuing fiscal year with an accompanying message. The budget and all supporting schedules must be filed with the City Secretary when submitted to the City Council and open for public inspection.

The City Council must analyze the budget, making any additions or deletions that they feel appropriate and must, at least ten days prior to the beginning of the next fiscal year, adopt the budget. On final adoption by the City Council, the budget takes effect for the next fiscal year.

Adoption of the budget constitutes adoption of an ordinance appropriating the amounts specified as proposed expenditures and an ordinance levying the property tax as the amount of the tax to be assessed and collected for the corresponding tax year. A separate ordinance is adopted to set the tax rate. Estimated expenditures cannot exceed available resources. Unused appropriations may be transferred to any item required for the same general purpose, except when otherwise specified by the City's charter or state law. Under conditions which may arise and which could not reasonably have been foreseen in the normal process of planning the budget, the City Council may amend or change the budget to provide for any additional expense in which the general welfare of the citizenry is involved. These amendments must be by ordinance, and become an attachment to the original budget.

INVESTMENTS

The City may invest its investable funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the City or obligations under a lease, installment sale, or other agreement of the City) in investments authorized by State law in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

LEGAL INVESTMENTS

Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

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

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

The City may also contract with an investment management firm registered (x) under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.), or (y) with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by ordinance, order or resolution.

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

INVESTMENT POLICIES

Under 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 include 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 of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS

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

TABLE 14 – CURRENT INVESTMENTS

As of April 30, 2020, the City's investable funds were invested in the following categories:

Type of Investments	Book	Market
Cash in Demand Accounts	$ 2,932,675	$ 2,932,675
Government Pools	6,383,963	6,383,963
	$ 9,316,638	$ 9,316,638

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Certificates should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Certificates.

TAX EXEMPTION

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

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

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

Except as stated above, Bond Counsel will express no opinion as to the amount of interest on the Certificates or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

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

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences . . . Prospective purchasers of the Certificates should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Certificates.

These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Certificates should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Certificates, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium . . . The issue price of a portion of the Certificates exceeds the stated redemption price payable at maturity of such Certificates. Such Certificates (the "Premium Certificates") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Certificate in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Certificate in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Certificate by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium.

The amount of bond premium on a Premium Certificate that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Certificate) is determined using the yield to maturity on the Premium Certificate based on the initial offering price of such Premium Certificate.

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

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

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

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

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

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

Purchase of Tax-Exempt Obligations by Financial Institutions

Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution's investment in tax-exempt obligations acquired after March 7, 1986. Section 265(b) also provides an exception for financial institutions for tax-exempt obligations that are properly designated or deemed designated by an issuer as "qualified tax-exempt obligations."

The Certificates have been designated as "qualified tax-exempt obligations" based, in part, on the City's representation that the amount of such bonds, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than "qualified 501(c)(3) bonds" or any obligations issued to currently refund any obligation to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the City during the calendar year 2020, is not expected to exceed $10,000,000. Further, the City and entities aggregated with the City under the Code have not designated more than $10,000,000 in "qualified tax-exempt obligations" (including the Certificates) during the calendar year 2020.

Notwithstanding the designation or deemed designation, as applicable, of the Certificates as "qualified tax-exempt obligations" under this exception, financial institutions acquiring the Certificates will be subject to a 20% disallowance of allocable interest expense.

Tax Legislative Changes

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

OTHER INFORMATION

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 rain events, hurricanes, tropical storms, and other tropical disturbances. While the City has a levy system protecting the majority of structures within the City, past storm events, including Hurricane Harvey, resulted in damages to City facilities or damages to residential and commercial properties in the City that comprise the City's ad valorem tax base. If a weather-related event were to significantly damage all or part of the improvements 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. Texas law relaxes limitations on increases in 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. See "TAX INFORMATION – Public Hearing and Maintenance and Operations Tax Rate Limitation." Further, there can be no assurance that a casualty loss to taxable property within the City will be covered by insurance (or property owners will choose to carry flood insurance), any insurance company will fulfill its obligations to provide insurance proceeds or that insurance proceeds will be used to rebuild or repair damaged improvements with in the City. Even if insurance proceeds are available and improvements are rebuilt, there could be a period of time in which assessed values within the City would 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, which disaster declaration he has subsequently extended. In addition, certain local officials, including the City and the County Judge of Brazoria County, also declared a local state of disaster. 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 issued a series of executive orders relating to COVID-19 preparedness and mitigation. Due to a recent spike in COVID-19 cases, recent executive orders modified the phased reopening of businesses in Texas, subject to further restrictions in the Governor's discretion. For example, Executive Order GA-28, which was issued on June 26, 2020, and remains in effect until modified, amended, rescinded or superseded by the Governor, established occupancy limits to 50 percent for most businesses in Texas, limited bars and similar establishments to drive-through, pickup or delivery options, and made most outdoor gatherings of more than 100 people subject to approval by local authorities, subject to exceptions outlined in the order. Businesses otherwise subject to a 50 percent occupancy limit and located in a county meeting certain Department of State Health Services criteria are eligible to operate at up to 75 percent of occupancy. In separate orders, the Governor imposed a moratorium on elective surgeries in a number of Texas counties. The Governor retains the authority to impose additional restrictions on activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

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 within the City. See "TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY" and "– TABLE 13 – MUNICIPAL SALES TAX HISTORY." The Certificates 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 Certificates as well as the City's operations and maintenance expenses. See "TAX INFORMATION – PUBLIC HEARING AND MAINTENANCE AND OPERATIONS 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. See "FINANCIAL INFORMATION –TABLE 13 – MUNICIPAL SALES TAX HISTORY."

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. The financial and operating data contained herein is as of the date and for the periods specified herein. Such information is generally for dates and periods prior to the economic impact of the Pandemic and measures instituted to slow it. 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.

EXPOSURE TO OIL AND GAS INDUSTRY

Recent declines in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. In the past, the greater Houston area has been particularly affected by adverse conditions in the oil and gas industry, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the City, resulting in a reduction in property tax revenue. The City is located in an area with a heavy concentration of petroleum refineries and chemical plants that is a source of employment for City residents. The Certificates are secured by an ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Certificates.

RATING

The Certificates and presently outstanding tax supported debt of the City are rated "AA-" by S&P Global Ratings, a Standard and Poor's Financial Services LLC business ("S&P) without regard to credit enhancement. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P 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 it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

LEGAL OPINIONS

The Certificates are offered when, as and if issued, subject to the approval by the Attorney General of the State and the rendering of an opinion by Bracewell LLP, Houston, Texas, Bond Counsel for the City, in substantially the form attached hereto as Appendix C. The City will furnish the Initial Purchaser with a complete transcript of proceedings held incident to the authorization and issuance of the Certificates, including the approving opinion of the Attorney General of the State of Texas as recorded in the Certificate Register of the Comptroller of Public Accounts of the State, to the effect that the Certificates are valid and legally binding obligations of the City under the Constitution and laws of the State. The City will also furnish the approving legal opinion of Bond Counsel in substantially the form attached hereto as Appendix C.

In its capacity as Bond Counsel, Bracewell LLP, Houston, Texas, has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. Bond Counsel's role in connection with the Official Statement was limited to reviewing the information describing the Certificates in the Official Statement to verify that such descriptions conform to the provisions of the Ordinance. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein. Certain legal matters will be passed on for the City by Bracewell LLP as Special Disclosure Counsel. The legal fee to be paid to Bond Counsel and Special Disclosure Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates.

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.

LITIGATION

The City is exposed to various risks of losses related to torts, theft of, damage to and destruction of fixed assets; error and omissions; injuries to employees; and natural disasters. The City has obtained commercial insurance coverage for some of these risks and provided various employee education and prevention programs. Various claims and lawsuits may be pending against the City at any given time, however in the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially adversely affect the City's financial position.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Pursuant to the Texas Public Securities Act, Chapter 1201, Texas Government Code, as amended, the Certificates, whether rated or unrated, are legal and authorized investments for insurance companies, fiduciaries or trustees and for municipalities and other political subdivision or public agencies. Most political subdivisions in the State are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, 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 of such entity's funds. The Public Funds Collateral Act, Chapter 2257, Texas Government Code, provides that deposits of public funds, as defined in such chapter must be secured by eligible security. "Eligible Security" is defined to include local government obligations (such as the Certificates) with a rating from a nationally recognized investment firm of "A" or its equivalent.

REGISTRATION, SALE AND DISTRIBUTION

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 laws of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Certificates under the securities laws of any other 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 other jurisdictions.

AUDITED FINANCIAL STATEMENTS

Whitley Penn LLP, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Whitley Penn LLP, relating to City's financial statements for the fiscal year ended September 30, 2019 is included in this Official Statement in APPENDIX B; however, Whitley Penn LLP, has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation 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.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Certificates, the City will furnish a Certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in this Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of the Certificates and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in this Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

NO-LITIGATION CERTIFICATE

The City will furnish the Initial Purchaser a certificate, dated as of the date of delivery of the Certificates, executed by an appropriate official of the City, to the effect that no litigation of any nature is then pending or threatened in any court, restraining or enjoining the issuance 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 proceeding for the issuance, execution or delivery of the Certificates; or affecting the validity of the Certificates.

FORWARD LOOKING STATEMENTS DISCLAIMER

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

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

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Certificates qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City's continuing disclosure obligations because the City has not issued more than $10,000,000 in aggregate amount of outstanding obligations and no person (other than the city) is committed by contract or other arrangement with respect to payment of the Certificates. As required by the exemption, in the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

ANNUAL REPORTS

The City will provide certain updated financial information and operating data, which is customarily prepared by the City and publicly available, annually to the MSRB. The financial information and operating data which will be provided with respect to the City is found in APPENDIX B (the City's Audited Financial Statements and certain supplemental schedules). The City will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2020. Any information so provided shall be prepared in accordance with the accounting principles described in the notes to the financial statements for the most recently concluded fiscal year, and audited if the City commissions an audit of such statements and the audit is completed within the period during which it must be provided. If the audit report is not complete within such period, then the City shall provide notice that audited financial statements are not available and shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available. The financial information and operating data shall be provided in an electronic format as prescribed by the MSRB.

If the City changes its fiscal year, it will notify the MSRB through EMMA of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to the MSRB through EMMA or filed with the United States Securities and Exchange Commission (the "SEC"), or may be provided in any other manner consistent with the SEC Rule 15c2-12 (the "Rule").

NOTICE OF CERTAIN EVENTS

The City will notify the MSRB through EMMA of any of the following events with respect to the Certificates in a timely manner, and not more than 10 business days after occurrence of the event:

1) Principal and interest payment delinquencies;

2) Non-payment related defaults, if material;

3) Unscheduled draws on debt service reserves reflecting financial difficulties;

4) Unscheduled draws on credit enhancements reflecting financial difficulties;

5) Substitution of credit or liquidity providers, or their failure to perform;

6) Adverse tax opinions the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Certificates, or other material events affecting the tax status of the Certificates;

7) Modifications to rights of Registered Owners of the Certificates, if material;

8) Certificate calls, if material, and tender offers;

9) Defeasances;

10) Release, substitution, or sale of property securing repayment of the Certificates; if material;

11) Rating changes;

12) Bankruptcy, insolvency, receivership, or similar event of the City, which will occur as described below;

13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

15) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, 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 the financial obligation of the obligated person, any of which reflect financial difficulties.

For these purposes, (A) any event described in the subsection (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, (B) as used in subsections (15) and (16), “Financial Obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule, and (C) the City intends the words used in paragraphs (15) and (16) and the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated March 20, 2018 (the “2018 Release”) and any further written guidance provided by the SEC or its staff with respect to the amendments to the Rule effected by the 2018 Release.

AVAILABILITY OF INFORMATION

The City has agreed to provide the foregoing information only as described on the prior page. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS

The City shall be obligated to update information and provide notices of events for so long as, but only for so long as, the City remains an "obligated person" with respect to the Certificates within the meaning of the Rule, except that the City in any event will give notice of any redemption calls and any defeasances that cause the City to be no longer an "obligated person." The City has undertaken to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above.

The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement. No default by the City in observing or performing its obligations under its undertaking shall constitute a breach of or default under the Ordinance for purposes of any other provisions of the Ordinance.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the initial primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders 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 holders and 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 the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling 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

Prior to the issuance of the Certificates, the City did not have any continuing disclosure requirements in accordance with SEC Rule 15c2-12.

FINANCIAL ADVISOR

Masterson Advisors LLC 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. Masterson Advisors LLC, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

INITIAL PURCHASER

INITIAL PURCHASER

After requesting competitive bids for the Certificates, the City accepted the bid of The Baker Group, LP (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the inside cover of this Official Statement at a purchase price of 104.626811% of par. The initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser. The City has no control over the price at which the Certificates are subsequently sold. The Initial Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The City

The City is located in the southeast quadrant of the State of Texas, in the southern portion of Brazoria County approximately 60 miles south of Houston and 45 miles southwest of Galveston. The City encompasses 15 square miles and is located near the Gulf of Mexico. The City provides basic municipal services to its citizens including police protection, ambulance service, fire-fighting service, public works, and development services.

Population

1970 Official Census	1980 Official Census	1990 Official Census	2000 Official Census	2010 Official Census	2019 Estimate
11,997	13,444	11,389	12,708	12,049	12,136

Source: United States Census Bureau

Transportation

Access to the City is provided by State Highway 288 (a limited access freeway) which extends from Houston to Freeport. Additional access is provided by State Highway 332, which intersects with State Highway 288, and State Highway 36, which extends from north central Texas.

Deepwater transportation is available through the Gulf of Mexico, Brazos River Harbor, and the Gulf Intracoastal Waterway, which cuts through the low lands of the County. Port Freeport is located on the Freeport Harbor Channel (also referred to as the Brazos River Channel) between the mouth of the Brazos River and the Gulf of Mexico.

Railroad facilities are provided by the Union Pacific; and several bus and truck lines serve the area.

Air transportation is provided at the Texas Gulf Coast Regional Airport, located approximately 12 miles north of the City in Angleton. The fully F.A.A. approved facility has the capability to serve commercial jet aircraft.

City Facilities

City facilities include the City Hall, the Police and Fire Stations, the Library, Museum, the Recreation Center, the Freeport Municipal Golf Course, parks and 3.5 miles of public beaches. The City Hall houses the administrative offices and the Police Station houses the Council chamber of the City and Municipal Court.

The Industrial District

The City of Freeport has entered into three Industrial Development Agreements: Brazosport IDA (Interlocal agreement with the Cities of Lake Jackson and Clute), Freeport IDA, and Freeport LNG. Annual Brazosport IDA and Freeport IDA payments are calculated based on the greater of property values or CPI. Freeport LNG Industrial District payments are made in accordance to a payment schedule outline in the agreement. The amount received under the various industrial district contracts during the year ended September 30, 2019 was $7,532,865 and is reported in the General Fund.

Education

The City is in the Brazosport Independent School District, which operates ten elementary schools, two middle schools, three intermediate schools and two high schools. Two of the elementary schools, one middle school, one intermediate and one high school are located within the boundaries of the City.

The Brazosport Junior College District, which encompasses the City of Lake Jackson, was established in 1971. In addition to its two-year programs, the college now offers a Bachelor of Applied Technology program. The program was designed in coordination with local industry to help meet their employment needs. The college also offers Associate of Arts and Sciences degrees, and two-year programs are offered in banking, chemical technology, computer technology, drafting and design, electronics, law enforcement, machine tools, ocean and marine technology, office education, and nursing. The college is fully accredited by the Southern Association of Colleges and Secondary Schools and the Association of Texas Colleges and Universities.

BRAZORIA COUNTY

Brazoria County (the "County"), within which the City is located, covers an area of 1,609 square miles and comprises the Brazoria Primary Metropolitan Statistical Area, a component of the Houston Statistical Metropolitan Area. The population of the County as of the 2019 Census estimate is 374,264. In 2017 the total Gross Domestic Product in Brazoria County was slightly over $21 billion, with manufacturing contributing the largest portion of that at $10.2 billion. The world's largest basic chemical complex, The Dow Chemical Company, is located in the County, contributing to the extensive petroleum and chemical production in the area. (The Economic Development Alliance for Brazoria County.)

Major Employers

Employer	Location	Type	Number of Employees
The Dow Chemical Company	Freeport	Chemical	3,508
Alvin I.S.D.	Alvin	Education	3,274
Pearland I.S.D.	Pearland	Education	2,675
Texas Dept. of Criminal Justice	County-wide	Criminal Justice	2,409
Brazosport I.S.D.	Clute	Education	1,829
Wood Group (formerly The Infinity Group)	Clute	Contractor	1,800
Brazoria County	County-wide	Government	1,414
Olin Corporation	Freeport	Chemical	1,280
Performance Contractors	Iowa Colony	Contractor	1,200
Phillips 66	Sweeny	Refining	1,071
Fluor	Freeport	Contractor	970
Angleton I.S.D.	Angleton	Education	962
BASF Corporation	Freeport	Chemical	941
Schlumberger Technology Corp.	Rosharon	Oil Well Services	849
Kelsey-Seybold	Pearland	Medical	801
Brock Group	Clute	Industrial Insulation/Scaffolding	792
EXCEL	Freeport	Contractor	762
Marquis Construction Services	Clute	Contractor	740
City of Pearland	Pearland	Government	696
Chevron Phillips Chemical Co.	Sweeny	Chemical	615
INEOS Olefins & Polymers USA	Alvin	Chemical	575

Source: Economic Development Alliance for Brazoria County

Employment Statistics

Brazoria County				
Calendar Year	Labor Force	Employment	Unemployment	Unemployment Rate
2015	167,079	159,444	7,635	4.6%
2016	169,795	161,001	8,794	5.2%
2017	173,279	164,089	9,190	5.3%
2018	176,559	168,602	7,957	4.5%
2019	179,539	172,008	7,531	4.2%
2020 (1)	165,699	143,372	22,327	13.5%

Source: Texas Workforce Commission
(1) Through April 2020

APPENDIX B

EXCERPTS FROM THE

CITY OF FREEPORT, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2019

The information contained in this Appendix consists of excerpts from the City of Freeport, Texas Annual Financial Report for the Year Ended September 30, 2019, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

Houston Office
3737 Buffalo Speedway
Suite 1600
Houston, Texas 77098
713.621.1515 Main

whitleypenn.com

REPORT OF INDEPENDENT AUDITORS

To the Honorable Mayor and
Members of the City Council
City of Freeport, Texas

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Freeport, 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.

Auditor's 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 auditor's 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 entity'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 entity'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.

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

To the Honorable Mayor and
Members of the City Council
City of Freeport, Texas

Opinions

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 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 on pages 3 through 10 and budgetary comparison information, pension system and other post-employment benefit supplementary information on pages 57 through 62 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 combining fund statements and debt service budgetary comparison schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund statements and debt service budgetary comparison schedule 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 fund statements and debt service budgetary comparison schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole and debt service budgetary comparison schedule.

Whitley Penn LLP

Houston, Texas
March 20, 2020

As management of the City of Freeport (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019.

Financial Highlights

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $29.3 million *(net position).* Of this amount, $3.9 million *(unrestricted net position)* may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by $0.3 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $9.8 million, a decrease of $0.6 million over the prior year. Approximately 90% of this total amount, $8.8 million, is *available for spending* at the government's discretion *(unassigned fund balance).*
- At the end of the current fiscal year, unassigned fund balance for the general fund was 49% of total general fund expenditures.
- The City's long-term debt decreased by $0.7 million over the prior year primarily due to scheduled principal payments made during the year.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, economic development, public safety, streets and drainage, sanitation, service center, and culture and recreation. The business- type activities of the City include the operations of the water and sewer system. The government-wide financial statements can be found on pages 13 through 15 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund which is considered to be a major fund. Data from the other five governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund and debt service fund. Budgetary comparison schedules have been provided for the general fund and debt service fund to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on pages 16 through 19 of this report.

Proprietary Fund

The City maintains one type of proprietary fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer utility.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operating fund that is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 20 through 22 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 54 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees and general fund budgetary comparisons. Required supplementary information can be found on pages 57 through 62 of this report

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found beginning on page 68 of the City's financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $29.3 million (net position). At the end of the current fiscal year, the City was able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

By far, the largest portion of the City's net position (83.3%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (3.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, 13.3% or $3.9 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The following table summarizes the financial position of the City as of September 30, 2019 and 2018.

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	$ 11,883	$ 12,349	$ 748	$ 1,095	$ 12,631	$ 13,444
Capital assets	17,998	17,316	8,615	8,265	26,613	25,581
Total Assets	29,881	29,665	9,363	9,360	39,244	39,025
Deferred Outflows of Resources	2,050	1,026	25	13	2,075	1,039
Current and other liabilities	1,177	919	536	884	1,713	1,803
Long-term liabilities	10,099	8,181	94	68	10,193	8,249
Total Liabilities	11,276	9,100	630	952	11,906	10,052
Deferred Inflows of Resources	106	585	1	7	107	592
Net position:						
Net investment in capital assets	15,803	14,447	8,615	8,265	24,418	22,712
Restricted	978	265	-	-	978	265
Unrestricted	3,768	6,294	142	149	3,910	6,443
Total Net Position	$ 20,549	$ 21,006	$ 8,757	$ 8,414	$ 29,306	$ 29,420

The City's net position decreased by 0.4% or $0.1 million during the current fiscal year due to normal operations of the City.

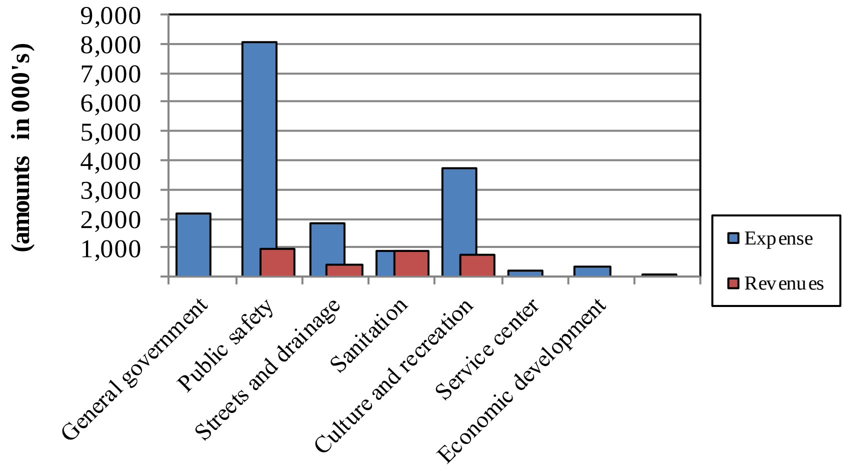
The following table summarizes the changes in net position for the City for the years ended September 30, 2019 and 2018.

	Governmental Activities		Business-type Activities		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Revenues						
Program revenue:						
Charges for services	$ 2,500	$ 3,125	$ 4,844	$ 4,836	$ 7,344	$ 7,961
Operating grants and contributions	224	136	276	104	500	240
Capital grants and contributions	294	-	-	-	294	-
General revenues:						
Property taxes	3,124	2,676	-	-	3,124	2,676
Industrial payments	7,533	5,971	-	-	7,533	5,971
Sales and use taxes	3,280	3,275	-	-	3,280	3,275
Franchise taxes	615	611	-	-	615	611
Unrestricted investment earnings	249	177	2	6	251	183
Miscellaneous	444	6,062	-	-	444	6,062
Total Revenues	18,263	22,033	5,122	4,946		26,979
Expenses:						
General government	2,160	2,164	-	-	2,160	2,164
Public safety	8,061	7,006	-	-	8,061	7,006
Streets and drainage	1,851	1,865	-	-	1,851	1,865
Sanitation	900	962	-	-	900	962
Culture and recreation	3,701	3,407	-	-	3,701	3,407
Service center	222	168	-	-	222	168
Economic development	383	296	-	-	383	296
Interest on long-term debt	115	155	-	-	115	155
Water and sewer	-	-	5,738	5,294	5,738	5,294
Total Expenses	17,393	16,023	5,738	5,294	23,131	21,317
Increase in net position before transfers	870	6,010	(616)	(348)	254	5,662
Transfers	(959)	(503)	959	503		
Change in net position	(89)	5,507	343	155	254	5,662
Net position - beginning, as restated	20,638	15,499	8,414	8,259	29,052	23,758
Net position - ending	$ 20,549	$ 21,006	$ 8,757	$ 8,414	$ 29,306	$ 29,420

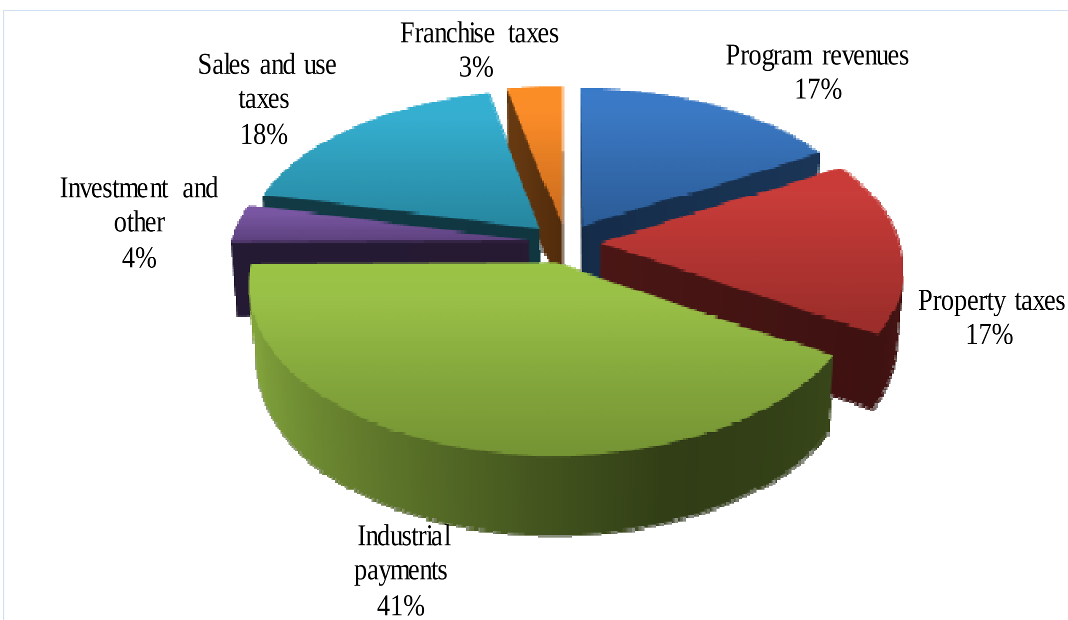
Governmental Activities

Governmental activities decreased the City's net position by approximately $0.1 million due to normal operations.

A comparison of program expenses to program revenues follows:

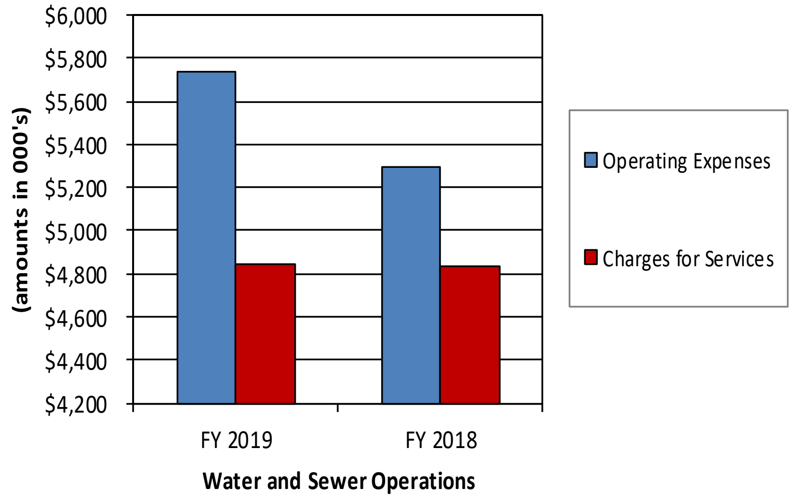


Revenue sources for governmental activities were distributed as follows:



Business-type Activities

Business-type activities increased the City's net position by $0.3 million. A comparison between expenses relating to water and sewer operations and program revenues (charges for services) for fiscal years 2019 and 2018 follows:



Revenue sources for business-type activities were almost entirely charges for water and sewer services.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance was $8.8 million. The unassigned fund balance decreased by $1.3 million from fiscal year 2018 due to the City paying off several lease-purchase agreements, totaling $1.1 million, along with the normal debt payments made during the fiscal year.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 49% of annual general fund expenditures for the 2019 fiscal year.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements.

Unrestricted net position of the Water and Sewer Enterprise Fund at the end of the year amounted to $0.1 million or 2% of annual operating expenses for the fund.

General Fund Budgetary Highlights

Actual revenues differed from budgeted revenues by $0.5 million primarily as a result of lower than expected sales tax revenue.

Appropriations in the final budget exceeded actual expenditures by $1.3 million. Actual expenditures for public safety and streets and drainage were less than appropriations in the final budget by $0.1 million and $0.1 million, respectively, due to capital improvements that were budgeted in fiscal year 2019 but did not occur or were to take place in the next fiscal year.

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2019, amounted to $26.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, roads, park facilities, water and sewer plants and service lines, machinery and equipment, and construction in progress. Capital asset balances increased by approximately $1.0 million from the prior year due to contributions and construction of infrastructure.

The following table shows the balances at September 30, 2019 and 2018:

	2019	2018
Governmental Activities		
Capital assets, not being depreciated:		
Land	$ 4,915	$ 4,919
Construction in progress	551	-
Capital assets being depreciated:		
Streets and improvements	6,923	7,586
Buildings and improvements	1,723	1,493
Furniture, equipment, and vehicles	3,886	3,319
Total capital assets - Governmental Activities	$ 17,998	$ 17,316
Business-type Activities		
Capital assets, not being depreciated:		
Land	$ 56	$ 56
Construction in progress	-	294
Capital assets being depreciated:		
Water and sewer infrastructure	8,559	7,915
Total capital assets - Business-Type Activities	$ 8,615	$ 8,265

Additional information on the City's capital assets can be found in Note 5 to the basic financial statements of this report.

Long-term Liabilities

At the end of the current fiscal year, the City had total debt outstanding of $2.2 million. This is a decrease from the prior year of $0.7 million due to scheduled principal payments made during the year. The entire amount of debt is backed by the full faith and credit of the City. A schedule of long-term liabilities at September 30, 2019 and 2018 follows (in $000's):

	2019	2018
General obligation bonds	$ 1,080	$ 1,797
Notes payable/capital leases	1,115	1,073
	$ 2,195	$ 2,870

The City has no legal debt limit provision in its charter. Additional information on the City's long-term debt can be found in Note 6 to the basic financial statements of this report.

Economic Factors and Next Year's Budget and Rates

Each year the budget is prepared on key objectives and assumptions.

The property tax rate for fiscal 2020 (tax year 2019) remained the same $0.628005 per $100 of assessed value. The Maintenance and Operation rate increased by $0.051000 per $100 of assessed value while the Interest and Sinking rate decreased by the same amount. Property tax revenue for the City is budgeted $205,557 higher than the previous year which is a 6.97% increase. Of this revenue, $182,753 is expected be from new property added to the tax roll.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the Finance Director, City of Freeport, 200 W. 2nd Street, Freeport, TX 77541

BASIC FINANCIAL STATEMENTS

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CITY OF FREEPORT, TEXAS
STATEMENT OF NET POSITION
September 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	$ 9,682,468	$ 11,383	$ 9,693,851
Receivables, net of allowance	1,897,620	868,007	2,765,627
Due from other governments	171,401	-	171,401
Internal balances	131,294	(131,294)	-
Capital assets, not subject to depreciation:			
Land	4,915,116	56,200	4,971,316
Construction in progress	550,820	-	550,820
Capital assets, net of depreciation:			
Streets and improvements	6,923,135	-	6,923,135
Buildings and improvements	1,723,151	-	1,723,151
Furniture, equipment, & vehicles	3,885,738	-	3,885,738
Water and Sewer System	-	8,558,729	8,558,729
Total Capital Assets	17,997,960	8,614,929	26,612,889
Total Assets	29,880,743	9,363,025	39,243,768
Deferred Outflows of Resources			
Deferred outflows of resources for pensions	2,001,967	25,100	2,027,067
Deferred outflows of resources for OPEB	48,061	200	48,261
Total Deferred Outflows of Resources	2,050,028	25,300	2,075,328
Liabilities			
Accounts payable	599,753	263,913	863,666
Accrued liabilities	556,348	4,053	560,401
Accrued interest	20,354	-	20,354
Customer deposits	-	268,886	268,886
Noncurrent liabilities:			
Due within one year	1,336,593	2,758	1,339,351
Due in more than one year	1,320,022	4,138	1,324,160
Net Pension Liability	6,636,871	83,000	6,719,871
Total OPEB liability	805,928	3,800	809,728
Total Liabilities	11,275,869	630,548	11,906,417
Deferred Inflows of Resources			
Deferred intflows of resources for pensions	64,264	800	65,064
Deferred intflows of resources for OPEB	41,912	300	42,212
Total Deferred Inflows of Resources	106,176	1,100	107,276
Net Position			
Net investment in capital assets	15,803,204	8,614,929	24,418,133
Restricted for:			
Debt service	94,289	-	94,289
Municipal court operations	139,611	-	139,611
Economic development	743,631	-	743,631
Unrestricted	3,767,991	141,748	3,909,739
Total Net Position	$ 20,548,726	$ 8,756,677	$ 29,305,403

CITY OF FREEPORT, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

		Program Revenue		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government				
Governmental Activities:				
General government	$ 2,160,475	$ -	$ -	$ -
Public safety	8,060,384	744,978	189,385	-
Streets and drainage	1,851,391	111,835	-	293,545
Sanitation	899,603	898,695	-	-
Service Center	221,588	-	-	-
Culture and recreation	3,700,755	744,640	34,526	-
Economic development	382,586	-	-	-
Interest on long-term debt	115,029	-	-	-
Total governmental activities	17,391,811	2,500,148	223,911	293,545
Business-type activities:				
Water and sewer	5,737,983	4,843,887	275,594	-
Total business-type activities	5,737,983	4,843,887	275,594	-
Total primary government	$ 23,129,794	$ 7,344,035	$ 499,505	$ 293,545

General revenues:
Taxes:
Property taxes
Sales and use taxes
Franchise taxes
Industrial district revenues
Unrestricted investment earnings
Miscellaneous
Transfers
Total general revenues and transfers
Change in net position
Net Position - beginning, as restated
Net Position - Ending

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (2,160,475)	$ -	$ (2,160,475)
(7,126,021)	-	(7,126,021)
(1,446,011)	-	(1,446,011)
(908)	-	(908)
(221,588)	-	(221,588)
(2,921,589)	-	(2,921,589)
(382,586)	-	(382,586)
(115,029)	-	(115,029)
(14,374,207)	-	(14,374,207)
-	(618,502)	(618,502)
-	(618,502)	(618,502)
(14,374,207)	(618,502)	(14,992,709)
3,123,786	-	3,123,786
3,279,952	-	3,279,952
614,940	-	614,940
7,532,865	-	7,532,865
249,377	2,009	251,386
443,621	-	443,621
(959,159)	959,159	-
14,285,382	961,168	15,246,550
(88,825)	342,666	253,841
20,637,551	8,414,011	29,051,562
$ 20,548,726	$ 8,756,677	$ 29,305,403

CITY OF FREEPORT, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2019

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 8,886,544	$ 795,924	$ 9,682,468
Receivables, net of allowance		-	
Taxes receivables	537,099	238,227	775,326
Customer accounts	661,464	-	661,464
Other receivables	454,355	6,475	460,830
Due from other funds	244,359	140,074	384,433
Due from other governments	171,401	-	171,401
Total Assets	$ 10,955,222	$ 1,180,700	$ 12,135,922
Liabilities			
Accounts payable	$ 530,170	$ 69,583	$ 599,753
Accrued liabilities	555,995	353	556,348
Due to other funds	182,810	70,329	253,139
Total Liabilities	1,268,975	140,265	1,409,240
Deferred Inflows of Resources			
Unavailable revenues	862,625	36,235	898,860
Total Deferred Inflows of Resources	862,625	36,235	898,860
Fund Balances (Deficits)			
Restricted:			
Debt service	-	78,408	78,408
Capital projects	-	54,068	54,068
Municipal court operations	-	139,611	139,611
Economic Development	-	743,631	743,631
Unassigned	8,823,622	(11,518)	8,812,104
Total Fund Balances (Deficits)	8,823,622	1,004,200	9,827,822
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 10,955,222	$ 1,180,700	$ 12,135,922

See notes to the basic financial statements.

CITY OF FREEPORT, TEXAS

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

September 30, 2019

Total fund balance, governmental funds	$	9,827,822
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable		17,997,960
Certain other unavailable assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		
Unavailable revenue		898,860
Deferred inflows and outflows related to pension activities		1,937,703
Deferred inflows and outflows related to OPEB activities		6,149
Long-term liabilities are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.		
Bonds payable		(1,080,000)
Notes payable		(774,277)
Capital leases payable		(340,479)
Accrued interest payable		(20,354)
Net pension liability		(6,636,871)
Total OPEB liability		(805,928)
Compensated absences		(461,859)
Net Position of Governmental Activities in the Statement of Net Position	$	20,548,726

CITY OF FREEPORT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2019

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes:			
Property taxes	$ 2,423,536	$ 599,048	$ 3,022,584
Sales and use taxes	2,134,644	1,067,322	3,201,966
Franchise fees and other	656,340	36,586	692,926
Industrial district	7,532,865	-	7,532,865
Fines and forfeitures	367,728	61,882	429,610
Licenses and permits	111,835	-	111,835
Intergovernmental	283,820	9,405	293,225
Charges for services	2,355,053	-	2,355,053
Investment earnings	246,756	2,621	249,377
Miscellaneous	199,376	11,003	210,379
Lease income	261,127	-	261,127
Total Revenues	16,573,080	1,787,867	18,360,947
Expenditures			
Current:			
General government	1,773,256	-	1,773,256
Public safety	6,756,492	77,597	6,834,089
Streets and drainage	1,135,290	-	1,135,290
Sanitation	899,603	-	899,603
Service center	157,600	-	157,600
Culture and recreaction	2,940,884	9,398	2,950,282
Economic development	25,000	285,239	310,239
Capital outlay	3,179,214	-	3,179,214
Debt service:			
Principal	1,222,117	805,849	2,027,966
Interest and other charges	59,723	92,088	151,811
Total Expenditures	18,149,179	1,270,171	19,419,350
Excess (deficiency) of revenues over (under) expenditures	(1,576,099)	517,696	(1,058,403)
Other Financing Sources (Uses)			
Proceeds from capital lease	1,353,113	-	1,353,113
Insurance recoveries	36,913	-	36,913
Transfers in	-	153,454	153,454
Transfers out	(1,112,613)	-	(1,112,613)
Total other financing sources (uses)	277,413	153,454	430,867
Net changes in fund balances	(1,298,686)	671,150	(627,536)
Fund balances - beginning	10,122,308	333,050	10,455,358
Fund balances - ending	$ 8,823,622	$ 1,004,200	$ 9,827,822

CITY OF FREEPORT, 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 change in fund balances - total governmental funds:	$ (627,536)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The capital asset expenditures are allocated over the assets' estimated useful lives as depreciation expense for the period.	
Capital Outlay	3,174,661
Depreciation	(2,459,719)
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the book value of the asset sold.	(33,471)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.	
Unavailable property tax revenue	101,202
Unavailable fines and forefeiture's	(29,153)
Unavailable EMS revenue	(375,482)
Unavailable FEMA Disaster Recovery revenue	171,401
Contributions are treated as expenditures in the fund based financial statements, but are treated as reductions in the City's net pension/OBEB liability in the statement of net position. This amount is the difference between contributions and net pension/OPEB expense (revenue) for the current fiscal year.	
Pension related activities	(527,216)
OPEB related activities	(43,715)
Governmental funds report proceeds from long-term debt as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of long-term debt principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.	
Debt service principal	2,027,966
Proceeds from capital leases	(1,353,113)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
(Increase) decrease in accrued interest	36,782
(Increase) decrease in compensated absences	(151,432)
Change in net position of governmental activities	$ (88,825)

CITY OF FREEPORT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2019

		Business-type Activities
		Water and Sewer
Assets		
Current assets:		
Cash and cash equivalents	$	11,383
Receivables, net of allowance		
Customer accounts		806,624
Other receivables		3,240
Due from other funds		56,607
Receivables from other governments		58,143
Total Current Assets		935,997
Non-current assets:		
Capital Assets		
Land		56,200
Utility system		25,346,653
Equipment and furniture		146,765
Less accumulated depreciation		(16,934,688)
Total Non-Current Assets		8,614,930
Total Assets		9,550,927
Deferred Outflows of Resources		
Deferred outflows of resources for pensions		25,100
Deferred outflows of resources for OPEB		200
Total Deferred Outflows of Resources		25,300
Liabilities		
Current liabilities:		
Accounts payable		263,913
Accrued liabilities		4,054
Due to other funds		187,901
Customer deposits		268,886
Total Current Liabilities		724,754
Non-current liabilities:		
Compensated absences		6,896
Net pension liability		83,000
Total OPEB liability		3,800
Total Non-Current Liabilities		93,696
Total Liabilities		818,450
Deferred Inflows of Resources		
Deferred intflows of resources for pensions		800
Deferred intflows of resources for OPEB		300
Total Deferred Inflows of Resources		1,100
Net Position		
Investment in capital assets		8,614,930
Unrestricted		141,747
Total Net Position	$	8,756,677

CITY OF FREEPORT, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUND

For the Year Ended September 30, 2019

	Business-type Activities
	Water and Sewer
Operating Revenues	
Charges for services	$ 4,843,887
Total Operating Revenues	4,843,887
Operating Expenses	
Personnel services	125,512
Supplies	24,526
Contracted services	2,695,782
Other	127,776
Water purchased	2,281,123
Depreciation	483,264
Total Operating Expenses	5,737,983
Operating income (loss)	(894,096)
Non-Operating Revenues (Expenses)	
Interest and investment revenue	2,009
Operating grants and contributions	275,594
Total Non-Operating Revenues (Expenses)	277,603
Income (loss) before transfers	(616,493)
Transfers in	959,159
Change in net position	342,666
Net position - beginning	8,414,011
Net position - ending	$ 8,756,677

See notes to the basic financial statements.

CITY OF FREEPORT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2019

		Business-type Activities
		Water and Sewer
Cash Flows From Operating Activities		
Receipts from customers and users	$	4,739,720
Cash payments to employees for services		(119,074)
Cash payments to suppliers for goods and services		(5,301,698)
Net cash provided by (used for) operating activities		(681,052)
Cash Flows from Noncapital Financing Activities		
Transfers from other funds		959,159
Net cash (used for) by noncapital financing activities		959,159
Cash Flows From Capital and Related Financing Activities		
Transfer of proceeds to fiscal agent		275,594
Acquisition and construction of capital assets		(833,222)
Net cash provided by (used for) capital and related financing activities		(557,628)
Cash Flows From Investing Activities		
Investment earnings		2,009
Net cash provided by investing activities		2,009
Net increase (decrease) in cash and cash equivalents		(277,512)
Cash and cash equivalents - beginning of year		288,895
Cash and cash equivalents - end of year	$	11,383
Reconciliation of operating lincome (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$	(894,096)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		483,264
(Increase) decrease in accounts receivable		(118,867)
(Increase) decrease in pension deferred outflows		(12,200)
(Increase) decrease in OPEB deferred outflows		(200)
Increase (decrease) in interfund payables		187,901
Increase (decrease) in accounts payable		(360,392)
Increase (decrease) in other liabilities		(335)
Increase (decrease) in customer deposits		14,700
Increase (decrease) in accrued compensated absences		909
Increase (decrease) in OPEB liability		(1,536)
Increase (decrease) in net pension liability		26,000
Increase (decrease) in pension deferred inflows		(6,500)
Increase (decrease) in OPEB deferred inflows		300
Total adjustments		213,044
Net cash provided by (used for) operating activities	$	(681,052)

Note 1 - Organization

The City of Freeport (City) operates under a Home Rule Charter adopted in a special election on June 20, 1960. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public services, streets and drainage, sanitation, health and building inspections, culture-recreation, public improvements, planning and zoning, and general administrative services.

Note 2 - Summary of Significant Accounting Policies

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

A. Reporting Entity

Primary government

The City is considered an independent entity for financial reporting purposes 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. Based on these considerations, the City's basic financial statements do not include any other entities. 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 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 other 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.

The members of City council (the "members") are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is considered a primary government for financial reporting purposes.

Note 2 - Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Blended Component Unit

The City Council authorized the creation and approved the Articles of Incorporation and the Bylaws of the Freeport Economic Development Corporation (the Corporation). The Articles of Incorporation were filed with the Office of the Secretary of State of Texas on December 20, 1999. The Corporation, a nonprofit corporation, organized under Section 4B of the development Corporation Act of 1979 was created to act on behalf of the City in the promotion and financing of projects so as to promote the public welfare.

The Corporation is governed by a seven member board of directors appointed by the City Council. All projects must have prior approval of the City Council. The voters of Freeport approved collection of a one- half cent sales tax, effective November 2, 1999, to fund the cost of land, buildings, equipment, facilities, improvements and maintenance and operation costs for public park purposes, recreational facilities and infrastructure improvements for development of new or expanded business enterprises. In prior years, the Freeport Economic Development Corporation (the “Corporation”) provided services entirely or, almost entirely, to the City or otherwise exclusively or almost exclusively benefited the City even though it did not provide services directly to it and is reported as a blended component unit. However, during the years ended September 30, 2007 through 2014, the Corporation constructed and entered into a long-term lease for a marina with a company unrelated to the City. Because of this, the City was reported as a discretely presented component unit until it divested itself of the marina operations. During the current year, it was reported as a blended component unit.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its blended component units. For the most part, the effect of interfund activity has been eliminated from these statements. However, interfund services provided and used are not eliminated in the consolidation process. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support.

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Property taxes collected within 60 days subsequent to September 30, 2019, have not been recorded as revenue as the amount is not considered material. Franchise taxes and sales taxes relating to underlying transactions that occurred prior to September 30, 2019, have been recorded as receivables and revenue. Licenses and permits and fines are not susceptible to accrual since they are not measurable until received. Revenue on federal and state cost-reimbursement grants is accrued when the related expenditures are incurred. Interest is recorded when earned.

The City reports one major governmental fund:

> The *General Fund* is used to account for all financial transactions that are not accounted for in other funds of the City. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, franchise taxes, licenses and permits, and fines and forfeitures. Expenditures are for general government, public safety, public works and parks and recreation.

The City reports one major proprietary fund:

> The *Water and Sewer Enterprise Fund* is used to account for operations of the water and sewer division and the construction of related facilities. The fund is financed and operated in a manner similar to private business enterprises -- where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis 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), impact fees and other City funds.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Net position is categorized into three components – net investment in capital assets, restricted, and unrestricted. These classifications are as follows:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted net position - This component of net position consists of the balance of net position that does not meet the definition of the other components noted above.

D. Cash and Cash Equivalents

The City reports cash and cash equivalents in the City's statement of cash flows for Proprietary Fund types and in all other financial statements of financial position. The City considers cash and cash equivalents to be cash on hand, demand deposits, certificates of deposit, balances in public funds investment pools and short-term investments with original maturities of three months or less from the date of acquisition.

The City's local government investment pools are recorded at amortized costs.

E. Receivables and payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles.

The City levies taxes on or about October 1, of each year. Property taxes attach as an enforceable lien on property as of January 1. These taxes are due by January 31, and are considered delinquent after that date, at which time interest is charged at a rate established by the state property tax code. Collections made on or after July 1, are subject to an additional fifteen percent collection fee.

Property tax revenue is recognized when levied to the extent that they are available. The combined tax rate to finance general governmental service and debt service for the year ended September 30, 2019 was $0.62800 per $100 of assessed valuation.

Note 2 - Summary of Significant Accounting Policies (continued)

F. Inventories and Prepaid Items

In accordance with the consumption method of accounting, both inventories and prepaid items of governmental funds are recorded as expenditures when consumed rather than when purchased.

Inventories of the General and Enterprise Funds are valued at the lesser of cost (weighted moving average) or fair value. Inventories for all funds consist of expendable supplies held for consumption, and the cost thereof is recorded as an expense/expenditure at the time the inventory items are issued (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.

G. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of $5,000 and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records exist. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement should be reported at acquisition value rather than fair value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain, and equipment are capitalized and depreciated over the remaining useful lives of the related capital assets using the straight line method, as applicable.

Asset	Estimated Useful Lives
Utility Plant	40 years
Vehicles and Equipment	5-15 years
Building and improvements	10-20 years

H. Compensated Absences

Employees earn vacation based on years of service with the City. In accordance with GAAP, the liability for accumulated vacation at September 30, 2019, has been recorded as a liability in the Government-Wide Statement of Net Position.

Eligible City employees accrue vacation time monthly at various rates based on length of service with the City. Employees may elect to carry over a maximum of fifteen (15) days past his/her yearly anniversary date. It is possible for employees to have accrued vacation time at September 30, which has not yet been lost. The City's sick leave policy provides fifteen paid sick days per year for full-time employees. Unused sick leave can be accumulated to a maximum of ninety (90) days.

Note 2 - Summary of Significant Accounting Policies (continued)

I. Deferred Outflows/Inflows of Resources

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

- Deferred outflows of resources for pension - Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the City's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the plan.

- Deferred outflows of resources for other post-employment benefits ("OPEB") - Reported in the government wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of 1) differences between projected and actual earnings on OPEB plan investments and 2) changes in the City's proportional share of OPEB liabilities. The deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five-year period. The remaining OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the plan.

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

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes, EMS services, and other miscellaneous items arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Note 2 - Summary of Significant Accounting Policies (continued)

I. Deferred Outflows/Inflows of Resources (continued)

- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the City's proportional share of pension liabilities. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

- Deferred inflows of resources for other post-employment benefits ("OPEB") – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the plan.

J. Debt Service

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 the debt is reported as other financing resources. 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.

K. Use of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ from these estimates.

L. Fund Equity

In the fund financial statements, the City categorizes portions of fund balance into categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balance – amounts that are subject to external restrictions from creditors, grantors, contributors, or laws of other governments.

Note 2 - Summary of Significant Accounting Policies (continued)

L. Fund Equity (continued)

Committed fund balance - amounts constrained for specific purposes as determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances approved by City Council. City Council will approve obligations of funds, such as multiyear contracts, prior to the end of the fiscal year.

Assigned fund balance - amounts the City intends to use for a specific purpose that is neither restricted or committed and includes the remaining positive fund balance of all governmental funds except for the General Fund. Balances for encumbrances, other than those committed by City Council, fall into this category. Under the City's adopted policy, Resolution No. 465, intent to assign fund balance can be established by City Council or delegated to the City Administrator.

Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City's council meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The City's Unassigned General Fund Balance is maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the council. Fund Balance of the City may be committed for a specific source by formal action of the council. Amendments or modifications of the committed fund balance must also be approved by formal action by the council. When it is appropriate for fund balance to be assigned, the City council has delegated authority to the City Manager or the Finance Director. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, followed by assigned fund balance, and lastly, unassigned fund balance.

M. Revenues and Expenditures/Expenses

In the fund financial statements revenues for governmental funds are recorded when they are determined to be both measurable and available. Generally, tax revenues, fees and non-tax revenues are recognized when received. Grants from other governments are recognized when qualifying expenditures are incurred. Expenditures for governmental funds are recorded when the related liability is incurred. Revenues and expenses in the Government-wide Statement of Activities are recognized in essentially the same manner as used in commercial accounting.

N. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as assigned fund balances since they do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are appropriately provided for in the subsequent year's budget.

Note 2 - Summary of Significant Accounting Policies (continued)

O. Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company.

P. Other-Post Employment Benefits (OPEB)

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees.

Additionally, the City participates in a defined-benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company.

Q. New Accounting Standards

The GASB has issued the following statements which became effective for fiscal year 2019.

- Statement No. 83, *"Certain Asset Retirement Obligations."* - This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs), including obligations that may not have been previously reported. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets will use this statement to recognize a liability. This statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. The City does not have any Asset Retirement Obligations to report.

- Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*" - This statement will improve financial reporting by providing financial statement users with essential information that currently is not provided consistently. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets in lieu of cash) in one or more payments to settle a fixed amount at the time the contractual obligation is established. Users will have better information to understand the effects of debt on a government's future flow of resources as resources used to liquidate debt and the risks associated with changes in terms related to debt will be disclosed. The City had no direct borrowings or direct placements that qualified for recognition under this statement.

Note 3 - Deposits and Investments

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose a temporary investment is one that when purchased had a maturity date of three months or less. At September 30, 2019, the City's cash in bank totaled $4,704,915 while the carrying value was $3,360,364 The City also maintained $1,769 cash on hand. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. The City's bank balances were fully insured or collateralized with securities held by the City's agent in the City's name at September 30, 2019.

The following schedule shows the City's recorded cash and cash equivalents at year-end:

	Carrying Value
Governmental Activities	
Cash on hand	$ 1,589
Cash deposits	3,349,161
Total cash	3,350,750
Investments:	
Local Government Investment Pools:	
TexPool	6,331,718
Total Governmental Activities	9,682,468
Business-type Activites	
Cash on hand	180
Cash deposits	11,203
Total Business-type Activities	11,383
Total Cash and Investments	$ 9,693,851

Custodial Credit Risk

Custodial credit risk is the risk that a government will not be able to recover (a) deposits if the depository financial institution fails or (b) the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. To minimize such risk, the City requires collateralization of most deposits in excess of coverage, utilizes the delivery vs. payment method for investment purchases, and contracts with a third-party custodian as evidenced by safekeeping receipts of the institution with which the securities are deposited. The City requires all deposits with financial institutions be collateralized in an amount equal to 102 percent of uninsured balances.

Under Texas state law, a bank serving as the City depository must have a bond or in lieu thereof, deposited or pledged securities with the City or an independent third party agent, an amount equal to the highest daily balance of all deposits the City may have during the term of the depository contract, less any applicable FDIC insurance. Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

Note 3 - Deposits and Investments (continued)

Investments

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it addresses the priorities of preservation of capital, liquidity, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA).

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of the United States of America, its agencies and instrumentalities.

2. Certificates of Deposit issued by a depository institution that has its main office or a branch in Texas.

3. No-load Money Market Mutual Funds that 1) are registered and regulated by the Securities and Exchange Commission, 2) have a dollar weighted average stated maturity of 90 days or less, 3) seek to maintain a net asset value of $1.00 per share and 4) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.

4. Local Government Investment Pools, authorized by a separate resolution, which meet the requirements of Chapter 2256.016 of the Public Funds Investment Act and are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service

For fiscal year 2019, the City invested in the State of Texas TexPool. TexPool operates in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940.

TexPool is duly chartered and overseen by the State Comptroller's Office and administered by Federated Investors, Inc. The State Street Bank is the custodial bank. The portfolio consists of U.S. T-Bills, T-Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, and managed by Standish Mellon and American Beacon Advisors. The Bank of New York is the custodial bank.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, the local government investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

At year-end, the City had the following investments subject to interest rate risk disclosure, under U.S. generally accepted accounting principles:

	Fair Value	Percentage of Portfolio	Weighted Average Maturities (Days)
Investment Type			
Local Government Investment Pools:			
TexPool	$ 6,331,718	100%	34

Note 3 - Deposits and Investments (continued)

Interest rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The City monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the City reduces its exposure to declines in fair values by limiting the weighted average maturity of the composite portfolio to 365 days or less.

Credit Risk

At year-end, balances in TexPool, a privately-managed public fund investment pools rated AAAm by Standard and Poor's Ratings Services. All credit ratings meet acceptable levels required by guidelines prescribed by both the PFIA and the City's investment policy.

Note 4 - Receivables

Amounts recorded as receivables as of September 30, 2019, for the government's individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	General Fund	Non-Major Governmental Funds	Water and Sewer Fund	Total
Receivables:				
Property taxes	$ 204,743	$ 42,627	$ -	$ 247,370
Sales taxes	363,067	201,992	-	565,059
Fines and forfeitures	2,641,418	-	-	2,641,418
EMS	284,694	-	-	284,694
Garbage collection	162,629	-	-	162,629
Water and Sewer	-	-	898,645	898,645
Other Governments	171,401	-	58,143	229,544
Other	454,355	6,475	3,240	464,070
Gross Receivables	4,282,307	251,094	960,028	5,493,429
Less: allowance for uncollectibles	(2,457,988)	(6,392)	(92,021)	(2,556,401)
Net Total Receivables	$ 1,824,319	$ 244,702	$ 868,007	$ 2,937,028

Note 4 - Receivables (continued)

Unavailable Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. As of September 30, 2019, the various components of deferred outflows of resources reported in the governmental funds were as follows:

	General Fund	Debt Service Fund	Total
Property taxes	$ 174,032	$ 36,235	$ 210,267
Fines and forfeitures	424,678	-	424,678
Ambulance services	92,514	-	92,514
FEMA disaster relief	171,401	-	171,401
	$ 862,625	$ 36,235	$ 898,860

Note 5 - Capital Assets

A summary of activity for capital assets capitalized by the City for the year ended September 30, 2019, follows:

	Balance October 01, 2018	Additions	Transfers and (Retirements)	Balance September 30, 2019
Governmental Activities				
Capital assets, not being depreciated:				
Land	$ 4,918,826	$ 1,690	$ (5,400)	$ 4,915,116
Construction in progress	-	550,820	-	550,820
Total capital assets, not being depreciated	4,918,826	552,510	(5,400)	5,465,936
Capital assets being depreciated:				
Streets and improvements	23,927,787	223,496	-	24,151,283
Buildings and improvements	5,590,357	500,822	(166,812)	5,924,367
Furniture, equipment, and vehicles	12,896,544	1,624,082	(28,391)	14,492,235
Assets under lease	436,533	273,751	-	710,284
Total capital assets, being depreciated	42,851,221	2,622,151	(195,203)	45,278,169
Less accumulated depreciation for:				
Streets and improvements	(16,341,582)	(886,566)	-	(17,228,148)
Buildings and improvements	(4,097,622)	(260,144)	156,550	(4,201,216)
Furniture, equipment, and vehicles	(9,784,487)	(1,179,026)	10,582	(10,952,931)
Assets under lease	(229,867)	(133,983)	-	(363,850)
Total accumulated depreciation	(30,453,558)	(2,459,719)	167,132	(32,746,145)
Total Governmental Activities Capital Assets, net	$ 17,316,489	$ 714,942	$ (33,471)	$ 17,997,960

Note 5 - Capital Assets (continued)

	Balance October 01, 2018	Additions	Transfers and (Retirements)	Balance September 30, 2019
Business-type Activities				
Capital assets, not being depreciated:				
Land	$ 56,200	$ -	$ -	$ 56,200
Construction in progress	293,579	833,222	(1,126,801)	-
Total capital assets, not being depreciated	349,779	833,222	(1,126,801)	56,200
Capital assets being depreciated:				
Water and sewer system	24,219,852	-	1,126,801	25,346,653
Furniture, equipment, and vehicles	146,765	-	-	146,765
Total capital assets being depreciated	24,366,617	-	1,126,801	25,493,418
Less accumulated depreciation for:				
Utility and street projects	(16,304,660)	(483,264)	-	(16,787,924)
Furniture, equipment, and vehicles	(146,765)	-	-	(146,765)
Total accumulated depreciation	(16,451,425)	(483,264)	-	(16,934,689)
Business-type Activities Capital Assets, Net	$ 8,264,971	$ 349,958	$ -	$ 8,614,929

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

Function	Depreciation Expense
Governmental Activities	
General Administration	$ 263,834
Economic Development	90,010
Public Safety	763,983
Service Center	18,957
Streets and Drainage	821,100
Parks and Recreation	501,835
Total Governmental Activities	$ 2,459,719
Business-type Activities	
Water and sewer	$ 483,264

Note 5 - Capital Assets (continued)

Construction in progress for the various projects and remaining commitments under these construction contracts at September 30, 2019, are as follows:

	Approved Construction Budget	Construction in Progress	Estimated Remaining Commitment
Governmental Activities			
Concrete Streets (Sorrell Contract)			
Yellowstone Street	$ 25,182	$ 29,147	$ (3,965)
Pecan Street	387,104	387,030	74
Yaupon Street	380,786	121,615	259,171
Skinner Street	126,390	-	126,390
Victoria Street	163,510	-	163,510
Total Concrete Streets	1,082,972	537,792	545,180
Asphalt Streets (County Interlocal)			
Yellowstone St. (N. Ave R to N. Ave. T)	31,360	6,677	24,683
East 6th St. (HWY. 1495 to Sycamore)	29,830	6,351	23,479
East 6th St. (Spruce to Terminal)	17,710	-	17,710
Holly St. (2nd. To 5th)	54,252	-	54,252
Mesquite St. (4th to 6th)	29,310	-	29,310
West 7th St. (Velasco Blvd. to Mesquite St.)	58,760	-	58,760
West 6th St. (Yaupon St. to Holly St.)	58,224	-	58,224
West 5th St. (Yaupon St. to Mulberry St.)	31,608	-	31,608
Splash Pad Parking Lot	11,980	-	11,980
Total Asphalt Streets	323,034	13,028	310,006
Total Governmental Activities	$ 1,406,006	$ 550,820	$ 855,186

Note 6 - Long-Term Debt

During the year ended September 30, 2019, the following changes occurred in long-term liabilities:

	Balance October 01, 2018	Additions	Reductions	Balance September 30, 2019	Due Within One Year
Governmental Activities:					
Certificates of obligation	$ 1,797,000	$ -	$ (717,000)	$ 1,080,000	$ 255,000
Notes payable	895,265	-	(120,988)	774,277	774,277
Capital leases	177,344	1,353,113	(1,189,978)	340,479	122,572
Compensated absences	310,427	339,065	(187,633)	461,859	184,744
Total Governmental Activities	$ 3,180,036	$ 1,692,178	$ (2,215,599)	$ 2,656,615	$ 1,336,593
Business-type Activities:					
Compensated absences	$ 5,987	$ 3,806	$ (2,897)	$ 6,896	$ 2,758
Total Business-type Activities	$ 5,987	$ 3,806	$ (2,897)	$ 6,896	$ 2,758

Note 6 - Long-Term Debt (continued)

Certificates of Obligation

On March 13, 2008, the City issued $ 3,350,000 of Series 2008 Certificates of Obligation for authorized construction projects.

Series	Interest Rate	Original Issue	Maturity Date	Debt Outstanding
Series 2008 Certificate of Obligation	3.79%	$ 3,350,000	4/1/2023	$ 1,080,000
Total Certificates of Obligation				$ 1,080,000

Annual debt service requirements to retire outstanding certificate of obligation bonds are as follows:

Year Ending September 30,	Governmental Activities Principal	Interest	Total
2020	$ 255,000	$ 40,932	$ 295,932
2021	265,000	31,268	296,268
2022	275,000	21,224	296,224
2023	285,000	10,802	295,802
	$ 1,080,000	$ 104,226	$ 1,184,226

Notes Payable

On November 21, 2014, the Freeport Economic Development Corporation (Corporation) refinanced the remaining First State Bank of Louise note balance of $1,356,747 with the First State Bank of Clute. The loan is secured by the Corporation's sales tax remittance guaranty and subordination agreement. The note calls for an interest rate of 3.50% and monthly payments of $13,234 and one (1) balloon payment on November 21, 2019 of $765,602.

The notes payable at September 30, 2019 is summarized as follows:

Purpose	Interest Rate	Original Issue	Maturity Date	Debt Outstanding
EDC Loan	3.50%	$ 1,356,747	11/21/2019	$ 774,277
Total Notes Payable				$ 774,277

Annual debt service requirements to retire outstanding notes payable are as follows:

Year Ending September 30,	Governmental Activities Principal	Interest	Total
2020	$ 774,277	$ 4,559	$ 778,836
	$ 774,277	$ 4,559	$ 778,836

Note 6 - Long-Term Debt (continued)

Compensated absences

Typically, the general fund and water and sewer fund have been used to liquidate the liabilities for compensated absences. At September 30, 2019, current sick and vacation leave payable for governmental activities amounted to $184,744 and non-current sick and vacation leave payable amounted to $461,859 . Current sick and vacation leave payable for business-type activities amounted to $2,758 and non-current sick and vacation leave payable amounted to $6,896 .

Capital Leases

The City is obligated under certain leases accounted for as capital leases. The leased assets and related obligations are accounted for in the statement of net position. Assets under capital leases totaled $710,284 at September 30, 2019. The following is a schedule of future minimum lease payments under capital leases:

Payments DueYear Ending September 30,		
2020	$	135,444
2021		44,782
2022		44,782
2023		145,432
Minimum lease payments for all capital leases		370,440
Imputed interest		(29,961)
Present value - minimum lease payments	$	340,479
Assets under capital leases	$	340,479

During the year ended September 30, 2016, the City purchased a Case 621 F Wheel Loader for use in the Streets and Drainage Department under capital lease, with a cost of $143,004 and an effective interest rate of 2.94%. Current requirements for principal and interest expenditures accounted for in the Streets and Drainage Department of the General Fund were $28,578 and $1,713 respectively.

During the year ended September 30, 2016, the City purchased a Gradall D152 2x4 for use in the Streets and Drainage Department under capital lease, with a cost of $244,544 and an effective interest rate of 2.94%. Current requirements for principal and interest expenditures accounted for in the Streets and Drainage Department of the General Fund were $48,870 and $2,929 respectively.

On August 28, 2018, the City entered into a lease-purchase agreement for fifty- five (55) 2019 club car tempo EFI gas golf carts from September 1, 2018 through November 1, 2022, which calls for thirty-six (36) monthly payments of $ 3,732. Current requirements for principal and interest expense accounted for in the culture and recreation department were $35,626 and $12,888

During the year ended September 30, 2015, the City purchased a John Deere Top Dresser for $14,200, under capital lease, with an effective interest rate of 4.00%. Current requirements for principal and interest expense accounted for in the culture and recreation department were $1,268 and $11 respectively.

During the year ended September 30, 2016, the City purchased a Toro Greens Master (greens mower) 3150-Q w/attachments for $34,785, under capital lease, with an effective interest rate of 3.59%. The lease calls for forty-eight (48) monthly payments of $777 with final payment on August 31, 2020. Current requirements for principal and interest accounted for in the culture and recreation department were $8,873 and $476 respectively.

Note 6 - Long-Term Debt (continued)

Operating Leases

Lessor

The City leases various office space as well as park and community house rentals as lessor. These leases are considered operating leases for accounting purposes and are reported as income in the General Fund. The office leases are on a month-to-month basis. The park and community house rentals are based upon usage.

Operating lease and rental income for the year ended September 30, 2019, was as follows:

Office lease Income	$261,127
Office rental income	$102,497

Lessee

During the year ended September 30, 2015, the City entered into a 5 year operating lease agreements for copy machines, meters, and maintenance which calls for monthly payments of $397 and $381.

During the year ended September 30, 2018, the City entered into a 5 year operating lease agreements for copy machines and a digital mailing system which calls for monthly payments of $625 and $153

Operating lease expense for the year ended September 30, 2019 was $20,441

Note 7 - Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2019, is as follows:

	Receivable Fund			
	General Fund	**Non-major Governmental Funds**	**Water and Sewer Fund**	**Totals**
Payable Fund				
Governmental activities				
General fund	$ -	$ 126,203	$ 56,607	$ 182,810
Nonmajor governmental funds	56,458	13,871	-	70,329
Total governmental activities, net	56,458	140,074	56,607	253,139
Business-type activities				
Water and sewer Fund	187,901	-	-	187,901
Total business-type activities, net	187,901	-	-	187,901
Net interfund totals	$ 244,359	$ 140,074	$ 56,607	$ 441,040

Note 7 - Interfund receivables, payables, and transfers (continued)

	Transfers in		
	Non-major Governmental Funds	Water and Sewer Fund	Net
Transfers out			
Governmental activities			
General fund	$ 153,454	$ 959,159	$ 1,112,613
Total governmental activities, net	153,454	959,159	1,112,613
Net interfund totals	$ 153,454	$ 959,159	$ 1,112,613

Amounts recorded as interfund receivables and payables are considered to be temporary loans and will be repaid during the following fiscal year.

Note 8 - Employee Retirement System

Texas Municipal Retirement System

Plan Description and Provisions

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid agent multiple-employer defined benefit pension plan administered by the Texas Municipal Retirement System ("TMRS"). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issue a comprehensive annual financial report ("CAFR") available to the public that can be obtained at www.tmrs.org.

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 accumulated 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 payments 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% of the member's deposits and interest.

Note 8 - Employee Retirement System (continued)

A summary of plan provisions for the City are as follows:

	Plan Year 2018
Employee deposit rate:	7%
Matching ratio (City to employee):	2 to 1
Years required for vesting:	5
Service retirement eligibility:	20 years at any age; 5 years at age 60 and above
Updated Service Credit:	100% repeating transfers
Annuity Increase to retirees:	70% of CPI repeating
Supplemental death benefit – active employees and retirees:	Yes

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	120
Number of active employees receiving benefits	120
Total	313

Contributions

The contributions rate for employees in TMRS are either 5%, 6%, or 7% of the employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The 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 liability.

Employees of the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City was 14.25% in calendar years 2018 and 2019 respectively. The City's contributions to TMRS for the year ended September 30, 2019 were $899,582, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate	2.50%
Salary increases	3.50% to 10.50% including inflation
Investment rate of return	6.75%

Note 8 - Employee Retirement System (continued)

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% and female rates multiplied by 103%. 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 Disabled Retiree Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females.

In addition, a 3% 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 3% floor.

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal ("EAN") actuarial cost method. Assumptions are reviewed annually. 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 investment was determined using a building-block method in which best estimate ranges of expend future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-core Fixed Income	20.0%	3.39%
Real Estate	10.0%	3.78%
Real Return	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	100.0%	

Note 8 - Employee Retirement System (continued)

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in the 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 period of projected benefit payments to determine the Total Pension Liability.

Basis of Allocation

Pension items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2019, those percentages were 99% and 1%, respectively, which approximated the prior year's allocations.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**
	(a)	(b)	(a) - (b)
Balance at December 31, 2017	$ 27,259,885	$ 22,626,451	$ 4,633,434
Service Cost	972,644	-	972,644
Interest (on the Total Pension Liability)	1,828,285	-	1,828,285
Difference between expected and actual experience	(84,705)	-	(84,705)
Contributions – employer	-	896,313	(896,313)
Contributions – employee	-	440,294	(440,294)
Net investment income	-	(677,553)	677,553
Administrative Expense	-	(13,099)	13,099
Other	-	(684)	684
Benefit payments, including refunds of employee contributions	(1,321,000)	(1,321,000)	-
Balance at December 31, 2018	$ 28,655,109	$ 21,950,722	$ 6,704,387

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

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

	1% Decrease (5.75%)	**Current (6.75%)**	**1% Increase (7.75%)**
City's Net Pension Liability	$ 11,299,525	$ 6,704,387	$ 3,021,733

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.

Note 8 - Employee Retirement System (continued)

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

For the year ended September 30, 2019, the City recognized pension expense of $1,426,241

At September 30, 2019, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	$ 209,633	$ (65,064)
Net difference between projected and actual earnings	1,175,042	-
Contributions made subsequent to measurement date	642,392	-
	$ 2,027,067	$ (65,064)

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of $642,392 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2018 (recognized in the City's financial statements September 30, 2019). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	Amount
2020	$ 506,728
2021	222,832
2022	149,085
2023	440,966
Total	$ 1,319,611

Texas Emergency Services Retirement System

Plan Description and Provisions

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. The System issues a stand-alone financial report that is available to the public at www.tesrs.org.

Due to the insignificance of the amounts and the time required to make such calculations, the City has opted not to record the transactions required to implement GASB No. 68 for the TESRS Pension Plan to the current year financial statements. The net pension liability is estimated to be $15,484.

Note 9 - Other Post-Employment Benefits

TMRS Supplemental Death Benefits Fund

Plan Description

The City's single-employer defined benefit group-term life insurance plan is operated by the Texas Municipal Retirement System (TMRS) via 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 City 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.

Benefits Provided

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; this coverage is another post-employment benefit (OPEB). 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).

Membership in the plan as of the measurement date of December 31, 2018 was as follows:

Inactive employees or beneficiaries currently receiving benefits	47
Inactive employees entitled to but not yet receiving benefits	23
Number of active employees receiving benefits	120
Total	190

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.15% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both active employees and retirees and the assets are not segregated for these groups. Under GASB Statement No. 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.71% based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018. At transition, GASB Statement No.75 also requires that the total OPEB liability as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index as of the prior fiscal year end. The actuary has estimated the total OPEB liability, as of December 31, 2017, using a discount rate of 3.31%.

Note 9 - Other Post-Employment Benefits (continued)

TMRS Supplemental Death Benefits Fund (continued)

Actuarial Assumptions

The City's Total OPEB Liability was measured at December 31, 2018 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Inflation	2.50%
Salary increase	3.50% to 10.50% including inflation
Discount rate*	3.71%
Retirees' share of benefit-related costs	0%
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	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 was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

Notes: 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.

Basis of Allocation

Pension items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2019, those percentages were 99% and 1%, respectively, which approximated the prior year's allocations.

Changes in the Total OPEB Liability

Balance at December 31, 2017	$ 318,964
Changes for the year:	
Service cost	11,923
Interest on Total OPEB Liability	10,724
Difference between expected and actual experience	(9,540)
Changes in assumptions or other inputs	(23,177)
Benefit payments	(1,883)
Net changes	(11,953)
Balance at December 31, 2018	$ 307,011

Note 9 - Other Post-Employment Benefits (continued)

TMRS Supplemental Death Benefits Fund (continued)

Ending total OPEB liability is as of December 31, 2018. Changes of assumptions reflect a change in the discount rate from 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018.

Sensitivity Analysis

The following presents the total OPEB liability of the employer, calculated using the discount rate of 3.71%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.71%) or 1 percentage point higher (4.71%) than the current rate. Note that the healthcare cost trend rate does not affect the total OPEB liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease (2.71%)	Current (3.71%)	1% Increase (4.71%)
City's Net OPEB Liability	$ 369,619	$ 307,011	$ 258,431

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

For the year ended September 30, 2019, the City recognized OPEB expense of $21,613

As of September 30, 2019, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	$ -	$ (7,875)
Change in assumptions	17,444	(19,132)
Contributions made subsequent to measurement date	1,882	-
Total	$ 19,326	$ (27,007)

The $1,882 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending September 30, 2020.

Amounts currently reported as deferred outflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Year ended September 30:	Amount
2020	$ (1,034)
2021	(1,034)
2022	(1,034)
2023	(2,294)
2024	(4,167)
Total	$ (9,563)

Note 9 - Other Post-Employment Benefits (continued)

Retiree Healthcare Plan

Plan Description

The City of Freeport maintains a Retiree Health Care Plan (RHCP) through the TML Health Benefits Pool, a health risk pool established pursuant to Texas Local Government Code Chapter 172, Texas Government Code Chapter 791, and the Texas Trust Code to provide health care benefits coverage for employees and retirees and dependents of employees and retirees, of Texas political subdivisions under an interlocal agreement. The City is currently offering health benefits coverage through the RHCP which allows the extension of benefits to retirees of the City. The City provides health benefit s coverage to its retirees through the RHCP and the cost of such coverage be paid for by the City to a maximum of $750 per month; any additional amount will be the responsibility of the retiree. An employee who is under 60 years of age and has been covered by TMRS (Texas Municipal Retirement System) for at least 20 years, or an employee who is 60 years or older and has been covered by TMRS for at least 5 years. The employee must also work for the City for a period of eight continuous years and meet the definition of retiree for purposes of the ordinance. The Interlocal Agreement in effect between the City and the TML Health Benefits Pool, adopted September 8, 2014, provides that the Board of Trustees may adopt rules and regulations which may amend this plan in the future. Other coverage’s will be as established by the TML Health Benefits Pool Board of Trustees.

Benefits Provided

The RHCP provides pre sixty-five benefit coverage which will continue until the end of the month for the covered retiree’s 65^{th} birthday. Coverage for early retirees under these plans will require that the early retiree enroll in the TML Health Benefits Pool plan within 31 days of commencement of their pre 65 retirement, meet the plans definition of retiree, and that the retiree receive all other applicable benefits provided to the retiree population. The pre sixty-five plan offers the retirees a choice of one of four plan options which consist of a platinum, gold, silver, and bronze. Each plan has a specified rate that varies year over year.

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	2
Active Plan Members	113
Total	115

Total OPEB Liability

The City’s total OPEB liability of $502,717 was measured as of December 31, 2018, and was determined by an actuarial valuation as of December 31, 2017.

Note 9 - Other Post-Employment Benefits (continued)

Retiree Healthcare Plan (continued)

Actuarial Assumptions and Methods

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry-Age Normal
Discount rate	3.71%
Inflation	2.50%
Salary increase	3.50% to 10.50% including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality	For healthy retirees, the gender-distinct RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Health Care Trend Rates	The explicit subsidy provided by the City is not assumed to increase in the future.
Participation Rates	70% for retirees age 55 or older at retirement; 10% for retirees under age 55 at retirement

Discount Rate

For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this valuation, the municipal bond rate is 3.71% (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-Year Municipal GO AA Index”). The discount rate was 3.31% as of the prior measurement date.

Plan Assets

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Changes in the Total OPEB Liability

Balance at December 31, 2017	$ 495,578
Changes for the year:	
Service cost	27,301
Interest on Total OPEB Liability	16,533
Difference between expected and actual experience	(715)
Changes in assumptions or other inputs	(16,480)
Benefit payments	(19,500)
Net changes	7,139
Balance at December 31, 2018	$ 502,717

Note 9 - Other Post-Employment Benefits (continued)

Retiree Healthcare Plan (continued)

The ending Total OPEB Liability was $502,717 as of December 31, 2018.

Changes of assumptions reflect a change in the discount rate from 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018, and minor updates to the health care trend assumption.

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

The following presents the plan's total OPEB liability, calculated using a discount rate of 3.71%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

	1% Decrease (2.71%)	Current Discount Rate Assumption (3.71%)	1% Increase (4.71%)
Retiree Health Care Plan	$ 545,148	$ 502,717	$ 464,326

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The employer provided benefit is not affected by sensitivity in healthcare trends

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

For the year ended September 30, 2019, the City recognized OPEB expense of $44,167

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	$ -	$ (632)
Change in assumptions	15,435	(14,573)
Contributions made subsequent to measurement date	13,500	-
Total	$ 28,935	$ (15,205)

The $13,500 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2020.

Note 9 - Other Post-Employment Benefits (continued)

Retiree Healthcare Plan (continued)

Amounts currently reported as deferred outflows of resources related to OPEB, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Year ended September 30:		Amount
2020	$	333
2021		333
2022		333
2023		333
2024		333
Thereafter		(1,435)
Total	$	230

Note 10 - Deferred Compensation Plan

The City offers its employees the opportunity to participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is an additional retirement savings option for the City employees; however, no contributions will be made by the City. The retirement plan is offered to public service personnel only.

Note 11 - Industrial Contract Agreements

The City three Industrial Development Agreements: Brazosport IDA (Interlocal with Lake Jackson and Clute), Freeport IDA, and Freeport LNG. Brazosport IDA and Freeport IDA, are calculated based on property values or CPI - whichever is greater. Freeport LNG Industrial District payments are made in accordance to a payment schedule outline in the agreement. The amount received under this contract and various other industrial district contracts during the year ended September 30, 2019 was $7,532,865 and is reported in the General Fund.

Note 12 - Subsurface Lease Agreement

The City entered into a subsurface lease agreement with the Dow Chemical Corporation in July 2017. The terms of the lease agreement is July 31, 2017 through July 31, 2037 with an option to extend the term for an additional 5 years through July 31, 2042. The City will receive a total of $8,000,000 throughout the life of the lease. The amount received under this contract during the year ended September 30, 2019 was $100,000

Note 13 - Water Supply Contract

The City entered into a water supply contract with the Brazosport Water Authority on February 20, 1987. The contract term is forty years and may not be terminated as long as bonds are outstanding. The City agrees to take and pay for, whether taken or not, 2 million gallons of water per day. The actual supply of water under this contract started in March, 1989.

Note 14 - Joint Venture

The City is party to an agreement with the City of Oyster Creek to share costs associated with the operation of a sewer treatment plant. The plant went on-line during the fiscal year ended September 30, 1989. The percentage for sharing the operating expenses is determined based upon meter flow calibrations. For the year ended September 30, 2019, the City of Freeport's portion of these expenses $82,434.

During the year ended September 30, 2003, the City began a joint venture with the City of Clute, City of Lake Jackson, and the SPCA for an animal shelter. The shelter is located in Lake Jackson and provides programs for the claiming and adoption of lost or abandoned animals for the three cities. The term of the agreement is from March 1, 2003 through February 28, 2023. The City and Clute contributed $150,000 each and the SPCA contributed $250,000 for a total of $550,000 to Lake Jackson for the design, construction, and furnishing of the $1,100,000 facility. The City pays each year for administrative operating costs. For the year ended September 30, 2019, the City paid $125,000 for their portion of the operating costs.

Note 15 - Commitments and Contingencies

Litigation and Other Contingencies

From time to time, the City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of City Management and legal counsel that any ultimate uninsured liability to the City from these lawsuits will not be material.

Arbitrage Rebate

In accordance with the provisions of the Internal Revenue Code, sections 103, 103A, and 148, as amended, a governmental debt issuance must qualify and maintain tax-exempt status by satisfying certain arbitrage requirements contained in these provisions. As part of the requirements, certain amounts earned on the non-purpose investment of debt issuance proceeds, in excess of the yield on an issue, earned as arbitrage, will be required to be paid to the U.S. Treasury. As part of this process, the City annually determines potential arbitrage liabilities on its debt issues, on component unit debt issues and on debt issues assumed by the City from various Municipal Utility Districts.

Note 16 - 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 in the Texas Municipal League’s General Liability Fund. In addition, the City participates in the Texas Municipal League’s Workers Compensation Fund to insure the City for workers compensation claims. The Texas Municipal League is not intended to operate as an insurance company but rather as contracting mechanism by which the city provides self-insurance benefits to its employees. The fund contracts with a third-party administrator for administration, investigation and adjustment services in the handling of claims. Premiums are based on the estimated City payroll risk factor and rates. The premiums are adjusted by the City’s experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool. The City has not significantly reduced insurance coverage in the last three years.

Note 17 - Prior Period Adjustment

Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* – This statement changes the focus of accounting of postemployment benefits other than pensions from whether they are responsibly funding the benefits over time to a point-in time liability that is reflected on the employer's financial statements for any actuarially underfunded portion of benefits earned to date. The implementation of GASB Statement No. 75 for the City's retiree healthcare plan resulted in restatement of beginning net position for removal of the OPEB liability previously recorded under GASB Statement No. 45, the recording of the total OPEB liability under Statement No. 75, and the beginning deferred outflow for contributions made after the measurement date.

	Governmental Activities
Ending Net Position at September 30, 2018, as previously reported	$ 21,006,013
Change in Accounting Standards:	
Adoption of GASB No. 75 for Retiree Healthcare Plan	
Removal of Net OPEB obligation under GASB No. 45	94,358
Add: Deferred outflows of resources from OPEB Activity at September 30, 2018	32,758
Less: Total Healthcare OPEB liability as of September 30, 2018	(495,578)
Net prior period adjustments	(368,462)
Beginning Net Position as of October 1, 2018, as restated	$ 20,637,551

Note 18 - Subsequent Events

Tax Increment Reinvestment Zone No. 1 ("TIRZ No. 1")

On December 2, 2019, the City passed ordinance No. 2019-2590 designating a 345 acre tract of land to promote development along the Brazos River and the downtown area of the City. It creates dedicated funding for infrastructure within the district and an incentive for people to come and do business through the TIRZ from the additional property tax dollars generated in the district as a result of development. This district is set to collect 50% of the incremental new tax dollars generated to plug back into the district to foster additional development. The operations of the TIRZ are set to continue through December 31, 2049. The TIRZ can be dissolved at an earlier time if a subsequent ordinance is passed by the City and all subsequent issuances of tax increment bonds including interest, if any, along with project costs are paid in full.

Sales Tax Overpayment

In February 2020, the City received notification from the State Comptroller that the City of Freeport was overpaid $533,636.43 in local sales and use taxes due to a filed refund claim by a taxpayer. The taxpayer has been refunded and the City has the option to enter into a payback agreement over 29 months. The City has not selected the option it will choose as a repayment method as of March 20, 2020.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

BRACEWELL

August 24, 2020

$7,735,000
CITY OF FREEPORT, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020

We have represented the City of Freeport, Texas (the "Issuer") as its bond counsel in connection with an issue of certificates of obligation (the "Certificates") as described below:

> CITY OF FREEPORT, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020, dated August 1, 2020.
>
> The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Ordinance").

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

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

In providing the opinions set forth herein, we have relied on representations and certifications of the Issuer and other parties involved with the issuance of the Certificates with respect to matters solely within the knowledge of the Issuer and such parties, which we have not independently verified. In addition, we

Bracewell LLP T: +1.713.223.2300 F: +1.800.404.3970
711 Louisiana Street, Suite 2300, Houston, Texas 77002-2770
bracewell.com

have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance, including, but not limited to, covenants relating to the tax-exempt status of the Certificates.

Based upon such examination, it is our opinion that:

1. The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Certificates constitute valid and legally binding obligations of the Issuer.

2. A continuing ad valorem tax upon all taxable property within the City of Freeport, Texas, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for such purposes, within the limits prescribed by law. In addition, the Certificates are further secured by a limited pledge of a subordinate lien on the Surplus Revenues of the Issuer's water and sewer system in an amount not to exceed $1,000 as provided in the Ordinance.

3. Interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Certificates is not a specific preference item for purposes of the alternative minimum tax.

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

Except as stated above, we express no opinion as to the amount of interest on the Certificates or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of the Certificates. Further, in the event that the representations of the Issuer and other parties are determined to be inaccurate or incomplete or the Issuer fails to comply with the covenants of the Ordinance, interest on the Certificates could become includable in gross income for federal income tax purposes from the date of the original delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

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