

**NOTICE OF SALE
AND
BIDDING INSTRUCTIONS
ON
\$30,450,000*
CITY OF SAN MARCOS, TEXAS
(A political subdivision of the State of Texas located in Hays, Caldwell and Guadalupe Counties)
WATERWORKS AND WASTEWATER SYSTEM REVENUE BONDS, SERIES 2025**

Bids Due Tuesday, April 15, 2025 at 10:00 AM, CDT

THE SALE

BONDS OFFERED FOR SALE AT COMPETITIVE BIDDING . . . The City of San Marcos, Texas (the “City”), is offering for sale its \$30,450,000* City of San Marcos, Texas Waterworks and Wastewater System Revenue Bonds, Series 2025 (the “Bonds”). Bids may be submitted by either of three alternative procedures: (i) written bids; (ii) electronic bids; or (iii) telephone or facsimile bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the City nor its Financial Advisor, Specialized Public Finance Inc. (the “Financial Advisor”), assume any responsibility or liability for a prospective bidding procedure.

The City and Specialized Public Finance Inc. assume no responsibility or liability with respect to any irregularities associated with the submission of electronic, telephone or facsimile bids.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the deadline. For the purpose of determining compliance with any and all time deadlines set forth in this Official Notice of Sale, for all alternative bidding procedures, the official time shall be the time maintained only by the Parity Electronic Bid Submission System (“PARITY”).

WRITTEN BIDS DELIVERED IN PERSON . . . Signed bids, plainly marked “Bid for Bonds,” should be addressed to “Mayor and City Council, City of San Marcos, Texas,” and delivered to the City’s Financial Advisor at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746 by 10:00 AM, CDT on April 15, 2025 (the “date of the bid opening”). All bids must be submitted on the Official Bid Form, without alteration or interlineation.

ELECTRONIC BIDDING PROCEDURE . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY. Subscription to the i-Deal LLC’s BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in the Notice of Sale, and shall be binding upon the bidder as if made by a signed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, PARITY, the use of such facilities being the sole risk of the prospective bidder.

If any provision of the Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Notice of Sale shall control. Further information about PARITY, including any fee charged, may be obtained from Parity Customer Support, 40 West 23rd Street, 5th Floor, New York, New York 10010, (212) 404-8102.

For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the City, as described under “Basis for Award” below. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and the Official Bid Form.

BIDS BY TELEPHONE . . . Bidders must submit SIGNED Official Bid Forms to Dan Wegmiller, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, and submit their bid by telephone on the date of the bid opening.

Telephone bids will be accepted at (512) 275-7300, between 9:30 AM and 10:00 AM, CDT on the date of the bid opening.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the above deadlines.

Specialized Public Finance Inc. assumes no responsibility or liability with respect to any irregularities associated with the submission of bids if telephone or fax options are exercised.

PLACE AND TIME OF BID OPENING . . . The bids for the Bonds will be publicly opened and read in the office of the Financial Advisor at 10:00 AM, CDT, Tuesday, April 15, 2025.

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION.” Preliminary, subject to change.

SIGNED OFFICIAL BID FORM . . . The bidder whose bid is the winning bid in accordance with this Notice of Sale will be notified immediately and must submit via email a Signed Official Bid Form in connection with the sale, by 10:30 AM CDT on the date of the sale to Monica Melvin, Specialized Public Finance Inc. at monica@spfmuni.com.

AWARD OF THE BONDS . . . The City Council will consider a “Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program” to be adopted by the City Council on April 15, 2025 (the “Master Ordinance”); and a “First Supplemental Ordinance to the Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program” also to be adopted by the City Council on April 15, 2025 (the “First Supplement” together with the Master Ordinance, the “Ordinance”) to authorize the sale of the Bonds and approve other related matters at a meeting scheduled to convene at 6:00 PM, CDT, on the date of the bid opening. In the Ordinance, the City Council will approve the sale of the Bonds to the qualifying bidder whose bid produces the lowest true interest cost rate on the Bonds (see “CONDITONS OF THE SALE – BASIS FOR AWARD”). Sale of the Bonds will be made subject to the terms, conditions and provisions of the Ordinance. The City reserves the right to reject any and all bids and to waive any and all irregularities, except time of filing.

WITHDRAWAL OF THE BIDS . . . Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for twelve hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

EXTENSION OF SALE DATE . . . The City reserves the right to extend the date and/or time for the receipt of bids by giving notice by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 PM, CDT on Monday, April 14, 2025 of the new date and time of receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale.

THE BONDS

DESCRIPTION . . . The Bonds will be dated May 7, 2025 (the “Dated Date”). Interest will accrue from the Date of Initial Delivery (defined herein) of the Bonds and will be due on February 15, 2026, and each August 15 and February 15 thereafter until the earlier of maturity or prior redemption. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. The Bonds will mature on August 15 in each year as follows:

MATURITY SCHEDULE*

Maturity (August 15)	Principal Amount	Maturity (August 15)	Principal Amount
2026	\$ 555,000	2036	\$ 1,525,000
2027	980,000	2037	1,600,000
2028	1,030,000	2038	1,680,000
2029	1,080,000	2039	1,765,000
2030	1,135,000	2040	1,850,000
2031	1,195,000	2041	1,945,000
2032	1,255,000	2042	2,035,000
2033	1,315,000	2043	2,125,000
2034	1,385,000	2044	2,220,000
2035	1,455,000	2045	2,320,000

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION.” Preliminary, subject to change.

REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2035, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Purchaser (defined herein) elects to aggregate two or more consecutive maturities as term Bonds.

SERIAL BONDS AND/OR TERM BONDS . . . Bidders may provide that all of the Bonds be issued as serial Bonds or may provide that any two or more consecutive annual principal amounts be combined into one or more Term Bonds.

BOOK-ENTRY-ONLY SYSTEM . . . The City intends to utilize the book-entry-only system of The Depository Trust Company (“DTC”). See “THE BONDS – BOOK-ENTRY-ONLY SYSTEM” in the Official Statement.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar shall be BOKF, NA, Dallas, Texas. See “THE BONDS – PAYING AGENT/REGISTRAR” in the Official Statement.

SOURCE OF PAYMENT . . . The Bonds constitute special obligations of the City payable, both as to principal and interest, from and secured by a lien on and pledge of the Security including the Net Revenues of the City's Utility System after payment of maintenance and operating expenses. **The lien on Net Revenues securing the Bonds is junior and subordinate to the lien on Net Revenues securing the "City of San Marcos, Texas Waterworks and Waste Water System Revenue Bonds, Series 2015" (the "Series 2015 Bonds"); "City of San Marcos, Texas Waterworks and Waste Water System Revenue Refunding Bonds, Series 2017A" (the "Series 2017A Bonds"); and "City of San Marcos, Texas Waterworks and Waste Water System Revenue Bonds, Series 2017B" (the "Series 2017B Bonds" and collectively with the Series 2015 Bonds and the Series 2017A Bonds referred to as the "Prior Obligations").** The City will covenant in the Ordinance not to issue any additional obligations payable from Net Revenues on parity with the Prior Obligations and with a lien superior to the lien created by the Ordinance.

CONDITIONS OF THE SALE

TYPE OF BIDS AND INTEREST RATES . . . **The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than 102% of their par value and not more than 110% of their par value.** Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/100 of 1% and the net effective interest rate must not exceed 15%. The highest rate bid may not exceed the lowest rate bid by more than 2.5% in rate. The maximum coupon rate shall not exceed 5.0%. For Bonds having stated maturities on and after August 15, 2035, no reoffering yield producing a dollar price less than 97.5% for any individual maturity will be accepted. The high bidder will be required to submit reoffering yields and dollar prices prior to award. No limitation is imposed upon bidders as to the number of rates or changes which may be used. All Bonds of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

POST BID MODIFICATION OF PRINCIPAL AMORTIZATION . . . After selecting the winning bid, the aggregate principal amount of the Bonds and the principal amortization schedule may be adjusted as determined by the City and its Financial Advisor in \$5,000 increments. Such adjustments will not change the aggregate principal amount of the Bonds by more than 15% from the amount set forth herein. The dollar amount bid for the Bonds by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Bonds finally determined to be issued. The City will use its best efforts to communicate to the winning bidder any such adjustment within three (3) hours after the opening of bids. Purchaser's compensation will be based upon the final par amount after any adjustment thereto, subsequent to the receipt and tabulation of the winning bid, within the aforementioned parameters.

In the event of any adjustment of the maturity schedule for the Bonds as described above, no rebidding or recalculation of the proposals submitted will be required or permitted. The bid price for such an adjustment will reflect changes in the dollar amount of par amount of the Bonds from the selling compensation that would have been received based on the purchase price in the winning bid and the initial reoffering terms. Any such adjustment of the aggregate principal amount of the Bonds and/or the maturity schedule for the Bonds made by the City or its Financial Advisor shall be subsequent to the award of the Bonds to the winning bidder as determined pursuant to "CONDITIONS OF THE SALE – BASIS FOR AWARD" herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

BASIS FOR AWARD . . . Subject to the City's right to reject any or all bids and to waive any irregularities except time of filing, the sale of the Bonds will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form (the "Purchaser") making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate to the City. The True Interest Cost rate is that rate which, when used to compute the total present value as of the Date of Initial Delivery (defined herein) of all debt service payments on the Bonds on the basis of semiannual compounding, produces an amount equal to the sum of the par value of the Bonds plus any premium bid. In the event of a bidder's error in interest cost rate calculations, the interest rates and premium, if any, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Purchaser will be required to provide the City with a breakdown of its "underwriting spread" including among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

ESTABLISHING THE ISSUE PRICE FOR THE BONDS . . . The City intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of municipal bonds), which require, among other things, that the City receives bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (the "Competitive Sale Requirement").

In the event that the bidding process does not satisfy the Competitive Sale Requirement, Bids will **not** be subject to cancellation and the winning bidder (i) agrees to promptly report to the City the first prices at which at least 10% of each maturity of the Bonds (the "First Price Maturity") have been sold to the Public on the Sale Date (the "10% Test") (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test) and (ii) agrees to hold-the-offering-price of each maturity of the Bonds that does not satisfy the 10% Test ("Hold-the-Price Maturity"), as described below.

In order to provide the City with information that enables it to comply with the establishment of the issue price of the Bonds under the Internal Revenue Code of 1986, as amended, the winning bidder agrees to complete, execute, and timely deliver to the City or to the City's municipal advisor, Specialized Public Finance Inc. (the "City's Financial Advisor") the appropriate certification as to the Bonds' "issue price" (the "Issue Price Bond") substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions, at least 5 business days before the Closing Date if the Competitive Sale Requirement is satisfied or within 5 business days of the date on which the 10% Test is satisfied with respect to all of the First Price Maturities. In the event the winning bidder will not reoffer any maturity of the Bonds for sale to the Public (as defined herein) by the Closing Date, the Issue Price Bond may be modified in a manner approved by the City. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale and Bidding Instructions:

(i) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party,

(ii) "Underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public),

(iii) "Related Party" means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "Sale Date" means the date that the Bonds are awarded by the City to the winning bidder.

All actions to be taken by the City under this Notice of Sale and Bidding Instructions to establish the issue price of the Bonds may be taken on behalf of the City by the City's Financial Advisor, and any notice or report to be provided to the City may be provided to the City's Financial Advisor.

The City will consider any bid submitted pursuant to this Notice of Sale and Bidding Instructions to be a firm offer for the purchase of the Bonds, as specified in the bid and, if so stated, in the Official Bid Form.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wire.

By submitting a bid, the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Bonds, that each Underwriter will neither offer nor sell any Hold-the-Price Maturity to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of (1) the close of the fifth (5th) business day after the Sale Date; or (2) the date on which the Underwriters have sold at least 10% of that Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public. The winning bidder shall promptly advise the City when the Underwriters have sold 10% of a Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public, if that occurs prior to the close of the fifth (5th) business day after the Sale Date.

PROVISION OF TEXAS ETHICS COMMISSION FORM 1295 ("TEC FORM 1295") . . . In accordance with Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the City may not award the Bonds to a bidder unless the winning bidder either:

(i) submits a Certificate of Interested Parties Form 1295 (the “TEC Form 1295”) to the City as prescribed by the Texas Ethics Commission (“TEC”), or

(ii) certifies in the Official Bid Form that it is exempt from filing the TEC Form 1295 by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

In the event that the bidder’s bid for the Bonds is the best bid received, the City, acting through its financial advisor, will promptly notify the winning bidder. That notification will serve as the City’s conditional verbal acceptance of the bid, and, unless the bidder is exempt from filing a TEC Form 1295, such notification will obligate the winning bidder to promptly file a completed TEC Form 1295, as described below, in order to allow the City to complete the award. The City reserves the right to reject any bid that does not comply with the requirements prescribed herein.

For purposes of completing the TEC Form 1295, box 2 is name of the governmental entity (*City of San Marcos, Texas*) and box 3 is the identification number assigned to this contract by the City (*San Marcos WW&WW Revenue Bonds 2025*) and description of the goods or services (*Purchase of the City of San Marcos, Texas Waterworks and Wastewater System Revenue Bonds, Series 2025*). **The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the “Disclosure Rules”) require certain business entities contracting with the City to complete the TEC Form 1295 electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, complete the unsworn declaration, sign, and deliver, in physical form, the certified TEC Form 1295 that is generated by the TEC’s “electronic portal” to the City. The completed and signed TEC Form 1295 must be sent by email, to the City’s financial advisor at dan@spfmuni.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award.** Upon receipt of the final written award, the winning bidder must submit the TEC Form 1295 with original signatures by email to Bond Counsel as follows: jbfowler@mphlegal.com.

To the extent that the bidder is not exempt from filing a TEC Form 1295 and therefor makes such filing with the City, the Interested Party Disclosure Act and the TEC 1295 provide that such declaration is made “under oath and under penalty of perjury.” Consequently, a bidder should take appropriate steps prior to completion of the TEC Form 1295 to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the TEC Form 1295. Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Bonds until a completed TEC Form 1295 is received. The City reserves the right to reject any bid that does not satisfy the requirement of a completed TEC Form 1295, as described herein. Neither the City nor its consultants have the ability to verify the information included in a TEC Form 1295, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to the proper completion of the TEC Form 1295. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the City that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC’s website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

VERIFICATIONS OF STATUTORY REPRESENTATIONS AND COVENANTS . . . The City will not award the Bonds to a bidder unless the following representations and covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as amended (the “Government Code”), are included in the bid. As used in such verifications, “affiliate” means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. Liability for breach of any such verification through the term of this Agreement shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of the Official Bid Form or Official Notice of Sale, notwithstanding anything in the Official Bid Form or Official Notice of Sale to the contrary.

(i) No Boycott of Israel (Texas Government Code Chapter 2271): A bidder must verify that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and will not boycott Israel through the term of this Agreement. As used in the foregoing verification, “boycott Israel” has the meaning provided in Section 2271.001, Government Code.

(ii) Not a Sanctioned Company (Texas Government Code Chapter 2252): A bidder must represent that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Government Code. The foregoing representation excludes a bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

(iii) No Discrimination Against Firearm Entities or Firearm Trade Associations (Texas Government Code Chapter 2274): A bidder must verify that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and will not discriminate against a firearm entity or firearm trade association through the term of this Agreement. As used in the foregoing verification, “discriminate against a firearm entity or firearm trade association” has the meaning provided in Section 2274.001(3), Government Code.

(iv) No Boycott of Energy Companies (Texas Government Code Chapter 2276): A bidder must verify that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and will not boycott energy companies through the term of this Agreement. As used in the foregoing verification, “boycott energy companies” has the meaning provided in Section 2276.001(1), Government Code.

FURTHER STATE LAW COMPLIANCE AND STANDING LETTER REQUIREMENT . . . Each prospective bidder must have a standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General’s Office in the form included as Exhibit A to the All Bond Counsel Letter of the Texas Attorney General dated November 1, 2023 and any supplements thereto (the “All Bond Counsel Letter”). In submitting a bid, a bidder represents to the City that it has filed a standing letter in the form included as Exhibit A to the All Bond Counsel Letter without qualification and including current statutory citations and it has no reason to believe that the City may not be entitled to rely on the standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General’s Office. Bidder agrees that it will not rescind its standing letter at any time before the delivery of the Bonds unless same is immediately replaced with a standing letter meeting the requirements of the All Bond Counsel Letter.

The City will not accept a bid from a bidder (including each syndicate member listed on the Official Bid Form) that does not have such standing letter on file as of the deadline for bids for the Bonds. If requested by the City, the Purchaser agrees to provide such further representations, certifications or assurances in connection with the Covered Verifications (defined below), as of the Delivery Date or such other date requested by the City including, but not limited to, a bring down certification as provided by the All Bond Counsel Letter.

THE CITY RESERVES THE RIGHT, IN ITS SOLE DISCRETION, TO REJECT THE BID OF ANY BIDDER WHO IS, OR WHOSE PARENT COMPANY, SUBSIDIARIES OR AFFILIATES ARE, ON A LIST MAINTAINED BY THE TEXAS COMPTROLLER OR THE TEXAS ATTORNEY GENERAL OF FINANCIAL COMPANIES BOYCOTTING ENERGY COMPANIES OR DISCRIMINATING AGAINST FIREARM ENTITIES.

BY SUBMITTING A BID, EACH BIDDER AGREES, SHOULD IT BE THE WINNING BIDDER, TO COOPERATE WITH THE CITY AND TAKE ANY ACTION NECESSARY TO FURTHER VERIFY AND CONFIRM COMPLIANCE WITH STATE LAW.

To the extent the Purchaser and each syndicate member listed on the Official Bid Form is unable to provide a Standing Letter in a form satisfactory to the Texas Office of the Attorney General, the City reserves the right to cash and accept the Good Faith Deposit (see “CONDITIONS OF THE SALE – GOOD FAITH DEPOSIT”).

THE LIABILITY OF THE BIDDER FOR BREACH OF ANY OF THE VERIFICATIONS MADE IN CONNECTION WITH CHAPTERS 2252, 2271, 2274, AND 2276, TEXAS GOVERNMENT CODE, AS AMENDED (COLLECTIVELY, THE “COVERED VERIFICATIONS”) SHALL SURVIVE UNTIL BARRED BY THE STATUTE OF LIMITATIONS, AND SHALL NOT BE LIQUIDATED OR OTHERWISE LIMITED BY ANY PROVISION OF THIS OFFICIAL NOTICE OF SALE OR THE OFFICIAL BID FORM. ADDITIONALLY, THE CITY RESERVES AND RETAINS ALL RIGHTS AND REMEDIES AT LAW AND IN EQUITY FOR PURSUIT AND RECOVERY OF DAMAGES, IF ANY, RELATING TO THE COVERED VERIFICATIONS.

IMPACT OF BIDDING SYNDICATE ON AWARD . . . For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

GOOD FAITH DEPOSIT . . . The winning bidder will be required to provide a deposit in the amount of \$609,000 to the City as bid security by 5:00 p.m. CDT on April 15, 2025. The bid security may be provided to the City (i) via wire transfer (the City or its financial advisor, Specialized Public Finance Inc., will provide wire instructions to the winning bidder), or (ii) in the form of a certified or cashier’s check made payable to the order of City in the amount of the deposit set forth above. The wire option will be retained by the City and: (a) will be applied, without allowance for interest, against the purchase price when the Bonds are delivered to and paid for by such winning bidder or (b) will be retained by the City as liquidated damages if the winning bidder defaults with respect to the terms of its bid or (c) will be returned to the winning bidder if the Bonds are not issued by the City for any reason which does not constitute a default by the winning bidder. If the check option is utilized, the check will be (a) returned uncashed to the winning bidder when the Bonds are delivered to and paid for by such winning bidder, (b) cashed by the City as liquidated damages if the winning bidder defaults with respect to the terms of its bid or (c) returned uncashed to the winning bidder if the Bonds are not issued by the City for any reason which does not constitute a default by the winning bidder.

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

CUSIP NUMBERS . . . It is anticipated that CUSIP identification numbers will appear on the Bonds, but neither the failure to print or type such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. The Financial Advisor will obtain CUSIP identification numbers from the CUSIP Service Bureau, New York, New York prior to the date of sale. CUSIP identification numbers will be made available to the Purchaser at the time the Bonds are awarded or as soon thereafter as practicable. All expenses in relation to the assignment, printing or typing of CUSIP numbers on the Bonds shall be paid by the City.

DELIVERY OF BONDS . . . Delivery will be accomplished by the issuance of one Initial Bond, either in typed or printed form, in the aggregate principal amount of \$30,450,000*, payable in stated installments to the Purchaser, signed by the Mayor and City

Secretary, approved by the Attorney General of Texas, and registered and manually signed by the Texas Comptroller of Public Accounts. Upon delivery of the Initial Bond, it shall be immediately cancelled and one definitive Bond for each maturity will be registered and delivered only to Cede & Co., and deposited with DTC in connection with DTC's book-entry-only system. Delivery will be at a principal office of the Paying Agent/Registrar. Payment for the Bonds must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that delivery of the Bonds can be made on or about May 7, 2025 (the "Date of Initial Delivery"), and it is understood and agreed that the Purchaser will accept delivery and make payment for the Bonds by 10:00 AM, CDT, on May 7, 2025, or thereafter on the date the Bonds are tendered for delivery, up to and including May 16, 2025.

If for any reason the City is unable to make delivery on or before May 16, 2025, the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend its offer for an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the City's reasonable control.

CONDITIONS TO DELIVERY . . . The obligation of the Purchaser to take up and pay for the Bonds is subject to the Purchaser's receipt of (a) the legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel for the City ("Bond Counsel") and (b) the no-litigation certificate, all as further described in the Official Statement. In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986 relating to the exemption of interest on the Bonds from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (no later than the close of business on the business day following the award of the bid) a certification as to their "issue price" substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions. In the event the successful bidder will not reoffer the Bonds for sale, such certificate may be modified in a manner approved by the City. In no event will the City fail to deliver the Bonds as a result of the Purchaser's inability to sell a substantial amount of the Bonds at a particular price prior to delivery. Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate not later than the close of business on the business day following the award of the bid, if its bid is accepted by the City. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

LEGAL OPINION . . . The Bonds are offered when, as and if issued, subject to the approval of the Attorney General of the State of Texas. Delivery of and payment for the Bonds is subject to the receipt by the Purchaser of opinions of Bond Counsel, to the effect that the Bonds are valid and binding obligations of the City (except as the enforceability may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion) and that the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" in the Official Statement.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the City to deliver the Bonds and of the Purchaser to accept delivery of and pay for the Bonds are subject to the condition that at the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition of the City from those set forth in or contemplated by the "Preliminary Official Statement" as it may have been supplemented or amended through the date of sale.

NO-LITIGATION CERTIFICATE . . . On the date of delivery of the Bonds to the Purchaser, the City will deliver to the Purchaser a certificate, as of the same date, to the effect that to the best of the City's knowledge no litigation of any nature is pending or, to the best of the certifying officials' knowledge or belief, threatened against the City, contesting or affecting the Bonds; restraining or enjoining the authorization, execution, or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officials of the City.

GENERAL

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., 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 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION." Preliminary, subject to change.

BLUE SKY LAWS . . . By submission of its bid, the Purchaser represents that the sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Bonds in accordance with the securities law of the states in which the Bonds are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Bonds or obtaining an exemption from registration in any state where such action is necessary, provided, however, that the City shall not be obligated to execute a general or special consent to service of process in any such jurisdiction.

NOT AN OFFER TO SELL . . . This Notice of Sale and Bidding Instructions does not alone constitute an offer to sell the Bonds, but is merely notice of the sale of the Bonds. The offer to sell the Bonds is being made by means of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Bonds.

ISSUANCE OF ADDITIONAL DEBT . . . The City does anticipate issuing additional water and wastewater revenue secured bonds within the next twelve months. The City is in the process of issuing Certificates of Obligation in the approximate amount of \$37,655,000 which are secured by ad valorem taxes and a limited pledge of water and wastewater utility revenues, not to exceed \$1,000.

RATING . . . The Bonds have been rated "AA" by S&P Global Ratings ("S&P") without regard to credit enhancement.

THE OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15C2-12 . . . The City has prepared the accompanying Official Statement and, for the limited purpose of complying with SEC Rule 15c2-12, deems such Official Statement to be final as of its date within the meaning of such Rule for the purpose of review prior to bidding. To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Bonds. Representations made and to be made by the City concerning the absence of material misstatements and omissions in the Official Statement are addressed elsewhere in this Notice of Sale and Bidding Instructions and in the Official Statement.

The City will furnish to the Purchaser, acting through a designated senior representative, in accordance with instructions received from the Purchaser, within seven (7) business days from the sale date copies of the Official Statement reflecting interest rates and other terms relating to the initial reoffering of the Bonds. The cost of any Official Statement in excess of the number specified shall be prepared and distributed at the cost of the Purchaser. The Purchaser shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award. Except as noted above, the City assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement in connection with the offering or reoffering of the subject securities.

CONTINUING DISCLOSURE AGREEMENT . . . The City will agree in the Ordinance to provide certain periodic information and notices of specified events in accordance with Securities and Exchange Commission Rule 15c2-12, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION." The Purchaser's obligation to accept and pay for the Bonds is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

The City has approved the form and content of the Notice of Sale and Bidding Instructions, the Official Bid Form and Official Statement, and authorized the use thereof in its initial offering of the Bonds. On the date of the sale, the City Council will, in the Ordinance authorizing the issuance of the Bonds, confirm its approval of the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Bonds by the Purchaser.

/s/ Jane Hughson

Mayor
City of San Marcos, Texas

ATTEST:

/s/ Elizabeth Trevino

City Clerk
City of San Marcos, Texas

April 3, 2025

OFFICIAL BID FORM

Honorable Mayor and City Council
 City of San Marcos, Texas
 450 Cypress Creek Road
 Building #1
 San Marcos, Texas 78613

April 15, 2025

Members of the City Council:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated April 3, 2025, of \$30,450,000* CITY OF SAN MARCOS, TEXAS WATERWORKS AND WASTEWATER SYSTEM REVENUE BONDS, SERIES 2025, both of which constitute a part hereof.

For your legally issued Bonds, in the aggregate principal amount of \$30,450,000*, we will pay you a price of \$ _____, representing approximately _____% of the par value. Such Bonds mature August 15, in each of the years and in the amounts and interest rates shown below:

Maturity (August 15)	Principal Amount*	Interest Rate	Maturity (August 15)	Principal Amount*	Interest Rate
2026	\$ 555,000	%	2036	\$ 1,525,000	%
2027	980,000	%	2037	1,600,000	%
2028	1,030,000	%	2038	1,680,000	%
2029	1,080,000	%	2039	1,765,000	%
2030	1,135,000	%	2040	1,850,000	%
2031	1,195,000	%	2041	1,945,000	%
2032	1,255,000	%	2042	2,035,000	%
2033	1,315,000	%	2043	2,125,000	%
2034	1,385,000	%	2044	2,220,000	%
2035	1,455,000	%	2045	2,320,000	%

Of the principal maturities set forth in the table above, Term Bonds have been created as indicated in the following table (which may include multiple term bonds, one Term Bond or no Term Bond if none is indicated). For those years which have been combined into Term Bonds, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Bond maturity date shall mature in such year. The Term Bonds created are as follows:

Term Bonds Maturing August 15	Year of First Mandatory Redemption	Principal Amount	Interest Rate
_____	_____	\$ _____	%
_____	_____	\$ _____	%
_____	_____	\$ _____	%
_____	_____	\$ _____	%
_____	_____	\$ _____	%
_____	_____	\$ _____	%

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TRUE INTEREST COST _____ %

The Initial Bond shall be registered in the name of _____, which will, upon payment for the Bonds, be cancelled by the Paying Agent/Registrar. The Bonds will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the book-entry-only system.

A wire transfer or a cashiers or certified check to the City in the amount of \$609,000 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Bonds in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the City as complete liquidated damages against us.

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION." Preliminary, subject to change.

We agree to accept delivery of the Bonds utilizing the book-entry-only system through DTC and make payment for the Initial Bond in immediately available funds in the Corporate Trust Division, BOKF, NA, Dallas, Texas, not later than 10:00 AM, CDT, on May 7, 2025, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions. It will be the obligation of the purchaser of the Bonds to complete the DTC Eligibility Questionnaire.

Upon notification of conditional verbal acceptance, the undersigned will either (1) complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Form 1295") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Form 1295 that is generated by the TEC's electronic portal will be printed, signed, notarized and sent by email to the City's Bond Counsel at jbfowler@mphlegal.com or (2) provide written confirmation of its exemption from such requirement to complete a Form 1295. The undersigned understands that, unless exempt, the failure to provide the certified Form 1295 will prohibit the City from awarding the enclosed bid.

The bidder makes the following representations and covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as heretofore amended (the "Government Code"), in entering into this Official Bid Form. As used in the following verifications, "affiliate" means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. Liability for breach of any such verification through the delivery date of the Bonds shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of this Official Bid Form or the Notice of Sale, notwithstanding anything in this Official Bid Form or the Notice of Sale to the contrary.

(i) No Boycott of Israel Verification (Texas Government Code Chapter 2271). The Purchaser hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and will not boycott Israel through the term of this Agreement. As used in the foregoing verification, "boycott Israel" has the meaning provided in Section 2271.001, Government Code.

(ii) Not a Sanctioned Company (Texas Government Code Chapter 2252). The Purchaser represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Government Code. The foregoing representation excludes a bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.

(iii) No Boycott of Energy Companies (Texas Government Code Chapter 2276). The Purchaser hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and will not boycott energy companies through the term of this Agreement. As used in the foregoing verification, "boycott energy companies" has the meaning provided in Section 2276.001(1), Government Code.

(iv) No Discrimination Against Firearm Entities or Firearm Trade Associations (Texas Government Code Chapter 2274). The Purchaser hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and will not discriminate against a firearm entity or firearm trade association through the term of this Agreement. As used in the foregoing verification, "discriminate against a firearm entity or firearm trade association" has the meaning provided in Section 2274.001(3), Government Code.

By submitting this bid, the Purchaser understands and agrees that if the Purchaser should fail or refuse to take up and pay for the Bonds in accordance with this bid, or it is determined that after the acceptance of this bid by the City that the Purchaser was found not to satisfy the requirements described in the Official Notice of Sale under the heading "CONDITIONS OF THE SALE" and as a result the Texas Attorney General will not deliver its approving opinion of the Bonds, then the check submitted herewith as the Purchaser's Good Faith Deposit shall be cashed and accepted by the City. IF THE CITY CASHES THE PURCHASER'S GOOD FAITH DEPOSIT AS DESCRIBED ABOVE, SUCH ACTION DOES NOT CONSTITUTE COMPLETE OR LIQUIDATED DAMAGES RELATED TO THE PURCHASER'S BREACH OF ANY OF THE COVERED VERIFICATIONS.

By submitting this bid, the Purchaser understands and agrees that the liability of the Purchaser for breach of any of the verifications made in connection with Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as amended and as described above (collectively, the "Covered Verifications") shall survive until barred by the statute of limitations, and shall not be liquidated or otherwise limited by any provision of this Official Bid Form or the Official Notice of Sale. Additionally, the Purchaser acknowledges and agrees that the City reserves and retains all rights and remedies at law and in equity for pursuit and recovery of damages, if any, relating to the Covered Verifications.

By submitting this bid, the Purchaser understands and agrees that it must have a standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General's Office in the form included as Exhibit A to the All Bond Counsel Letter of the Texas Attorney General dated November 1, 2023 and any supplements thereto (the "All Bond Counsel Letter"). In submitting this bid, the Purchaser represents to the City that it has filed a standing letter in the form included as Exhibit A to the All Bond Counsel Letter without qualification and including current statutory citations and it has no reason to believe that the City may not be entitled to rely on the standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General's Office. The Purchaser hereby further agrees that it will not rescind its standing letter at any time before the delivery of the Bonds unless same is immediately replaced with a standing letter meeting the requirements of the All Bond Counsel Letter.

The Purchaser agrees to provide such further representations, certifications or assurances in connection with the Covered Verifications, as of the delivery date of the Bonds or such other date requested by the City including, but not limited to, a bring down certification as provided by the All Bond Counsel Letter.

The Purchaser acknowledges that the City, in its sole discretion, has reserved the right to reject the bid of any bidder who is, or whose parent company, subsidiaries or affiliates are, on a list maintained by the Texas Comptroller or the Texas Attorney General of financial companies boycotting energy companies or discriminating against firearm entities.

The Purchaser understands and agrees that to the extent the Purchaser and each syndicate member listed on the Official Bid Form is unable to provide a Standing Letter in a form satisfactory to the Texas Office of the Attorney General, the City reserves the right to cash and accept the Good Faith Deposit (see "CONDITIONS OF THE SALE – Good Faith Deposit" in the Official Notice of Sale).

NOTWITHSTANDING ANYTHING CONTAINED HEREIN, THE REPRESENTATIONS AND COVENANTS CONTAINED IN THIS OFFICIAL BID FORM SHALL SURVIVE TERMINATION OF THIS OFFICIAL BID FORM OF THE PURCHASER TO PURCHASE THE BONDS UNTIL THE STATUTE OF LIMITATIONS HAS RUN.

By submitting this bid, the Purchaser understands and agrees that if Purchaser should fail or refuse to take up and pay for the Bonds in accordance with this bid, or it is determined that after the acceptance of this bid by the City that the Purchaser was found not to satisfy the requirements described in the Notice of Sale and Bidding Instructions under the heading "CONDITIONS OF SALE" and as a result the Texas Attorney General will not deliver its approving opinion of the Bonds, then the check submitted herewith as Purchaser's Good Faith Deposit shall be cashed and accepted by the City as full and complete liquidated damages.

At the request of the City, the undersigned agrees to execute further written certification as may be necessary or convenient for the City to establish compliance with these laws.

The undersigned agrees to complete, execute, and deliver to the City, at least five business days prior to delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the City and Bond Counsel.

The undersigned certifies that the Purchaser [is]/[is not] exempt from filing the TEC Form 1295 by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

Name of Purchaser or Manager

Authorized Representative

Phone Number

Signature

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by City of San Marcos, Texas, this the 15th day of April, 2025.

ATTEST:

City Secretary
City of San Marcos, Texas

Mayor
City of San Marcos, Texas

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ISSUE PRICE CERTIFICATE

(Sales where at least 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters (“Purchaser”), with respect to the purchase at competitive sale of the City of San Marcos, Texas (the “Issuer”) Waterworks and Wastewater System Revenue Bonds, Series 2025 in the principal amount of \$30,450,000* (“Bonds”), hereby certifies and represents, based on its records and information, as follows:

(a) On the first day on which there was a binding contract in writing for the purchase of the Bonds by the Purchaser, the Purchaser’s reasonably expected initial offering prices of each maturity of the Bonds with the same credit and payment terms (the “Expected Offering Prices”) to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter are as set forth in the pricing wire or equivalent communication for the Bonds, as attached to this Bond as Schedule A. The Expected Offering Prices are the prices for the Bonds used by the Purchaser in formulating its bid to purchase the Bonds.

(b) The Purchaser had an equal opportunity to bid to purchase the Bonds and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).

(c) The bid submitted by the Purchaser constituted a firm bid to purchase the Bonds.

(d) The Purchaser [has] [has not] purchased bond insurance for the Bonds. The bond insurance has been purchased from _____ (the “Insurer”) for a fee of \$ _____ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer’s commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm’s-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Bonds. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Bonds, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Bonds in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term “Underwriter” means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this _____, 2025.

[NAME OF PURCHASER], as Purchaser

By: _____

Name: _____

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION.” Preliminary, subject to change.

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION
(Attached)

ISSUE PRICE CERTIFICATE

(Form of Certificate if less than 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters (“Purchaser”), with respect to the purchase at competitive sale of the City of San Marcos, Texas (the “Issuer”) Waterworks and Wastewater System Revenue Bonds, Series 2025 in the principal amount of \$30,450,000* (“Bonds”), hereby certifies and represents, based on its records and information, as follows:

(a) [Other than the Bonds maturing in _____ (“Hold-the-Price Maturities”), the][The] first prices at which at least ten percent (“Substantial Amount”) of the principal amount of each maturity of the Bonds having the same credit and payment terms (“Maturity”) was sold to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter (“Public”) are their respective initial offering prices, as listed in the pricing wire or equivalent communication for the Bonds that is attached to this Bond as Schedule A.

(Add (b) and (c) only if winning bidder designates one or more maturities as Hold-the-Price Maturities)

(b) On or before the first day on which there is a binding contract in writing for the sale of the Bonds (“Sale Date”), the Purchaser offered to the Public each Maturity of the Hold-the-Price Maturities at their respective initial offering prices, as set forth in Schedule A hereto (“Initial Offering Price”).

(c) As set forth in the Notice of Sale, the Purchaser agreed in writing to neither offer nor sell any of the Hold-the-Price Maturities to any person at any higher price than the Initial Offering Price for each such Maturity until the earlier of the close of the fifth business day after the Sale Date or the date on which the Purchaser sells at least ten percent of a Hold-the-Price-Maturity of the Bonds to the Public at no higher price than the Initial Offering Price for such Maturity.

(d) The Purchaser [has] [has not] purchased bond insurance for the Bonds. The bond insurance has been purchased from _____ (the “Insurer”) for a fee of \$ _____ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer’s commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm’s-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Bonds. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Bonds, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Bonds in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term “Underwriter” means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this _____, 2025.

[NAME OF PURCHASER], as Purchaser

By: _____

Name: _____

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION.” Preliminary, subject to change.

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION
(Attached)

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

PRELIMINARY OFFICIAL STATEMENT

Dated April 3, 2025

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

NEW ISSUE – Book-Entry-Only

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



\$30,450,000*

CITY OF SAN MARCOS, TEXAS

(A political subdivision of the State of Texas located in Hays, Caldwell and Guadalupe Counties)

WATERWORKS AND WASTEWATER SYSTEM REVENUE BONDS, SERIES 2025

Dated Date: May 7, 2025

Due: August 15, as shown on page 2

Interest accrues from the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the \$30,450,000* City of San Marcos, Texas Waterworks and Wastewater System Revenue Bonds, Series 2025 (the "Bonds"), will accrue from the Date of Initial Delivery and will be payable February 15 and August 15 of each year, until maturity or prior redemption, commencing February 15, 2026. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS – BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "THE BONDS – PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1502, Texas Government Code, as amended, and a "Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program" to be adopted by the City Council on April 15, 2025 (the "Master Ordinance"); and a "First Supplemental Ordinance to the Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program" also to be adopted by the City Council on April 15, 2025 (the "First Supplement" together with the Master Ordinance, the "Ordinance"). **The City has outstanding three series of obligations payable from and secured by a first and prior lien on the Net Revenues of the City's waterworks and sewer system (the "Prior Obligations"). The Bonds are payable from and secured by a lien on the Net Revenues junior and subordinate to the Prior Obligations.** As additional security for the Bonds, there has been established a Reserve Account which shall be funded (but beginning only after Net Revenues for any fiscal year are less than 1.30 times the average Annual Debt Service Requirements on the Bonds) in an amount at least equal to the average Annual Debt Service Requirements on the Bonds. Due to the coverage currently maintained by the City, at the time of delivery of the Bonds, it is not anticipated that the Reserve Account will be funded. The amount required to be on deposit in the Reserve Account can, at the option of the City, be satisfied by the deposit of a surety bond or insurance policy. The City has reserved the right to issue additional obligations ("Parity Obligations") secured by a lien on such Net Revenues on parity with the Bonds. **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "THE BONDS – SECURITY FOR THE BONDS").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purposes of (i) acquiring, purchasing, constructing, improving, renovating, enlarging or equipping the System, (ii) improving and extending certain existing System facilities, and (iii) paying professional services including legal, fiscal, architectural, engineering and any costs of issuance.

CUSIP PREFIX: 798809

MATURITY SCHEDULE

See Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Purchaser and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel (see "APPENDIX D – FORM OF BOND COUNSEL'S OPINION").

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on May 7, 2025 (the "Date of Initial Delivery").

BIDS DUE ON TUESDAY, APRIL 15, 2025, BY 10:00 AM, CDT

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION" in the Notice of Sale. Preliminary, subject to change.

MATURITY SCHEDULE*

8/15 Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers ⁽¹⁾
2026	\$ 555,000			
2027	980,000			
2028	1,030,000			
2029	1,080,000			
2030	1,135,000			
2031	1,195,000			
2032	1,255,000			
2033	1,315,000			
2034	1,385,000			
2035	1,455,000			
2036	1,525,000			
2037	1,600,000			
2038	1,680,000			
2039	1,765,000			
2040	1,850,000			
2041	1,945,000			
2042	2,035,000			
2043	2,125,000			
2044	2,220,000			
2045	2,320,000			

(Interest Accrues from the Date of Initial Delivery)

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION” in the Notice of Sale. Preliminary, subject to change.

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REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2035, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof on August 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – OPTIONAL REDEMPTION”). Additionally, the Bonds may be subject to mandatory redemption in the event the Purchaser elects to aggregate two or more consecutive maturities as Term Bonds.

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For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), this document constitutes a preliminary official statement of the City with respect to the Bonds that has been deemed “final” by the City as of its date except for the omission of the information permitted by the Rule.

This Official Statement, which includes the cover page and the Schedule and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized by the City or the Purchaser to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

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 or the Purchaser. 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.

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

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

NONE OF THE CITY, NOR ITS FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>
Jane Hughson Mayor	16 Years ⁽¹⁾	November 2026
Matthew Mendoza Councilmember, Place 1	2½ Years	November 2025
Saul Gonzales Councilmember, Place 2	8 Years	November 2025
Alyssa Garza Councilmember, Place 3	4½ Years	November 2026
Shane Scott Councilmember, Place 4	4½ Years	November 2026
Lorenzo Gonzalez Councilmember, Place 5	6 Months	November 2027
Amanda Rodriguez Councilmember, Place 6	6 Months	November 2027

(1) Elected as Mayor on November 6, 2018. Prior to being elected as Mayor, Ms. Hughson served as a City Councilmember for five years. She additionally served as a City Councilmember from 1996 to 2002.

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>
Stephanie Reyes	City Manager
Joe Pantalio	Assistant City Manager
Rodney Gonzales	Assistant City Manager
Lonzo Anderson	Assistant City Manager
Jon Locke	Director of Finance
Elizabeth Trevino	City Clerk
Samuel Aguirre	City Attorney

CONSULTANTS AND ADVISORS

AuditorsABIP, P.C.
San Antonio, Texas

Bond Counsel McCall, Parkhurst & Horton L.L.P.
Austin, Texas

Financial Advisor.....Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the City, please contact:

Mr. Jon Locke Director of Finance City of San Marcos, Texas 630 East Hopkins San Marcos, Texas 78666 512/393-8170 855/697-4658 Fax	or	Mr. Dan Wegmiller Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 512/275-7300 512/275-7305 Fax
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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 San Marcos, Texas (the “City”), is a political subdivision located in Hays, Caldwell and Guadalupe Counties operating as a home-rule city under the laws of the State of Texas (the “State”) and a home-rule charter, initially approved by the voters in 1967. The City operates under the City Council/Manager form of government where the Mayor is elected at-large in even numbered years for a two-year term and six Council Members are elected at-large for staggered three year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. The City is approximately 32 square miles in area (see “APPENDIX A – GENERAL INFORMATION REGARDING THE CITY”).
- THE BONDS**..... The Bonds are issued as \$30,450,000* City of San Marcos, Texas Waterworks and Wastewater System Revenue Bonds, Series 2025. The Bonds are issued as serial bonds maturing on August 15 in the years 2026 through and including 2045 unless the Purchaser elects to aggregate two or more consecutive maturities as Term Bonds (see “THE BONDS – DESCRIPTION OF THE BONDS”).
- PAYMENT OF INTEREST**..... Interest on the Bonds accrues from the Date of Initial Delivery and is payable February 15, 2026, and each August 15 and February 15 thereafter until maturity or prior redemption, and is calculated on the basis of a 360-day year consisting of twelve 30-day months (see “THE BONDS – DESCRIPTION OF THE BONDS”).
- AUTHORITY FOR ISSUANCE**..... The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Chapter 1502, Texas Government Code, as amended, and a “Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program” to be adopted by the City Council on April 15, 2025 (the “Master Ordinance”); and a “First Supplemental Ordinance to the Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program” also to be adopted by the City Council on April 15, 2025 (the “First Supplement” together with the Master Ordinance, the “Ordinance”) (see “THE BONDS – AUTHORITY FOR ISSUANCE”).
- SECURITY FOR THE BONDS**..... The Bonds constitute special obligations of the City payable, both as to principal and interest, from and secured by a lien on and pledge of the Security including the Net Revenues of the City’s Utility System after payment of maintenance and operating expenses. **The lien on Net Revenues securing the Bonds is junior and subordinate to the lien on Net Revenues securing the Prior Obligations. The City will covenant in the Master Ordinance not to issue any additional obligations payable from Net Revenues on a parity with the Prior Obligations and with a lien superior to the lien created by the Master Ordinance.** The City has reserved the right to issue additional obligations secured by a parity lien on the Net Revenues. Additional security for the Bonds is provided in the Reserve Account (see “APPENDIX C – SELECT PROVISIONS OF THE ORDINANCE”) which is required to be funded only after Net Revenues for any fiscal year are less than 1.30 times the average Annual Debt Service Requirements of the Bonds. At the time of delivery of the Bonds it is not anticipated that the Reserve Account will be funded due to the coverage currently maintained by the City. The City will not covenant or obligate itself to pay the principal of or interest on Bonds from monies raised or to be raised from taxation (see “THE BONDS – SECURITY FOR THE BONDS”).
- OPTIONAL REDEMPTION**..... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2035, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – OPTIONAL REDEMPTION”). Additionally, the Bonds may be subject to mandatory redemption in the event the Purchaser elects to aggregate two or more consecutive maturities as Term Bonds.
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS.”

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMORTIZATION” in the Notice of Sale. Preliminary, subject to change.

USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for the purposes of (i) acquiring, purchasing, constructing, improving, renovating, enlarging or equipping the System, (ii) improving and extending certain existing System facilities, and (iii) paying professional services including legal, fiscal, architectural, engineering and any costs of issuance.
RATING	The Bonds have been rated “AA” by S&P Global Ratings (“S&P”) without regard to credit enhancement (see “OTHER INFORMATION – RATING”).
BOOK-ENTRY-ONLY SYSTEM	The Bonds will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company, New York, New York (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS – BOOK-ENTRY-ONLY SYSTEM”).
PAYMENT RECORD	The City has never defaulted in payment of its revenue debt.

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PRELIMINARY OFFICIAL STATEMENT

RELATING TO

\$30,450,000*

CITY OF SAN MARCOS, TEXAS

WATERWORKS AND WASTEWATER SYSTEM REVENUE BONDS, SERIES 2025

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$30,450,000* City of San Marcos, Texas Waterworks and Wastewater System Revenue Bonds, Series 2025 (the “Bonds”). The Bonds are issued pursuant to the authority granted to the City by Chapter 1502, Texas Government Code, as amended; a “Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program” to be adopted by the City Council on April 15, 2025 (the “Master Ordinance”); and a “First Supplemental Ordinance to the Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program” also to be adopted by the City Council on April 15, 2025 (the “First Supplement” and together with the Master Ordinance, the “Ordinance”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City of San Marcos, 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, Specialized Public Finance Inc., Austin, Texas (the “Financial Advisor”), by electronic mail or upon payment of reasonable copying, handling, and delivery charges. Contact information for the Financial Advisor can be found on page 4 hereof.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Obligations will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the City’s undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City is a political subdivision located in Hays, Caldwell and Guadalupe Counties in the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City’s Home Rule Charter initially adopted by the voters in 1967. The City was incorporated in 1877. The City operates as a home-rule City under the Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office for the Mayor is two years, with elections in November of each even numbered year, and the Councilmembers are all elected at-large for staggered three year terms with an election in November of each year. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water, sanitary wastewater and solid waste utilities, stormwater drainage, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The City is approximately 32 square miles in area. For more information regarding the City, see “APPENDIX A – GENERAL INFORMATION REGARDING THE CITY.”

PLAN OF FINANCE

The City has previously issued and has outstanding three series of obligations payable from and secured by the net revenues of the City’s waterworks and sewer system including the “City of San Marcos, Texas Waterworks and Waste Water System Revenue Bonds, Series 2015” (the “Series 2015 Bonds”); “City of San Marcos, Texas Waterworks and Waste Water System Revenue Refunding Bonds, Series 2017A” (the “Series 2017A Bonds”); and “City of San Marcos, Texas Waterworks and Waste Water System Revenue Bonds, Series 2017B” (the “Series 2017B Bonds” and collectively with the Series 2015 Bonds and the Series 2017A Bonds referred to as the “Prior Obligations”). In the ordinances authorizing the Prior Obligations the City reserved the right to issue obligations with a lien inferior to the lien on the net revenues securing the Prior Obligations. **In order to reduce costs, increase borrowing capacity and provide the City with greater financial flexibility, the City has determined it necessary to establish a new utility system financing program (the Program”) under the Master Ordinance pursuant to which the City may issue obligations, including bonds, notes and other public securities and execute credit agreements, secured by and payable from a pledge of and lien on all of the Security, including the Net Revenues of the Utility System, which lien on the Net Revenues is junior and subordinate to the lien securing the Prior Obligations.** The Bonds are the first series of obligations issued under the Program. In the Master Ordinance the City will close the senior lien related to the Prior Obligations and will covenant that it will not issue obligations payable from the Net Revenues with a lien superior to the lien created by the Master Ordinance.

*Preliminary, subject to change.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated May 7, 2025 and mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the Date of Initial Delivery, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2026. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “– BOOK-ENTRY-ONLY SYSTEM”).

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Chapter 1502 of the Texas Government Code, as amended, and the Ordinance.

SECURITY FOR THE BONDS . . . With respect to the Bonds and any additional Parity Debt (defined below) and subject to the provisions of the ordinances authorizing the Prior Obligations, the City has pledged to the Owners as security for the payment of the Bonds and any additional Parity Debt, a lien on the Security which includes: (i) all Pledged Revenues; (ii) all amounts in the Revenue Account and the Interest and Sinking Account; (iii) any additional account or subaccount that is subsequently established and so designated as being included within the Security; (iv) all of the proceeds of the foregoing, including without limitation investments thereof; and (v) any applicable Credit Agreement to the extent set forth in such Credit Agreement. With respect to any applicable series of Parity Debt, the term Security also includes all amounts in any reserve account or subaccount applicable to such Parity Debt, including any reserve fund surety policy or other Credit Agreement entered into for the benefit of such account or subaccount. Pledged Revenues means the Net Revenues of the Utility System plus any additional revenues, income, receipts or other resources, including, without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the City to the payment of the Parity Debt and excluding those revenues excluded from Gross Revenues. The Bonds are not a charge upon any other income or revenues of the City and will never constitute a legal or equitable pledge, charge, lien, mortgage or encumbrance upon any property of the City or the Utility System, except the Security. As additional security for the Bonds, there has been established a Reserve Account which shall be funded (but beginning only after Net Revenues for any fiscal year are less than 1.30 times the average Annual Debt Service Requirements) in an amount at least equal to the average Annual Debt Service Requirements, as defined in the Master Ordinance, of the Bonds. The amount required to be on deposit in the Reserve Account can, at the option of the City, be satisfied by deposit of a Reserve Fund Obligation. Due to the coverage currently maintained by the City, at the time of delivery of the Bonds it is not anticipated that the Reserve Account will be funded (see “APPENDIX C – SELECTED PROVISIONS OF THE ORDINANCE”).

ADDITIONAL PARITY DEBT . . . In the Master Ordinance, the City has reserved the right to issue additional Parity Debt which is equally and ratably secured solely be a lien on the Security on parity with the Bonds upon satisfying certain conditions. See Section 7 of the Master Ordinance as described in “APPENDIX C – SELECTED PROVISIONS OF THE ORDINANCE.”

CREDIT AGREEMENTS . . . Chapter 1371 of the Texas Government Code, as amended, and the Master Ordinance authorize the City at any time to enter into one or more Credit Agreements to secure Parity Debt, including the Bonds, in whole or in part. The Master Ordinance provides that the City may execute and deliver a Credit Agreement upon the delivery to the City of a certificate signed by the Chief Financial Officer to the effect that such Credit Agreement is in the best interest of the City. Each Credit Agreement must be approved by the City to the extent required by law.

Credit Agreements may include loan agreements; revolving credit agreements; agreements establishing a line of credit; letters of credit; reimbursement agreements; insurance contracts; commitments to purchase Parity Debt; purchase or sale agreements; interest rate swap, cap, and/or floor agreements or commitments; or other contracts or agreements authorized, recognized, and approved by the City as a Credit Agreement in connection with the authorization, issuance, sale, resale, security, exchange, payment, purchase, remarketing, or redemption of Parity Debt, the interest on Parity Debt, or both. Payments to be made by the City under the terms of any Credit Agreement will be governed by the resolution or ordinance adopted by the City authorizing the execution and delivery of such Credit Agreement. Credit Agreements may be entered into as Parity Debt, as Subordinate Debt, or partially as Parity Debt and partially as Subordinate Debt. The City currently is not a party to any Credit Agreement for any Parity Debt, including the Bonds, and does not currently intend to enter into any Credit Agreement with respect to the Bonds, but has the ability to enter into a Credit Agreement at any time for the Bonds or other issues of Parity Debt.

CREATION OF ACCOUNTS AND SUBACCOUNTS . . . In the Master Ordinance the City establishes and/or affirms the creation of the following funds or accounts: (i) the System Revenue Fund or Account (the “System Account”); (ii) the Utility System Interest and Sinking Account (the “Interest and Sinking Account”); and (iii) the Utility System Bond Proceeds Account (the “Bond Proceeds Account”). The First Supplement creates the Rebate Fund for the Bonds (the “Rebate Fund”).

Subject to the provisions of Section 4 of the Master Ordinance, moneys in the System Account may be used for any lawful purpose authorized pursuant to the Enabling Act and other State law. Moneys in the Interest and Sinking Account shall be used to pay amounts due on or with respect to Parity Debt, including the principal of, premium, if any, and interest on Parity Debt as the same

become due and payable (whether at Stated Maturity or upon prior redemption), and the City shall maintain such account as long as Parity Debt is Outstanding.

Proceeds from the issuance of Parity Debt shall be deposited from time to time upon the issuance of such Parity Debt as provided by the applicable Supplement into the Bond Proceeds Account, or any subaccount thereof created with respect to such Parity Debt. Such proceeds and the interest thereon shall remain in the Bond Proceeds Account or applicable subaccount thereof until expended to accomplish the purposes for which such Parity Debt was issued or until otherwise utilized as provided in the applicable Supplement. Amounts in the Bond Proceeds Account do not constitute Security.

The City may establish a reserve account and/or any other account or subaccount pursuant to the provisions of the applicable Supplement for the purpose of paying or securing a particular issue or series of Parity Debt or any specific group of issues or series of Parity Debt and the amounts, once deposited into said accounts or subaccounts, shall no longer constitute Security for all Parity Debt but shall be held solely for the benefit of the owners of the particular issue or series or group of issues or series of Parity Debt for which such account or subaccount was established. Each such account or subaccount shall be designated in such manner as is necessary to identify the Parity Debt it secures and to distinguish such account or subaccount from any other accounts created for the benefit of any other Parity Debt. Any such reserve accounts or subaccounts shall be established in the Supplement related to such series or issue of Parity Debt. The City may, in its discretion, provide in the applicable Supplement for a surety bond, insurance policy or other Credit Agreement, to the extent then authorized by State law, to be held for the benefit of such a reserve account or subaccount.

The City reserves the right to establish, in connection with the issuance of Parity Debt or for other purposes, one or more additional accounts or subaccounts for such other purposes as the City may determine from time to time. The City may, at its option, declare in the action establishing the account or subaccount that the amounts in such additional account or subaccount will be either included within or excluded from the Security.

FLOW OF FUNDS . . . All Gross Revenues shall be deposited in the System Account immediately upon receipt by the City. All Gross Revenues are hereby and shall be appropriated, deposited, and transferred from the System Account to the other accounts and subaccounts to the extent required for the following uses and in the order of priority shown:

FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, including, but not limited to, Chapter 1502, Texas Government Code, as amended, to be a first charge on and claim against the Gross Revenues, including any reserve amount based upon the budgeted amount of Maintenance and Operating Expenses for the current Fiscal Year as determined by the Chief Financial Officer, which amount shall be retained in the System Account;

SECOND: to the payment of amounts required to be deposited and credited to all funds and accounts to meet all financial obligations of the City relating to the Prior Obligations;

THIRD: to the payment of amounts required to be deposited and credited to the Interest and Sinking Account to meet all financial obligations of the City relating to the Program, including payments due on or with respect to the payment of Parity Debt as the same mature or come due;

FOURTH: pro rata, on the basis that the Outstanding Principal Amount of each particular issue or series of Parity Debt secured by a reserve account bears to the aggregate Outstanding Principal Amount of all such issues or series of such Parity Debt secured by any reserve account, to the payment of the amounts required to be deposited and credited to each reserve account created and established to maintain a reserve in accordance with the provisions of any Supplement relating to the issuance of any Parity Debt;

FIFTH: any amounts to be deposited into any other fund, account or subaccount to the extent required pursuant to the provisions of any Supplement relating to the issuance of Parity Debt;

SIXTH: to the extent required by any ordinance or other instrument adopted or approved by the City pursuant to which Subordinated Debt is issued, the amount necessary to meet all financial obligations on such Subordinated Debt and to accumulate or restore any required reserves to ensure payment of such principal, premium, and interest shall be deposited to any account or subaccount created for such purpose; and

SEVENTH: all remaining Pledged Revenues shall be retained in the System Account and may be used for any lawful purpose authorized pursuant to the Enabling Act and other State law.

RATE COVENANT . . . For the benefit of the Owners of the Parity Debt and in addition to all provisions and covenants in the laws of the State and in the Master Ordinance and any Supplement, the City has agreed, while any of the Parity Debt, including the Bonds, is Outstanding, to establish and maintain rates and charges for facilities and services afforded by the Utility System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year reasonably anticipated to be sufficient:

1. to pay Maintenance and Operating Expenses;

2. to pay and meet all financial obligations related to the Prior Obligations;
3. to produce Pledged Revenues at least equal to the greater of 1.25 times the average Annual Debt Service Requirements or 1.10 times the maximum Annual Debt Service Requirements;
4. to produce Pledged Revenues in amounts sufficient to enable the City to make the deposits and credits, if any, from Pledged Revenues to the accounts and subaccounts required by the Master Ordinance and any Supplement including to fund or restore to the Required Reserve Amount any Reserve Fund required by a Supplement, including the payment of any Reserve Fund Obligation Payment then due.
5. to produce Pledged Revenues, together with any other lawfully available funds (including the proceeds of Debt which the City expects will be utilized to pay all or part of the principal of and/or interest on any obligations) sufficient to meet all financial obligations for Subordinate Debt issued by the City; and
6. to pay any other Debt payable from the Pledged Revenues and/or secured by a lien on the Security.

Should the annual audit report reflect that the Security for the Fiscal Year covered thereby is less than necessary to meet the requirements of this Section, the City Council will review the operations of the Utility System and the rates and charges for services provided, and the City Council will make the necessary adjustments or revisions, if any, in order that the Security for the succeeding year will be sufficient to satisfy the foregoing coverage requirements.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2035 in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in book-entry-only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 20 days prior to an optional redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. Any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the bondholder.

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

DTC REDEMPTION PROVISIONS . . . The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise a DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

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

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or 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 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend 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 Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

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

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 neither the City nor the Purchaser take any 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 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, the following provisions will be applicable to the Bonds. The Bonds may be exchanged for an equal aggregate principal amount of the Bonds in authorized denominations and of the same maturity upon surrender thereof at the principal office for payment of the Paying Agent/Registrar. The transfer of any Bond may be registered on the books maintained by the Paying Agent/Registrar for such purpose only upon the surrender of such Bond to the Paying Agent/Registrar with a duly executed assignment in form satisfactory to the Paying Agent/Registrar. For every exchange or transfer of registration of Bonds, the Paying Agent/Registrar and the City may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. The City shall pay the fee, if any, charged by the Paying Agent/Registrar for the transfer or exchange. The Paying Agent/Registrar will not be required to transfer or exchange any Bond after its selection for redemption. The City and the Paying Agent/Registrar may treat the person in whose name a Bond is registered as the absolute owner thereof for all purposes, whether such Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of, premium, if any, and interest on, such Bond.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is BOKF, NA, 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 Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated Payment/Transfer office, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See “– BOOK-ENTRY-ONLY SYSTEM” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

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

BONDHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

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

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by the 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. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the City for breach of the Bonds or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

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 its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

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

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

DEFEASANCE OF BONDS . . . The Ordinance provides for the defeasance of the Bonds and the termination of the pledge of revenues and all other general defeasance covenants in the Ordinance under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "Defeased Obligation") within the meaning of the Ordinance, except to the extent provided below for the Paying Agent to continue payments and for the City to retain the right to call Defeased Obligations to be paid at maturity, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption or the

establishment of irrevocable provisions for the giving of such notice) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the City with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Obligations shall have become due and payable or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Obligation, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the revenues pledged as provided in the Ordinance, and such principal and interest shall be payable solely from such money or Defeasance Securities.

The deposit under clause (ii) above shall be deemed a payment of a Bond when proper notice of redemption of such Bonds shall have been given or the establishment of irrevocable provisions for the giving of such notice, in accordance with the Ordinance. Any money so deposited with the Paying Agent or an eligible trust company or commercial bank may at the discretion of the City Council also be invested in Defeasance Securities, maturing in the amounts and at the times as set forth in the Ordinance, and all income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Ordinance for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Obligations shall have become due and payable, the Paying Agent shall perform the services of Registrar for such Defeased Obligations the same as if they had not been defeased, and the City shall make proper arrangements to provide and pay for such services as required by the Ordinance.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent or an eligible trust company or commercial bank for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Ordinance shall be made without the consent of the registered owner of each Bond affected thereby.

Retention of Rights. To the extent that, upon the defeasance of any Defeased Obligation to be paid at its maturity, the City retains the right under State law to later call that Defeased Obligation for redemption in accordance with the provisions of the Ordinance, the City may call such Defeased Obligation for redemption upon complying with the provisions of State law and upon the satisfaction of the provisions set forth above regarding such Defeased Obligation as though it was being defeased at the time of the exercise of the option to redeem the Defeased Obligation and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Obligation.

Investments. Any escrow agreement or other instrument entered into between the City and the Paying Agent or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent or an eligible trust company or commercial bank for the payment of Defeased Obligations may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the City Council.

For the purposes of these provisions, "Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Certificates are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Bonds. For the purposes of these provisions, "Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporation).

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

AMENDMENTS TO THE ORDINANCE . . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any owners for the purpose of amending or supplementing the Ordinance to (1) add to the covenants and agreements of the City in the Ordinance contained, other covenants and agreements thereafter to be observed, grant additional rights or remedies to bondholders or to surrender, restrict or limit any right or power herein reserved to or conferred upon the City, (2) make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Ordinance, or in regard to clarifying matters or questions arising under the Ordinance, as are necessary or desirable and not contrary to or inconsistent with the Ordinance and which shall not adversely affect the interests of the holders of the Parity Obligations, (3) make any changes or amendments requested by any Rating Agency, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the outstanding Parity Obligations, (4) make such changes, modifications or amendments as may be necessary or desirable, which shall not adversely affect the interests of the owners of the outstanding Parity Obligations, in order, to the extent permitted by law, to facilitate the economic and practical utilization of credit agreements with respect to the Parity Obligations, (5) modify any of the provisions of the Ordinance in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Parity Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding, and (ii) such modification shall be specifically referred to in the text of all Additional Parity Obligations issued after the date of the adoption of such modification.

The Ordinance further provides that the holders of the Parity Obligations aggregating a majority in principal amount of the aggregate principal amount of the Outstanding Parity Obligations shall have the right from time to time to approve any amendment to the Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of the holders of all of the effected Parity Obligations at the time outstanding, nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in the Ordinance or in the Parity Obligations so as to (1) make any change in the maturity of the Outstanding Parity Obligations, (2) reduce the rate of interest borne by any of the outstanding Parity Obligations, (3) reduce the amount of the principal payable on the outstanding Parity Obligations, (4) modify the terms of payment of principal of or interest on the outstanding Parity Obligations or impose any conditions with respect to such payment or (5) affect the rights of the holders of less than all of the Parity Obligations then outstanding, change the minimum percentage of the principal amount of Parity Obligations necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purposes of (i) acquiring, purchasing, constructing, improving, renovating, enlarging or equipping the System, (ii) improving and extending certain existing System facilities, and (iii) paying professional services including legal, fiscal, architectural, engineering and any costs of issuance.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

SOURCES:	
Par Amount of Bonds	\$
Reoffering Premium	
Total Sources	<u><u>\$</u></u>
 USES:	
Deposit to Construction Fund	\$
Deposit to Debt Service Fund	
Purchaser's Discount	
Costs of Issuance	
Total Uses	<u><u>\$</u></u>

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THE SYSTEM

The City owns, operates, manages and maintains the System as two component operations with a Surface Water Treatment Plant operation, currently performed under contract with the Guadalupe-Blanco River Authority and the Wastewater Treatment Facility operation currently performed under contract with OMI Inc.

Storm water is collected in an entirely separate gravity fed storm water system and is completely segregated from the sanitary waste water system. The storm water system is operated and maintained by the City’s Department of Public Works.

WATERWORKS SYSTEM . . . The City currently receives its total water supply from dual sources of supply: seven existing wells tapping the Edwards Aquifer and by pipeline from the Guadalupe River at Lake Dunlap supplying a surface water treatment plant commissioned in 2000. The System is served by two major pressure planes, the upper pressure plane serving the area above the Balcones Escarpment with the lower pressure plane serving the remainder of the City. Three sub zones are served by well supply and treatment systems. The City’s water distribution and storage facilities consist of seven pump stations, nine storage tanks and approximately 233 miles of main piping. The System has a peak pumping capability of 26 million gallons per day (“MGD”), 7 million gallons of storage capacity and maintains an average pressure of approximately 55 pounds per square inch. The City currently owns or contracts firm water rights totaling 9.2 MGD with options for an additional 4.5 MGD.

In January, 2007, the City, along with the Cities of Buda and Kyle, Texas and the Canyon Regional Water Authority, created the Hays Caldwell Public Utility Agency which is an agency operating pursuant to Chapter 422, Texas Local Government Code, as amended, to assist the participating entities with jointly providing water and wastewater to their respective customers. In January 2008, the city also approved the execution of a Regional Water Supply Contract (the “Contract”) among the Hays Caldwell Public Utility Agency, the City of San Marcos, the City of Kyle, the City of Buda and the Canyon Regional Water Authority to assist with financing additional raw water resources for the participating entities. The Contract is a take or pay contract payable from the gross revenues of the City’s System and the payments under the Contract are an operating and maintenance expense of the City’s System payable prior to debt service payments on the Bonds, Prior Obligations, Previously Issued Parity Bonds, and any Additional Parity Bonds.

TABLE 1 – WATER USAGE (MGD)

Fiscal Year Ended 9-30	Average Day Usage	Peak Day Usage
2020	7.257	14.433
2021	7.832	14.158
2022	8.383	13.851
2023	9.608	14.584
2024	10.080	15.800

TABLE 2 – TEN LARGEST WATER CUSTOMERS

Customer	Water Usage (gallons)	Revenue
Kissing Tree Master Community	58,393,459	\$ 602,105
Copper Beech Townhomes 29 LLC	56,219,653	562,628
City of San Marcos	49,688,032	572,612
29SC Lodge LP	31,943,441	320,816
The Retreat	31,311,530	313,337
Texas State University	30,090,515	364,908
Woods of San Marcos LLC	26,839,950	269,548
Pref Heights Propco LLC	23,343,372	238,738
The Avnue at San Marcos	22,166,522	224,080
San Marcos Factory Shops	21,574,570	221,322
	351,571,044	\$ 3,690,094

Source: The City’s 2024 Annual Comprehensive Financial Report.

TABLE 3 – MONTHLY WATER RATES (EFFECTIVE 10-1-2024)

<u>Meter Size</u>	<u>Inside City Rate</u>	<u>Outside City Rate</u>
<u>Lifeline Rate:</u>		
First 6,000 Gallons - Minimum	\$ 28.16	\$ 35.20
6,001 - 9,000 Gallons	8.25	10.31
9,001 - 12,000 Gallons	9.45	11.81
12,001 - 20,000 Gallons	10.63	13.28
20,001 - 50,000 Gallons	11.80	14.75
Over 50,000 Gallons	14.15	17.68
 <u>5/8" - 3/4" Water Meter:</u>		
Minimum Charge	\$ 29.57	\$ 36.96
0 - 6,000 Gallons	4.95	6.18
6,001 - 9,000 Gallons	8.66	10.82
9,001 - 12,000 Gallons	9.92	12.40
12,001 - 20,000 Gallons	11.16	13.95
20,001 - 50,000 Gallons	12.39	15.48
Over 50,000 Gallons	14.86	18.57
 <u>1" Water Meter:</u>		
Minimum Charge	\$ 73.90	\$ 92.37
0 - 4,000 Gallons	3.20	4.00
4,001 - 10,000 Gallons	3.84	4.80
10,001 - 25,000 Gallons	9.58	11.97
Over 25,000 Gallons	10.86	13.57
 <u>1 1/2" Water Meter:</u>		
Minimum Charge	\$ 147.80	\$ 184.75
0 - 8,000 Gallons	3.20	4.00
8,001 - 10,000 Gallons	3.84	4.80
10,001 - 25,000 Gallons	9.58	11.97
Over 25,000 Gallons	10.86	13.57
 <u>2" Water Meter:</u>		
Minimum Charge	\$ 236.47	\$ 295.58
0 - 13,000 Gallons	3.20	4.00
13,001 - 25,000 Gallons	9.58	11.97
Over 25,000 Gallons	10.86	13.57

WASTEWATER SYSTEM . . . The City currently owns and operates one central wastewater treatment facility with a permitted capacity of 9 MGD. The facility is an advanced tertiary treatment plant with primary, secondary, aeration, filtration, and UV disinfection processes with nutrient removal. Reclaimed water pumping and distribution facilities are also located at the plant. The system consists of approximately 271 miles of collection lines with 35 lift stations. After treatment, wastewater effluent not used for reclaimed purposes (i.e. irrigation or industrial cooling) is returned to the San Marcos River.

TABLE 4 – MONTHLY WASTEWATER RATES (EFFECTIVE 10-1-2024)

	Inside City Rate	Outside City Rate
<u>Lifeline Rate:</u>		
Maximum	\$ 29.27	\$ 36.58
<u>5/8" - 3/4" Water Meter:</u>		
First 2,000 Gallons - Minimum	\$ 30.74	\$ 38.42
Over 2,000 Gallons	8.85	11.06
<u>1" Water Meter:</u>		
First 4,000 Gallons - Minimum	\$ 61.37	\$ 76.71
Over 4,000 Gallons	8.85	11.06
<u>1 1/2" Water Meter:</u>		
First 8,000 Gallons - Minimum	\$ 122.72	\$ 153.40
Over 8,000 Gallons	8.85	11.06
<u>2" Water Meter:</u>		
First 13,000 Gallons - Minimum	\$ 196.40	\$ 245.50
Over 13,000 Gallons	8.85	11.06

TABLE 5 – WASTEWATER SYSTEM TREATED (MGD)

Fiscal Year Ended <u>9-30</u>	Daily Usage <u>(Thousands)</u>
2020	4.162
2021	4.361
2022	4.560
2023	4.707
2024	

DEBT INFORMATION

TABLE 6 – PRO-FORMA UTILITY SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt			The Bonds ⁽¹⁾			Total System Revenue Debt Service Requirements	Plus: System Supported GO Debt ⁽²⁾	Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total			
2025	\$ 325,000	\$ 58,111	\$ 383,111	\$ -	\$ -	\$ -	\$ 383,111	\$ 14,504,855	\$ 14,887,966
2026	280,000	55,420	335,420	555,000	1,869,244	2,424,244	2,759,664	14,546,143	17,305,807
2027	280,000	52,564	332,564	980,000	1,441,525	2,421,525	2,754,089	14,554,562	17,308,650
2028	285,000	49,428	334,428	1,030,000	1,392,525	2,422,525	2,756,953	11,399,443	14,156,396
2029	285,000	45,894	330,894	1,080,000	1,341,025	2,421,025	2,751,919	11,388,455	14,140,373
2030	290,000	42,046	332,046	1,135,000	1,287,025	2,422,025	2,754,071	11,426,811	14,180,882
2031	295,000	37,841	332,841	1,195,000	1,230,275	2,425,275	2,758,116	9,411,666	12,169,782
2032	300,000	33,298	333,298	1,255,000	1,170,525	2,425,525	2,758,823	9,409,191	12,168,014
2033	305,000	28,438	333,438	1,315,000	1,107,775	2,422,775	2,756,213	9,408,515	12,164,728
2034	310,000	23,284	333,284	1,385,000	1,042,025	2,427,025	2,760,309	9,094,988	11,855,296
2035	315,000	17,828	332,828	1,455,000	972,775	2,427,775	2,760,603	8,755,061	11,515,663
2036	320,000	12,095	332,095	1,525,000	900,025	2,425,025	2,757,120	8,243,613	11,000,732
2037	325,000	6,143	331,143	1,600,000	823,775	2,423,775	2,754,918	7,110,438	9,865,355
2038	-	-	-	1,680,000	743,775	2,423,775	2,423,775	6,081,713	8,505,488
2039	-	-	-	1,765,000	659,775	2,424,775	2,424,775	5,468,513	7,893,288
2040	-	-	-	1,850,000	571,525	2,421,525	2,421,525	4,733,413	7,154,938
2041	-	-	-	1,945,000	479,025	2,424,025	2,424,025	3,879,169	6,303,194
2042	-	-	-	2,035,000	391,500	2,426,500	2,426,500	2,079,169	4,505,669
2043	-	-	-	2,125,000	299,925	2,424,925	2,424,925	1,041,569	3,466,494
2044	-	-	-	2,220,000	204,300	2,424,300	2,424,300	566,800	2,991,100
2045	-	-	-	2,320,000	104,400	2,424,400	2,424,400	-	2,424,400
	<u>\$ 3,915,000</u>	<u>\$ 462,386</u>	<u>\$ 4,377,386</u>	<u>\$ 30,450,000</u>	<u>\$ 18,032,744</u>	<u>\$ 48,482,744</u>	<u>\$ 52,860,130</u>	<u>\$ 163,104,083</u>	<u>\$ 215,964,213</u>

(1) Interest on the Bonds calculated at an assumed rate for purposes of illustration. Preliminary, subject to change.

(2) Represents discretionary payments made by the City that support debt service payments on City debt issued for improvements to the System.

FINANCIAL INFORMATION

TABLE 7 – UTILITY SYSTEM CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ending September 30,				
	2024	2023	2022	2021	2020
Revenues:					
Charges for Services	\$ 64,697,934	\$ 60,277,696	\$ 71,469,418	\$ 56,626,110	\$ 47,778,707
Interest Income/Other	1,118,536	1,796,823	1,244,456	1,083,011	1,191,433
Total Revenues	\$ 65,816,470	\$ 62,074,519	\$ 72,713,874	\$ 57,709,121	\$ 48,970,140
Expenditures:⁽¹⁾					
Personnel Services	\$ 7,257,202	\$ 6,559,235	\$ 4,990,366	\$ 5,264,874	\$ 5,360,276
Contracted Services	18,494,332	17,680,125	12,295,834	11,379,330	9,642,984
Materials and Supplies	2,308,705	1,944,563	1,206,908	1,734,958	1,472,027
Other Charges	11,332,740	9,793,463	10,729,049	9,901,822	10,189,227
Total Expenses	\$ 39,392,979	\$ 35,977,386	\$ 29,222,157	\$ 28,280,984	\$ 26,664,514
 Net Income Available for Debt Service	 \$ 26,423,491	 \$ 26,097,133	 \$ 43,491,717	 \$ 29,428,137	 \$ 22,305,626
 Customer Count:					
Water	19,462	18,975	18,308	17,065	15,072
Sewer	15,631	15,209	14,638	13,499	12,187

(1) Excludes depreciation expenses.

TABLE 8 – COVERAGE AND FUND BALANCES

Average Annual Principal and Interest Requirements (2025-2045) ⁽¹⁾	\$ 2,517,149 ⁽³⁾
Coverage of Average Annual Requirements by 2024 Net Income ⁽²⁾	10.50 Times ⁽³⁾
Maximum Principal and Interest Requirements, 2035 ⁽¹⁾	\$ 2,760,603 ⁽³⁾
Coverage of Maximum Requirements by 2024 Net Income ⁽²⁾	9.57 Times ⁽³⁾
Utility System Bonds Outstanding after the Issuance of the Bonds ⁽³⁾	\$ 34,365,000
Interest and Sinking Fund, 3-1-2025.....	\$ 335,420
Reserve Fund, 9-30-2024.....	\$ 0 ⁽⁴⁾

- (1) Excludes discretionary payments made by the City that support debt service payments on City general obligation debt issued for improvements to the System.
- (2) Excludes Community Impact Fees.
- (3) Preliminary, subject to change.
- (4) The Bonds are currently in compliance with the Reserve Fund Covenant requirements.

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ADDITIONAL SYSTEM REVENUE DEBT – The City does anticipate the issuance of additional Parity Obligations within the next twelve months.

OTHER OBLIGATIONS . . . See “APPENDIX B – EXCERPTS FROM THE CITY’S ANNUAL FINANCIAL REPORT.”

FINANCIAL ADMINISTRATION . . . The financial administration of the City is vested in the Department of Finance. The Department of Finance operates under the Director of Finance, who is appointed by the City Manager. Required activities of the Department of Finance are control, custody and disbursement of City funds, assessment and collection of taxes and issuance of licenses. Other activities of the Department of Finance include utility billing and collections, internal service fund operation, annual budget preparation and interim and annual financial reports.

FINANCIAL POLICIES

Basis of Accounting . . . All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

The more significant revenues which are treated as susceptible to accrual under the modified accrual basis are property taxes, intergovernmental revenues, charges for services, and interest. Other revenue sources are not considered measurable and available, and are not treated as susceptible to accrual.

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

General Fund Balance . . . The City’s policy is to maintain surplus and unencumbered funds equal to 25% of expenditures in the General Fund.

Use of Bond proceeds, Grants, etc. . . . The City’s policy is to use bond proceeds, grants or other non-recurring revenues for capital expenditures only. Such revenues are never to be used to fund City operations.

Budgetary Procedures . . . The City’s Home Rule Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year by the first of July. The City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15. The City Council then holds a public hearing on the budget. The Council then makes any changes in the budget as it deems advisable and adopts a budget prior to September 30.

Fund Investments . . . The City’s investment policy parallels State law which governs investment of public funds. The City generally restricts investments to direct obligations of the United States Government and to insured or collateralized bank certificates of deposits. The City’s investment portfolio does not invest in derivative securities. See “INVESTMENTS.”

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INVESTMENTS

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

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY . . . Under State law the City is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the governing body or 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 its custodian of the banking deposits issued for its 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 the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA") 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) of the 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 that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), 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) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) 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 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 (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described 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 and are pledged to the City and deposited with the City or a third party selected and approved by the City.

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, (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 (12) through (14) 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.

An eligible political subdivision such as the City may enter into hedging transactions, including hedging contracts, related security, credit, and insurance agreements in connection with commodities used the political subdivision in its general operations, with the acquisition or construction of a capital project, or with an eligible project. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the SEC. The political subdivision may pledge to such contracts or agreements any general or special revenues or funds it is authorized by law to pledge to the payment of any other obligations. The political subdivision's cost under such contract or agreement may be considered an operations and maintenance expense, an acquisition costs, a project cost, or a construction expense.

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

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

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

Under State law, the City's 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 City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending value and the fully accrued interest for the reporting period 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 strategies and (b) State law. No person may invest City funds without express written authority from the City Council.

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 family relationships with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City, (4) require the registered principal of firms seeking to sell securities to 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, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement attesting to these requirements, (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (6) 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 repurchase agreement, (7) restrict the investment in no-load 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, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, (9) provide specific investment training for the treasurer, the chief financial officer (if not the treasurer) and the investment officer, 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.

The City's current investment policy is in compliance with the State law requirements described above.

TABLE 9 – CURRENT INVESTMENTS - The City is authorized to invest in certificates of deposit, direct obligations of the United States government, United States government agency securities, fully collateralized direct repurchase agreements, no-load money market funds whose portfolio meet the City's investment requirements, and in qualified local government investment pools as approved by the City Council.

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

Investments	Market Value	% of Total
TexasSTAR	\$ 99,960	0.02%
TexasTERM Daily	6,159,917	1.42%
Texas CLASS	21,106,438	4.85%
TexPool	40,437	0.01%
Lone Star Pool	45,753	0.01%
LOGIC	119,050,137	27.37%
Texas FIT	22,499,899	5.17%
Federal Agency Coupon Securities	121,669,249	27.97%
Municipal, County and State Instruments	15,786,306	3.63%
Wells Fargo Business Checking	46,886	0.01%
Wells Fargo MM Mutual Funds	128,435,667	29.53%
	\$ 434,940,649	100.00%

As of such date, 86% of the City's investment portfolio will mature within one year. The market value of the investment portfolio was approximately 100% of its purchase price.

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TAX MATTERS

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

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

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

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

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

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

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

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

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

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

the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

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

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

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

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

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (“MSRB”). This information will be available free of charge from the MSRB via its Electronic Municipal Market Access system at www.emma.msrb.org.

ANNUAL REPORTS . . . The City shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the City, financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 9 and (2) if not provided as part such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in APPENDIX B hereto or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in the official statement, and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this section.

NOTICE OF CERTAIN EVENTS . . . The City will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The City will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City (as defined by the Rule, which includes certain debt, debt-like, and debt related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. Neither the Bonds nor the Ordinance make any provision for debt service reserves, credit enhancement or a trustee.

“Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

The City intends the words used in (i)(7) and (ii)(10) above and the definition of financial obligation in this Section to have the meanings as when they are used in the Rule, as evidenced by Securities and Exchange Commission Release No. 34-83885, dated August 20, 2018.

The City will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The City will also provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under “Annual Reports.”

AVAILABILITY OF INFORMATION FROM MSRB . . . The City has agreed to provide the foregoing information only to the MSRB. All documents provided by the City to the MSRB described above under “ANNUAL REPORTS” and “NOTICE OF CERTAIN EVENTS” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

Financial information and operating data to be provided as set forth above under the subcaption “ANNUAL REPORTS” 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) available to the public on the MSRB’s internet web site or filed with the SEC.

Should the Rule be amended to obligate the City to make filing with or provide notices to entities other than the MSRB, the City agrees to undertake such obligation with respect to the Bonds in accordance with the Rule as amended.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above.

The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretation of the Rule since such offering as well as such changed circumstances and (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR AGREEMENTS . . . During the past five years the City has complied in all material respects with its continuing disclosure agreements entered into pursuant to the Rule, except as follows: The City provided its Monthly Water Rates and Monthly Waste Water System Rates in its annual filings, however the City's Sewer Surcharge Rate is not included in their financial reports but is publicly available on their website.

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LEGAL MATTERS

LEGAL OPINIONS . . . Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding special obligations of the City. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. (“Bond Counsel”), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the City payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel’s legal opinion will also address the matters described herein under “TAX MATTERS.” Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the City. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of Bonds actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

NO-LITIGATION CERTIFICATE . . . The City will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the Mayor and City Manager of the City, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the Initial Purchaser to take and pay for the Bonds, and of the City to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the City from that set forth or contemplated in the Official Statement.

CYBERSECURITY RISKS

The City, like other municipalities in the State, utilizes technology in conducting its operations. As a user of technology, the City potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the City may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the City. The City employs a multi-layered approach to combating cybersecurity threats. While the City deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the City’s finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial. Further, cybersecurity breaches could expose the City to litigation and other legal risks, which could cause the City to incur other costs related to such legal claims or proceedings.

OTHER INFORMATION

RATING . . . The Bonds have been rated “AA” by S&P Global Ratings (“S&P”) without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any of such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of such rating, of any of them, may have an adverse effect on the market price of the Bonds.

LITIGATION . . . The City is a defendant in various tort claims and lawsuits involving general liability, civil rights actions, and various contractual matters. In the opinion of the City’s management and the City Attorney’s office, the outcome of the pending litigation will not have a material adverse effect on the City’s financial position or operations of the City.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedure Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and of the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivision or public agencies of the State, the Public Funds Investment Act (Chapter 2256, Texas Government Code) requires that the Bonds be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency. See “– RATING.” In addition, various provisions of the Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of at least one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

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

The Financial Advisor 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.

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City’s actual results could differ materially from those in such forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

INITIAL PURCHASER . . . After requesting competitive bids for the Bonds, the City accepted the bid of _____ (the “Purchaser”) to purchase the Bonds at the interest rates shown on page 2 of the Official Statement at a price of approximately _____% of par. The Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

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

The respective Ordinance authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Purchaser.

UPDATING THE OFFICIAL STATEMENT DURING THE UNDERWRITING PERIOD . . . If, subsequent to the date of the Official Statement to and including the date the Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the “Rule”) (the earlier of (i) 90 days from the “end of the underwriting period” (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the “end of the underwriting period”), the City learns or is notified by the Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the City will promptly prepare and supply to the Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Purchaser, unless the Purchaser elects to terminate its obligation to purchase the Bonds as described in the notice of sale accompanying this Official Statement. The obligation of the City to update

or change the Official Statement will terminate when the City delivers the Bonds to the Purchaser (the “end of the underwriting period” within the meaning of the Rule), unless the Purchaser provides written notice the City that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Purchaser provides written notice to the City that less than all of the Bonds have been sold to ultimate customers, the Purchaser agrees to notify the City in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

CERTIFICATION AS TO OFFICIAL STATEMENT . . . The City, acting by and through its City Council in its official capacity hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the City and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the City, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the City has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in “CONTINUING DISCLOSURE OF INFORMATION” herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the “end of the underwriting period” which shall end when the City delivers the Bonds to the respective Purchaser at closing, unless extended by the respective Purchaser. All information with respect to the resale of the Bonds subsequent to the “end of the underwriting period” is the responsibility of the respective Purchaser.

This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Securities and Exchange Commission’s rule codified at 17 C.F.R. Section 240.15c2-12.

Mayor
City of San Marcos, Texas

ATTEST:

City Secretary
City of San Marcos, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

LOCATION AND POPULATION . . . The City of San Marcos, Texas (the “City”) is the county seat and principal commercial, educational and recreational center of Hays County located in the center of the State of Texas in the Austin-San Marcos statistical metropolitan area, approximately midway between the metropolitan areas of San Antonio and Austin. The City is located on Interstate Highway 35, U.S. 81, State Highways 80, 142, 21, 123 and Ranch Road 12 and encompasses an area of approximately 32 square miles (18,430 acres).

Historical Population	
Year	Population
2020 Census	67,553
2010 Census	44,894
2000 Census	34,733
1990 Census	28,743
1980 Census	23,420
1970 Census	18,860

LABOR MARKET PROFILE . . . The most recent civilian labor force estimates for the City of San Marcos and for the State of Texas are as follows:

City of San Marcos		
	February 2025	February 2024
Total Civilian Labor Force	45,115	43,993
Total Employment	43,346	42,359
Total Unemployment	1,769	1,634
Percent Unemployed	3.9%	3.7%

State of Texas		
	February 2025	February 2024
Total Civilian Labor Force	15,840,511	15,473,132
Total Employment	15,163,796	14,817,758
Total Unemployment	676,715	655,374
Percent Unemployed	4.3%	4.2%

Source: Texas Workforce Commission.

MUNICIPAL GOVERNMENT . . . The City has a City Council/Manager form of government with an elected council of six members and an elected mayor. The police department is composed of 101 commissioned police officers. The fire department has 70 commissioned firefighting personnel. There are five fire stations.

In 2013, the San Marcos City Council adopted a new comprehensive plan (Dream San Marcos). That document represents the goals and objectives of the citizens of San Marcos. The policies in the Master Plan are used by the City to effectively guide and coordinate the development of the San Marcos community and to guide public officials in the development of annual capital improvement programs. The Master Plan encourages the public agencies to coordinate their services in an efficient and economic manner and guide private development to those areas most suitable in order to coordinate both public and private development efforts. The Master Plan is updated every three years.

TRANSPORTATION . . . The City is traversed by Interstate Highway 35 (North and South System) and is 20 miles from Interstate 10 (East and West System). Also, connecting the City to the State are State Highways 21, 80, 123, 142 and Ranch Road 12.

Missouri Pacific, Amtrak and Missouri-Kansas-Texas have daily freight trains through the City.

San Marcos Municipal Airport is able to accommodate most kinds of aircraft. Charter plane service is available. Austin Municipal International Airport, located 28 miles north of San Marcos, has commercial airline service with all major carriers. San Antonio International Airport, located 45 miles to the south, also has ten different commercial airlines servicing the area.

Local bus service is available daily through Capital Area Rural Transportation System (CARTS).

BUSINESS AND INDUSTRY

Employer	2024 Employees
Amazon Fulfillment	5,000
Texas State University	3,730
Premium Outlets	1,600
Tanger Outlets	1,540
San Marcos CISD	1,400
Hays County	885
City of San Marcos	758
HEB Distribution Center	750
Central Texas Medical Center	675
CFAN	460

Source: City's audited financial statements.

EDUCATIONAL FACILITIES . . . Texas State University-San Marcos, a full four year multi-purpose university, is located on a hill overlooking the City of San Marcos. It is easily identified by the castle-like structure of Old Main which was the first building constructed when the University, then a college, began operation in 1902. It became a University on May 15, 1969, and now has an enrollment of approximately 39,000 students.

The San Marcos Consolidated Independent School District operates a highly accredited campus, including a preschool, six elementary schools (grades K-5), two junior high schools (grades 6-8), and one senior high school (grades 9-12).

The San Marcos Baptist Academy and the Masters School are two private educational institutions within the City. Also located in the City is Gary Job Corps, a federal training center which provides technical training.

LIBRARY . . . The City operates a 55,000 square foot public library with over 160,000 volumes, an adult education program, computer lab and audit and video media. Texas State University-San Marcos Library has over 1,231,626 cataloged holdings, tutorial programs, computer lab and audit and video media.

RECREATION . . . Within the City, there are numerous public parks of various sizes, consisting of baseball fields, an Olympic size swimming pool, lighted tennis courts and various picnic facilities. There is also a private country club with a restaurant, swimming pool, tennis courts, and an 18-hole golf course which is open to the public.

APPENDIX B

EXCERPTS FROM THE
CITY OF SAN MARCOS, TEXAS
AUDITED ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2024

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



City Manager's Office

March 18, 2025

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

The Finance Department and City Manager's office are pleased to submit the Annual Comprehensive Financial Report of the City of San Marcos, Texas (the City) for the fiscal year ended September 30, 2024. This report is submitted in accordance with Section 3.16 of the City Charter. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and have been audited by independent auditors in accordance with generally accepted auditing standards. ABIP, PC, have issued an unmodified ("clean") opinion on the City's financial statements for the year ended September 30, 2024. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this transmittal letter and should be read in conjunction with it.

The Annual Comprehensive Financial Report includes all funds of the City. The City provides a full range of services, which include police and fire protection; construction and maintenance of streets and other infrastructure; recreational activities and cultural events. In addition to general government activities, the City also provides electric, water, wastewater, storm water drainage, resource recovery, WIC, transit, and airport services which are included in the reporting entity.

Management assumes full responsibility for the completeness and reliability of all information presented in this report, based upon a comprehensive framework of internal control that it established for this purpose. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. The disclosures included in this report are intended to provide the reader with a good understanding of the City's financial activities.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984, the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations are included in the single audit report.

CITY OF SAN MARCOS PROFILE

San Marcos is located on the IH-35 corridor 15 miles south of Austin and 30 miles north of San Antonio. The greater San Marcos region is situated between two of the fastest growing MSAs (Metropolitan Statistical Area) in the United States. The City has a 2020 census population of 67,553 with an estimated daytime service population of 80,000. The City covers approximately 40.0 square miles within its city limits.

The City operates under a council-manager form of government as provided by its Charter. The Mayor and six City Council members are elected "at large" on a non-partisan ballot. All members of the City Council, except the Mayor, are elected to staggered three-year terms. The Mayor is elected for a two-year term. The City Council appoints the City Manager, City Clerk, City Attorney, and Municipal Court Judge. The City Council also appoints members to certain boards, committees and commissions, as it deems necessary for the operation of the City.

The City Manager is the chief executive officer for the City and has full responsibility for carrying out Council policies and administering City operations, including hiring department Directors and all other City employees. City service departments provide a full range of services including police and fire protection, health and social services, sanitation services, construction and maintenance of highways, streets and infrastructure, planning and zoning, recreational activities and cultural events, and general administrative services.

The City is the home of Texas State University which has over 40,000 enrolled students, making the university the 7th largest public university by enrollment in Texas, as well as the 35th largest public university by enrollment in the United States. Texas State University is composed of 9 colleges and about 50 schools and departments across multiple disciplines, including nationally recognized programs in Geography, Criminal Justice, Business, Healthcare professions, Science and Engineering, and Music and offering 99 bachelor's, 91 master's and 20 doctoral degrees.

The San Marcos River originates at San Marcos Springs, where approximately 200 springs emerge from the Edwards Aquifer, to fill Spring Lake. Archaeological research indicates that the area surrounding the springs has been inhabited for some 12,000 years. The springs provide an environment for eight federally listed endangered or threatened species. The river is a constant 72 degrees F and is used year-round for recreational activities.

In 2021, the City of San Marcos was officially named the Mermaid Capital of Texas when the Governor signed a resolution during the 87th Texas Legislative Session. As a symbol for San Marcos, the mermaid is a reminder of the responsibility to preserve resources in Central Texas through research, sustainable water management, and environmental stewardship. The Mermaid Capital of Texas designation remains in place until 2031.

Economic Outlook and Financial Condition

San Marcos and Hays County consistently rank on lists of fastest growing cities and counties in Texas and throughout the country. Founded on the banks of the San Marcos River, San Marcos is thought to be among the oldest continually inhabited locations in North America with more parkland per capita than any other city in Central Texas. Other accolades the city has received include:

- Great Place to Retire by Southern Living Magazine;
- Best Place to Retire in Texas by Forbes;
- #11 of 25 Coolest Towns in America by MatadorNetwork.com;
- Best College Town in Texas by Texas Football Life;
- 7 College Towns You Should Visit by Architectural Digest;
- #36 of 50 Best Small College Towns in America by CollegeValuesOnline.com; and
- 9th Most Exciting Small City in America by Business Insider.

For 2024, the City continued to show signs of growth for the tourism and retail industries, and construction. Moreover, the City continues to benefit from other favorable conditions associated with San Marcos, including a diversified economic base and a desirable location for work, destination, and living.

Property Values

The development of the adopted budget reflects the local and regional economic projections which have shown steady growth over the past several years. San Marcos and the surrounding areas have been recognized as one of the fastest growing areas in the United States. Property net taxable value has increased by 18.8% for fiscal year 2024 and the City is seeing indications of continued growth for the future with the addition of residential developments, business growth, and continued economic development opportunities.

Retail Sales

The City's largest General Fund revenue source is sales tax generated from a well-balanced variety of business categories including automotive, construction, food stores, hotels/motels, department stores, retail stores, restaurants, utilities, and rentals. In FY 2024, the City of San Marcos recognized over \$38.6 million in sales tax collections, which is over 33.8% of the total revenue recognized in the General Fund. With the trends in mind, the City still has budgeted Sales Tax conservatively for FY 2025.

The City is perhaps best known for its Outlet Malls – Premium and Tanger – which have made San Marcos a popular tourist destination in Texas. The Outlet Malls offer more than 220 name-brand and luxury stores in the 1.2 million square foot complex, which attract shoppers from all over the United States and internationally. The City has seen a slight decrease in sales tax revenues from retail sales. Overall, total FY 2024 sales tax receipts were down 3.3% from the prior year, and approximately 8.3% under the original budget. The City's financial policy is to monitor revenue sources independently to adjust spending accordingly.

Employment

Most recently available data showed Hays County, of which San Marcos is the County seat, at an unemployment rate of 3.1% rate in December 2024, lower than the state rate of 3.7% and the national rate of 3.8%. San Marcos continues to see growth across its major business sectors with new commercial and industrial projects. In 2024, both Buc-ee's and H-E-B announced it making investments in San Marcos creating a total of approximately 387 full-time jobs and 238 part-time jobs.

The competitive location of San Marcos along IH-35 and major corridors continues to attract speculative development. Companies have easy access to both Austin and San Antonio within 45 minutes, and the Dallas and Houston markets within 3 hours.

Tourism

The travel and tourism industry in San Marcos, Texas is a major catalyst to the City's economic development as well as a key generator of jobs within the community. With attractions such as the San Marcos River and the nation's largest outdoor outlet shopping center, our City sees over 14 million visitors annually and recorded \$213.3 million in direct travel spending in 2023 alone. In addition, more than 2,600 tourism-related jobs with \$112.8 million in direct employment earnings have been reported to date. As the leisure industry flourishes in San Marcos, so do other areas of the economy such as hotel industry, youth sports and the conference and meeting industry.

As a major component of travel and tourism, the hotel industry is closely tied to the economic vitality of San Marcos. Hotels in the area provided 2,340 hotel rooms with an average annual occupancy rate of 64%. 2024 figures have surpassed pre-pandemic levels with 2,387 hotel rooms at an occupancy rate of 53%. Hospitality stimulates the local economy directly when tourists spend money in our community.

Furthermore, San Marcos has become a destination for outdoor enthusiasts, artists, athletes of all ages, and business professionals alike. Visitors looking for an adventure can kayak the spring fed river, hike through the more than 2,100 acres of natural areas, or bike through rolling hills.

The art scene is also thriving with more than 43 City sponsored outdoor murals and 65 works of art plus a multitude of community organized markets and events. The City's sports facilities annually host more than 100,000 youth and adult participants, coaches, family, and fans. The San Marcos Conference Center hosts more than 112,000 guests per year.

Finally, at the heart of San Marcos rests a vibrant and flourishing downtown. Rich in history and innovation alike, downtown San Marcos is a driving force behind our economically powerful City. The downtown corridor has one of the oldest Main Street Programs in Texas and the Town Square is listed on the National Register of Historic Places.

At the center of our community, there are nearly 300 businesses that provide over 2,000 jobs to our locals and students at Texas State University. The downtown shops provide all types of goods and services that cater to all age groups. It is a popular area full of entertainment for the university student population.

It is no wonder why San Marcos is part of the 25 Coolest Towns in America (Matador Network, 2018) and dubbed a Great Place to Retire (Southern Living Magazine, 2020). Moving forward, we will continue to explore the full potential of tourism as a development tool with hope of directly impacting the economic growth within our city.

CITY INITIATIVES

In January 2023, the San Marcos City Council held a Visioning Workshop to define the strategic plan that should be aligned with the FY 2024 budget plan. The following strategic goals became the City Management's guiding principles and direction to the City staff to make the City fully sustainable long into the future:

- Quality of Life & Sense of Place
- Economic Vitality
- Public Safety, Core Services & Fiscal Excellence
- Mobility & Connectivity
- Environmental Protection

Fiscal Responsibility

Responsible finances have been a top priority and the focus for the past several fiscal years. During this time, the City has put policies in place to ensure the City continues being financially responsible and sound.

- Establishment of a plan to monitor, investigate and address economic situations that cause sales tax revenue to be significantly less than the adopted budget sales tax revenue.
- Maintaining at least 25% fund balance level within the General Fund, 90 days and 60 days working capital within the Water/Wastewater Fund and the Electric Fund respectively, as a reserve for emergencies and unforeseen expenditures.
- Use of reserves in excess of established limits to cash fund capital expenditures.
- Creation of rate stabilization funds in both the Water/Wastewater and Electric Utility Funds. These funds will help the City alleviate future rate increases that are needed due to fluctuations in seasonal weather patterns.
- Adjusting fees annually during the budget process based on the positive average Consumer Price Index (CPI) for the prior calendar year CPI to ensure fees for services are keeping pace with the cost of providing these services. In addition to adjusting fees annually, user fee studies will be done every three years for the function areas including development services, community services, and other user fees. Staff has recommended to the City Council that fees be adjusted annually for positive increases in the CPI to ensure fees for services are keeping pace with the cost of providing these services.

Long Range Planning

The City's Comprehensive Plan, Vision SMTX, was adopted in October 2024. The purpose of that plan is to establish the vision and goals for the future of San Marcos for the next 20 years. This visionary policy document guides long-term decision-making for key components in San Marcos and is divided into seven policy frameworks: Arts and Culture; Economic Development; Environmental and Resource Protection; Housing + Neighborhoods; Land Use + Community Design and Character; Parks & Public Space + Health, Safety & Wellness; and Transportation. The creation of Vision SMTX included significant public engagement to obtain input from the public, stakeholders, and organizations in San Marcos throughout the planning process.

The adoption of Vision SMTX resulted in a necessary revision to the Land Development Code (LDC) in order to ensure development aligns with the intent of the plan. The Development Code and Design Manual revisions as well as updates to the Stormwater Master Plan, Parks Master Plan, and Transportation Master Plan will commence in 2025. These master plans are key elements toward the creation of the City's 10-year Capital Improvements Plan.

FINANCIAL INFORMATION

Financial policies approved by the City Council guide the City's financial management in planning for the future. Sufficient resources and adequate reserve levels will protect the City in the event of revenue shortfalls or increased expenditure needs. Fiscal integrity is the cornerstone upon which the City plans, monitors, and reports its financial activities. Particular emphasis is placed on maintaining the financial stability of the City. Each fiscal year, the budget is developed with this objective. Goals for financial stability enable the City to manage revenue shortfalls and cash flows to ensure continued operations, and to provide for unforeseen contingencies without impairing the level of quality service needed to respond to the community.

Internal Controls

The Finance Department is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles for local governments as prescribed by GASB and the American Institute of Certified Public Accountants (AICPA). The internal controls structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

Financial Rating

The City of San Marcos had its underlying credit rating affirmed from Standard & Poor's for a May 2024 debt issue. The City's bond rating for Moody's Investor Service and Standard & Poor's is as follows:

	<u>Moody's Investor Service</u>	<u>Standard & Poor's</u>
General Obligation Bonds and Certificates of Obligation	Aa2	AA
Revenue Bonds	Aa2	AA

Financial Reporting

The City utilizes a computerized ERP financial accounting system to capture all financial transactions and provide data for the preparation of this Annual Comprehensive Financial Report, including the audited financial statements. These statements present information on the financial position of the City and whether resources were adequate to cover the costs of providing services during the reporting period. The City's award-winning Annual Comprehensive Financial Report is distributed to the City Council, executive management, federal and state agencies, bond rating agencies, and financial institutions, as well as others throughout the general public.

Budgeting Process

The annual budget serves as the foundation for the City's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the City's various funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following October 1st. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption to obtain taxpayer comments. The budget is legally enacted through the passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year.

The expenditure appropriations in the adopted budget are by department. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Expenditure appropriations may be amended during the year. Upon the recommendation of the City Manager, and with the approval of the City Council:

- (1) transfers may be made from the appropriations for contingencies to departments;
- (2) transfers from fund balance accounts to departments or capital improvement program accounts;
and
- (3) transfers from capital improvement program accounts to departments. Management control of budgets is further maintained with an encumbrance accounting system.

Encumbered amounts lapse at year-end. However, encumbrances generally are re-appropriated as part of the following year's budget.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Single Audit

As a recipient of federal, state and county financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the City.

As a part of the City's single audit, described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for the fiscal year ended September 30, 2024, provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

OTHER INFORMATION

Independent Audit

The City Charter requires an annual audit of the books, accounts, financial records and transactions of all administrative departments of the City by independent certified public accountants selected by the City Council. This requirement has been complied with, and the independent auditor's report by ABIP, PC, Certified Public Accountants, has been included in this report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for the Excellence in Financial Reporting to the City for its annual comprehensive financial report for the fiscal year ended September 30, 2023. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports. To earn the Certificate of Achievement, the City published an easily readable and efficiently organized annual comprehensive financial report whose contents conform to program standards. That report satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our FY 2024 annual comprehensive financial report continues to meet the requirements, and we will submit this report once again to GFOA for this annual award.

We are also proud to report that the GFOA has presented the Certificate of Achievement for Excellence in Financial Reporting Award to the City of San Marcos for each of the past 45 years and the Distinguished Budget Presentation Award 36 years.

Acknowledgements

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report. We would also like to thank the members of the City Council and the citizens of the City of San Marcos for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

In conclusion, we would like to thank the City’s auditing firm, ABIP, PC, for their ongoing efforts, not only in the performance of the City’s annual audit, but for their close working relationship in advising the City when questions arise throughout the year. They have been an excellent source of information for preparation of the report.

Respectfully submitted,

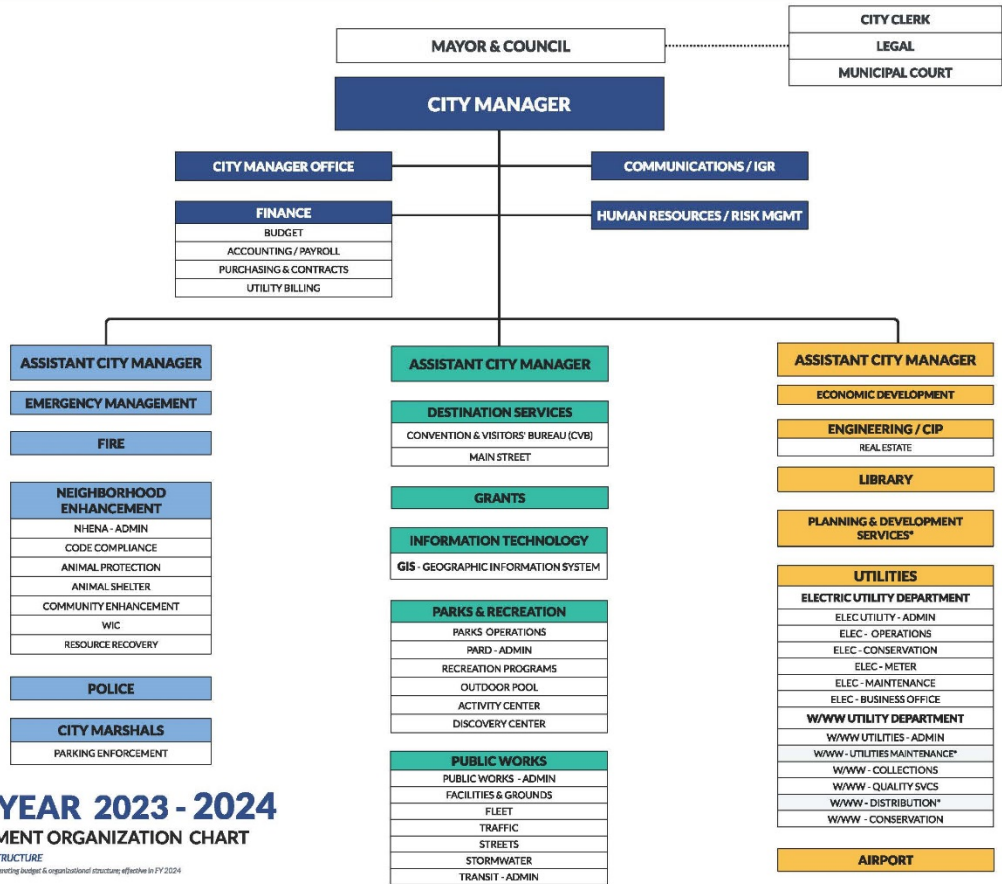
//signature on file//
Stephanie Reyes
City Manager

//signature on file//
Jon Locke
Director of Finance

CITY OF SAN MARCOS, TEXAS

ORGANIZATIONAL CHART

2023 - 2024



FISCAL YEAR 2023 - 2024 CITY DEPARTMENT ORGANIZATION CHART

BUDGET DEVELOPMENT STRUCTURE
*Denotes change(s) to Department's operating budget & organizational structure effective in FY 2024

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of San Marcos, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of San Marcos, Texas (the City) as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the 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, 2024, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5-5H, schedule of changes in the OPEB liability and related ratios – retiree health care plan, schedule of changes in net pension liability and related ratios, schedule of contributions – net pension liability, schedule of changes in other postemployment benefit liability (OPEB) and related ratios – supplemental death benefit fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2025, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

ABIP, PC

San Antonio, Texas

March 18, 2025



CITY OF SAN MARCOS, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2024

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

Financial Highlights

- The assets and deferred outflows of resources of the City of San Marcos exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ending September 30, 2024, by \$534.3 million (net position). Of this amount, \$172.7 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of September 30, 2024, the City of San Marcos' governmental funds reported combined ending fund balances of \$136.1 million, an increase of \$14.3 million in comparison with the prior fiscal year. This is primarily attributed to issuance of tax and revenue bonds during the fiscal year.
- At the end of the current fiscal year, unassigned fund balance for the major funds met or exceeded the City financial policy requirements. Unassigned fund balance totaled \$17.3 million, or 16% of total general fund expenditures and can be used for future one-time nonrecurring expenditures.
- The City's total debt increased by \$11.1 million during the current fiscal year. The City issued \$35.7 million in certificate of obligation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of San Marcos' basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The annual comprehensive financial report (ACFR) 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, using accounting methods similar to a private-sector business.

The *statement of net position* presents information on all of the City of San Marcos' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of San Marcos is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving 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 not used vacation leave).

The *statement of net position* and the *statement of activities* are prepared utilizing the accrual basis of accounting.

In the *statement of net position* and the *statement of activities*, the City's operations are divided into two kinds of activities:

- **Governmental activities** – Most of the City's basic services are reported here, including the police, fire, libraries, planning and development, transportation, parks and recreation, and general administration. Property tax, sales tax, and franchise fee revenues finance most of these activities.
- **Business-type activities** – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's electric, water and wastewater, airport, transit, drainage, and resource recovery funds are reported here.

The government-wide financial statements can be found on pages 7 – 11 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 of San Marcos, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

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

Because the focus of governmental funds are more narrow 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. The relationships or differences between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

The City of San Marcos maintains 28 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, and debt service fund, all of which are considered to be major funds. Data from the other 25 governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the ACFR. The basic governmental fund financial statements can be found on pages 12 – 16 of this report.

Proprietary funds. The City charges customers for certain services it provides. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities.

The City of San Marcos maintains six individual enterprise funds: electric, water and wastewater, airport, transit, stormwater drainage, and resource recovery. The 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 electric, water and wastewater, and stormwater drainage funds, all of which are considered to be major funds of the City. Data from the other three enterprise funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in the ACFR. The basic proprietary funds financial statements can be found on pages 17 – 21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 – 67 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report presents the combining statements referred to earlier in connection with nonmajor governmental and enterprise funds, comparative information for the General Fund and budgetary information to demonstrate the City's budgetary compliance. Combining and individual fund statements and schedules can be found on pages 83 – 115 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was \$534.3 million as of September 30, 2024, after the restatement. Analyzing the net position and net expenses of governmental and business-type activities separately, the governmental activities net position is \$172.4 million and the business-type activities net position is \$361.9 million. This analysis focuses on the net position (Table 1) and changes in net position of the City's governmental and business-type activities (Table 2).

The unrestricted balance as September 30, 2024 was \$172.7 million and the second largest portion of the City's net position (60%) reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position represents resources that are subject to external restrictions as to the use of the funds.

TABLE 1
CITY OF SAN MARCOS' NET POSITION

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES			
	2024	2023	2024	2023	2024	2023
Assets						
Current and other assets	\$ 171,730,803	\$ 165,912,604	\$ 298,080,556	\$ 273,766,305	\$ 469,811,359	\$ 439,678,909
Capital assets	300,448,240	261,545,197	388,273,983	369,842,341	688,722,223	631,387,538
Total assets	<u>472,179,043</u>	<u>427,457,801</u>	<u>686,354,539</u>	<u>643,608,646</u>	<u>1,158,533,582</u>	<u>1,071,066,447</u>
Deferred outflows of resources	<u>20,460,983</u>	<u>27,715,213</u>	<u>7,475,535</u>	<u>9,889,406</u>	<u>27,936,518</u>	<u>37,604,619</u>
Liabilities						
Long-term liabilities	268,151,452	266,204,001	280,533,804	286,131,407	548,685,256	552,335,408
Other liabilities	47,594,231	53,342,229	46,738,277	54,213,271	94,332,508	107,555,500
Total liabilities	<u>315,745,683</u>	<u>319,546,230</u>	<u>327,272,081</u>	<u>340,344,678</u>	<u>643,017,764</u>	<u>659,890,908</u>
Deferred inflows of resources	<u>4,510,476</u>	<u>3,558,162</u>	<u>4,631,779</u>	<u>4,942,829</u>	<u>9,142,255</u>	<u>8,500,991</u>
Net position						
Net investment in capital assets	100,194,735	70,275,250	220,317,656	187,109,358	320,512,391	257,384,608
Restricted	41,067,709	40,256,793	-	-	41,067,709	40,256,793
Unrestricted (deficit)	<u>31,121,423</u>	<u>21,536,579</u>	<u>141,608,558</u>	<u>121,101,187</u>	<u>172,729,981</u>	<u>142,637,766</u>
Total net position	<u>\$ 172,383,867</u>	<u>\$ 132,068,622</u>	<u>\$ 361,926,214</u>	<u>\$ 308,210,545</u>	<u>\$ 534,310,081</u>	<u>\$ 440,279,167</u>

Governmental activities. The City's governmental revenues increased when compared to the prior year by 7.9% or \$13.3 million. This increase is primarily due to increases in property taxes and investment earnings.

One of the more significant governmental expenses for the City was in providing for public safety, which incurred expenses of \$54.2 million.

Business-type activities. Revenues of the City's business-type activities were \$181.6 million for the fiscal year ending September 30, 2024. Expenses for the City's business-type activities were \$137.8 million for the year, resulting in a net increase in net position of \$43.8 million. The net revenues are the result of several factors, including the following:

- The City's water and wastewater system recorded charges for services of \$64.7 million, which exceeded operating expenses of \$47.7 million. The most significant expenses of the Water and Wastewater Fund are \$18.5 million within contracted services for the operation of the surface water and wastewater treatment plants along with the cost of surface water and \$7.3 million in salaries and benefits. Per the City's financial policy, amounts above the required 90 days fund balance will be transferred into capital reserves and used to fund capital projects.
- The City's electric distribution system recorded charges for services of \$68 million. Total operating revenues exceeded operating expenses by \$17.1 million. The most significant expense of the electric fund was \$40.3 million for the purchase of power. Per the City's financial policy, amounts above the required fund balance equal to 60 days of operational expenses
- The increase in net position from business-type activities was due to a combination of revenue and growth of customers in all utilities. In addition, rates were increased for all utilities, except for stormwater drainage.

Governmental and business-type activities increased the City's net position (Table 2) by \$52 million.

TABLE 2
CITY OF SAN MARCOS' CHANGES IN NET POSITION

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES			
	2024	2023	2024	2023	2024	2023
REVENUES						
Program revenues:						
Charges for services	\$ 16,907,258	\$ 15,272,080	\$ 150,059,082	\$ 148,855,709	\$ 166,966,340	\$ 164,127,789
Operating grants and contributions	28,230,577	33,835,470	1,316,860	-	29,547,437	33,835,470
Capital grants and contributions	5,429,735	2,099,506	1,672,656	1,133,333	7,102,391	3,232,839
General revenues:						
Property taxes, levied for						
general purposes	62,184,233	52,702,208	-	-	62,184,233	52,702,208
Sales taxes	38,645,518	39,976,616	-	-	38,645,518	39,976,616
Franchise taxes	12,745,854	12,002,281	-	-	12,745,854	12,002,281
Hotel/motel taxes	5,134,548	4,828,713	-	-	5,134,548	4,828,713
Investment earnings	9,175,622	5,792,529	14,046,775	8,906,240	23,222,397	14,698,769
Other	2,662,315	1,290,556	14,486,991	-	17,149,306	1,290,556
Total revenues	<u>181,115,660</u>	<u>167,799,959</u>	<u>181,582,364</u>	<u>158,895,282</u>	<u>362,698,024</u>	<u>326,695,241</u>
EXPENSES						
General government	69,778,875	60,098,558	-	-	69,778,875	60,098,558
Public safety	54,219,579	49,535,453	-	-	54,219,579	49,535,453
Community service	30,227,243	43,329,700	-	-	30,227,243	43,329,700
Interest and fiscal charges	7,950,435	7,391,388	-	-	7,950,435	7,391,388
Electric	-	-	65,064,453	64,403,635	65,064,453	64,403,635
Water and sewer	-	-	54,268,731	49,105,085	54,268,731	49,105,085
Airport	-	-	1,090,189	972,408	1,090,189	972,408
Drainage	-	-	7,424,226	6,540,406	7,424,226	6,540,406
Transit	-	-	2,783,799	2,515,289	2,783,799	2,515,289
Resource recovery	-	-	7,162,401	6,994,150	7,162,401	6,994,150
Total expenses	<u>162,176,132</u>	<u>160,355,099</u>	<u>137,793,799</u>	<u>130,530,973</u>	<u>299,969,931</u>	<u>290,886,072</u>
Increases (decreases) in net position before transfers	18,939,528	7,444,860	43,788,565	28,364,309	62,728,093	35,809,169
Transfers	<u>(9,927,104)</u>	<u>(3,416,990)</u>	<u>9,927,104</u>	<u>3,416,990</u>	<u>-</u>	<u>-</u>
Change in net position	9,012,424	4,027,870	53,715,669	31,781,299	62,728,093	35,809,169
NET POSITION - BEGINNING	<u>132,068,622</u>	<u>127,815,843</u>	<u>308,210,545</u>	<u>276,376,522</u>	<u>440,279,167</u>	<u>404,192,365</u>
RESTATEMENT OF BEGINNING NET POSITION	<u>31,302,821</u>	<u>224,909</u>	<u>-</u>	<u>52,724</u>	<u>31,302,821</u>	<u>277,633</u>
NET POSITION AT BEGINNING OF YEAR AS RESTATED	<u>163,371,443</u>	<u>128,040,752</u>	<u>308,210,545</u>	<u>276,429,246</u>	<u>471,581,988</u>	<u>404,469,998</u>
NET POSITION - ENDING	<u>\$ 172,383,867</u>	<u>\$ 132,068,622</u>	<u>\$ 361,926,214</u>	<u>\$ 308,210,545</u>	<u>\$ 534,310,081</u>	<u>\$ 440,279,167</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, the City of San Marcos' governmental funds reported combined fund balances of \$136.1 million, an increase of \$14.3 million in comparison with the prior year. Approximately \$17.3 million or 13% of this total amount constitutes unassigned fund balance, which is available for use within the City's fund designation and fiscal policies. The City has also assigned an amount for unexpected emergencies and unforeseen revenue shortfalls of \$25.7 million or 25% of operational expenditures based on the FY 2024 adopted budget financial policy. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase prepaid expenses of the prior period, 2) to pay debt service, 3) for capital projects, 4) to be used for general government, or 5) to be used for community services.

The general fund is the main operating fund of the City of San Marcos. At the end of the current fiscal year, unassigned fund balance of the general fund was \$17.3 million, while total fund balance reached \$43.8 million. 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. Assigned fund balance of \$25.7 million is 25% of fiscal year 2024 expenditures, excluding non-recurring expenditures. This amount has been assigned by management, under the City's financial policy, for emergencies. Amounts in excess of the 25% threshold are shown as unassigned fund balance in the amount of \$17.3 million which represents an additional 16% of the City's operating expenditures.

In the general fund, the City originally budgeted for a net decrease to fund balance of \$3.5 million, but added to fund balance by \$682 thousand. This variance is attributable to actual expenditures being less than originally budgeted by \$5.7 million. A major contributor to the variance is the \$2.1 million positive variance in investment earnings due to positive economic conditions.

The debt service fund balance increased by \$2.2 million from 2023 to 2024. This increase was primarily attributed to an increase in property tax revenue higher than anticipated, and an additional \$1 million of investment earnings over budget.

The capital projects fund balance increased by \$12.9 million primarily due to the issuance of bonds for approved projects and interest earnings.

In special revenue funds, fund balance decreased by \$1.4 million. This decrease is attributable to \$15.6 million in public improvement district (PID) expenditures, of which the highest PID disbursement was for the Trace PID at \$6.1 million.

TABLE 3
GOVERNMENTAL TAX REVENUES

	2024	2023	INCREASE (DECREASE)
Property	\$ 62,184,233	\$ 52,702,208	\$ 9,482,025
Sales	38,645,518	39,976,616	(1,331,098)
Franchise	12,745,854	12,002,281	743,573
Hotel/motel	5,134,548	4,828,713	305,835
Mixed drink	632,685	646,484	(13,799)
	\$ 119,342,838	\$ 110,156,302	\$ 9,186,536

Other factors concerning the finances of governmental funds have already been addressed in the discussion of the City’s governmental activities in the government-wide financial statements.

Proprietary funds. The City of San Marcos’ proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of water and wastewater fund at the end of the year amounted to \$86.3 million, those for the electric fund amounted to \$47.5 million, and the stormwater drainage fund amounted to \$3.9 million. Other factors concerning the finances of these three funds have already been discussed in the discussion of the City of San Marcos’ business-type activities in the government-wide financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, council approved budget amendments that increased the original expenditure budget. The main contributors to the expenditure budget increases by \$3.4 million was to adjust for \$500 thousand for capital outlay, \$1.3 million for cash fund capital improvement projects, and approximately \$1.6 million for carryforward of outstanding obligations to vendors from the previous fiscal year.

For FY 2024, actual expenditures were \$107 million compared to the final budget amount of \$112.6 million. The original adopted budget included a decrease in fund balance of \$3.5 million to meet budgeted operating expenditures yet the City ended with a positive net change in fund balance of \$682 thousand due to savings achieved through salary savings and conservative spending throughout the year.

For FY 2024, actual revenues were \$110.2 million as compared to the final budget amount of \$111.3 million. The decrease is primarily due to a decline in sales tax. The downturn in sales tax was due to a revenue decrease in two industries, wholesale trade and telecom. Both industries are accounted for in our top 15 sales taxpayers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At the end of the fiscal year 2024, the City had \$675.2 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and wastewater lines (See Table 4). For more detailed information on capital assets, please refer to the accompanying notes pages 42 – 43.

TABLE 4
CITY OF SAN MARCOS’ CAPITAL ASSETS AT YEAR-END
(Net of accumulated depreciation)

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2024	2023	2024	2023	2024	2023
Land	\$ 35,174,832	\$ 35,028,202	\$ 7,306,265	\$ 6,527,368	\$ 42,481,097	\$ 41,555,570
Buildings	45,486,946	46,555,768	33,237,179	34,016,381	78,724,125	80,572,149
Improvements other than buildings	94,523,199	94,754,907	89,135,772	84,233,618	183,658,971	178,988,525
Equipment	8,746,677	10,030,584	6,551,975	5,568,645	15,298,652	15,599,229
Right to use	6,458,271	4,283,940	2,494,131	2,050,166	8,952,402	6,334,106
Construction in progress	80,579,667	73,208,492	249,548,661	237,446,163	330,128,328	310,654,655
Infrastructure	29,478,648	28,986,125	-	-	29,478,648	28,986,125
Total capital assets	<u>\$ 300,448,240</u>	<u>\$ 292,848,018</u>	<u>\$ 388,273,983</u>	<u>\$ 369,842,341</u>	<u>\$ 688,722,223</u>	<u>\$ 662,690,359</u>

Long-term liabilities. At year end, the City had \$518.4 million in general obligation bonds, combination tax and revenue certificates of obligations, leases and SBITA payables, note payable, lease payable, and revenue bonds outstanding as compared to \$507.3 million at the end of the prior fiscal year, a decrease of 2.2%. For more detailed information on long term liabilities, please refer to the accompanying notes on pages 44-49.

TABLE 5
CITY OF SAN MARCOS' OUTSTANDING DEBT AT YEAR-END

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2024	2023	2024	2023	2024	2023
General obligation bonds	\$ 211,152,000	\$ 200,235,000	\$ -	\$ -	\$ 211,152,000	\$ 200,235,000
Discount on bonds	(440,829)	(457,156)	-	-	(440,829)	(457,156)
Premium on bonds	10,294,139	9,873,236	19,168,676	20,028,422	29,462,815	29,901,658
Deferred amounts on refundings	(736,419)	(803,484)	(3,376,567)	(3,945,725)	(4,112,986)	(4,749,209)
General obligation bonds - privately placed	3,565,000	4,140,000	-	-	3,565,000	4,140,000
SBITA payable	611,668	1,534,340	116,823	649,343	728,491	2,183,683
Notes payable	-	-	4,165,000	4,275,000	4,165,000	4,275,000
Lease payable	5,973,619	3,045,479	6,851,446	3,560,268	12,825,065	6,605,747
Revenue bonds	-	-	13,257,679	15,553,051	13,257,679	15,553,051
Revenue bonds - privately placed	-	-	247,830,000	249,625,000	247,830,000	249,625,000
Total debt	\$ 230,419,178	\$ 217,567,415	\$ 288,013,057	\$ 289,745,359	\$ 518,432,235	\$ 507,312,774

The City has maintained an AA rating from Standard & Poor’s Corporation since 2014 on its tax supported debt. The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The current ratio of net tax-supported debt to assessed value of all taxable property is 2.0%.

The City sponsors an employee benefit plan that provides partially self-insured medical and self-insured dental coverage to employees and voluntary coverage to their participating dependents. The plan is designed to provide a specified level of coverage, with excess insurance coverage provided by specific and aggregate reinsurance. The City’s maximum medical claim exposure is limited to \$150,000 in claims per covered person and a dental benefit of \$1,250 per covered person per year. Aggregate coverage based on a monthly enrollment limits the medical claims exposure. Claim liability was \$940,745 at September 30, 2024, compared to \$610,810 at September 30, 2023.

ECONOMIC FACTORS AND CURRENT YEAR BUDGETS AND RATES

The development of the FY 2024 budget represents the annual financial plan to address the shared community goals and desired outcomes developed throughout the budget process. That process began in January 2023, when the Mayor, City Council, and City staff collaborated to begin creating the City of San Marcos 2023 Strategic Plan during a successful Visioning session.

This budget is tied to the strategic goals identified for our community in the strategic plan. These goals include: Quality of Life and Sense of Place; Economic Vitality; Public Safety, Core Services, and Fiscal Excellence; Mobility and Connectivity; and Environmental Protection. These goals serve as a roadmap for decision-making and resource allocation as the needs of our growing city are prioritized.

In March 2023, City Council provided further budget direction through the adoption of the Fiscal Year 2024 Budget Policy Statement. The Budget Policy Statement provides guidance and parameters that staff follow in preparation of the annual budget.

The FY 2024 Adopted Budget is in harmony with the fund balance, revenue, and expense framework laid out in the Budget Policy Statement. The budget focuses on core services, which includes continued support of our employees as they are an essential part of providing services to the San Marcos community. A compensation study was initiated during FY 2023 and was finalized shortly after the beginning of Fiscal Year 2024. The study ensured the City is fairly and competitively compensating its employees to attract and maintain a talented workforce. The study also assisted in developing a compensation philosophy that identifies what we want to achieve through employee compensation and creates a framework for consistency.

Further addressing core services, this budget continues to prioritize public safety staffing as requested by City Council. The budget includes funding to add five positions for the Fire Department and three positions for the Police Department. In total, the FY 2024 budget adds 29 positions that will assist the City in meeting the needs of our growing community. These new positions were added following a collaborative effort from department directors that prioritized the positions based on available capacity.

The budget keeps the tax rate the same as the prior year at 60.30 cents per \$100 of property valuation. The tax rate has not changed since FY 2022 and is one cent less than the amount authorized by the 2017 bond election. In 2022, City Council approved a \$15,000 homestead property tax exemption for residents and increased the 65 years of age and disability homestead property tax exemption from \$25,000 to \$35,000. Property tax exemptions approved by City Council are estimated to save San Marcos residents a combined \$1.1 million in FY 2024.

The City's largest General Fund revenue source is sales tax generated from a well-balanced variety of business categories including automotive, construction, food stores, hotels/motels, department stores, retail stores, restaurants, utilities, and rentals. In FY 2024, the City recognized over \$38.6 million in sales tax collections, which is over 33.8% of the total revenue recognized in the General Fund. With the trends in mind, the City has budgeted sales tax conservatively for FY 2025.

The Water/Wastewater Utility continues to move forward to secure the future water supply for the next 50 years. Rates have been increased steadily, in small annual increments, over the past 5 years in preparation for a construction pipeline which will bring up to 27 million gallons of water each day to the cities of Kyle, Buda and San Marcos from the Carrizo-Wilcox Aquifer that is expected to reach final completion in 2025. The FY 2024 adopted budget includes revenue of \$61.9 million for charges of services. A rate increase of 5% was recommended by the Citizen Utility Advisory Board (CUAB) and adopted for FY 2024.

The Electric Utility continues to serve the City while improving infrastructure and expanding the utility to accommodate the growth in the area. The FY 2024 adopted budget includes revenue of \$69.3 million for charges for services. An effective rate increase of 1.7% was recommended by the CUAB and adopted for FY 2024.

The City is committed to the application of sound fiscal management and sustainability in the budgeting process.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, at the City of San Marcos, 630 East Hopkins, San Marcos, Texas 78666.



BASIC FINANCIAL STATEMENTS



CITY OF SAN MARCOS, TEXAS

STATEMENT OF NET POSITION

September 30, 2024

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 13,908,463	\$ 27,078,110	\$ 40,986,573
Investments	142,607,681	233,295,734	375,903,415
Receivables - net of allowances for uncollectibles:			
Taxes	2,466,521	-	2,466,521
Accounts	6,364,391	22,554,308	28,918,699
Due from other governments	5,521,430	-	5,521,430
Inventories	847,324	11,063,737	11,911,061
Prepaid items	14,993	6,828	21,821
Lease receivable	-	4,081,839	4,081,839
Capital assets:			
Land	35,174,832	7,306,265	42,481,097
Construction in progress	80,579,667	249,548,661	330,128,328
Buildings	62,447,273	38,979,338	101,426,611
Improvements other than buildings	238,311,594	292,586,250	530,897,844
Equipment	47,651,279	23,605,474	71,256,753
Infrastructure	58,932,741	-	58,932,741
Right to use assets	9,934,607	4,026,272	13,960,879
Less accumulated depreciation	<u>(232,583,753)</u>	<u>(227,778,277)</u>	<u>(460,362,030)</u>
Total assets	<u>472,179,043</u>	<u>686,354,539</u>	<u>1,158,533,582</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	18,314,336	3,755,081	22,069,417
Deferred outflows related to TMRS SDBF	409,779	102,663	512,442
Deferred outflows related to retiree healthcare	1,000,449	241,224	1,241,673
Deferred charge on bond refunding	<u>736,419</u>	<u>3,376,567</u>	<u>4,112,986</u>
Total deferred outflows of resources	<u>20,460,983</u>	<u>7,475,535</u>	<u>27,936,518</u>

(continued)

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

CITY OF SAN MARCOS, TEXAS

STATEMENT OF NET POSITION

September 30, 2024

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
LIABILITIES			
Accounts payable	\$ 10,338,810	\$ 12,533,768	\$ 22,872,578
Accrued liabilities	7,128,758	923,180	8,051,938
Unearned revenues	9,662,000	3,375,333	13,037,333
Customer deposits	-	6,545,207	6,545,207
Accrued interest payable	1,033,707	1,105,918	2,139,625
Noncurrent liabilities:			
Due within one year	19,430,956	22,254,871	41,685,827
Due in more than one year	221,300,389	270,214,941	491,515,330
Net pension liability	43,214,184	9,510,646	52,724,830
OPEB liability related to TMRS SDBF	1,227,300	273,490	1,500,790
OPEB liability related to retiree healthcare	2,409,579	534,727	2,944,306
Total liabilities	315,745,683	327,272,081	643,017,764
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to leases	-	3,905,453	3,905,453
Deferred inflows related to pension	1,391,565	38,422	1,429,987
Deferred inflows related to TMRS SDBF	613,519	134,940	748,459
Deferred inflows related to retiree healthcare	2,505,392	552,964	3,058,356
Total deferred inflows of resources	4,510,476	4,631,779	9,142,255
NET POSITION			
Net investment in capital assets	100,194,735	220,317,656	320,512,391
Restricted for:			
Court technology	134,791	-	134,791
Seized assets	197,765	-	197,765
Court security	130,599	-	130,599
Public safety	118,569	-	118,569
Juvenile case manager	43,159	-	43,159
Community services	25,057,525	-	25,057,525
Debt service	15,385,301	-	15,385,301
Unrestricted	31,121,423	141,608,558	172,729,981
Total net position	\$ 172,383,867	\$ 361,926,214	\$ 534,310,081

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



CITY OF SAN MARCOS, TEXAS

STATEMENT OF ACTIVITIES

For the year ended September 30, 2024

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUE		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government				
Governmental activities				
General government	\$ 69,778,875	\$ 13,186,552	\$ 5,294,951	\$ 2,690,079
Public safety	54,219,579	1,273,602	622,471	2,602,515
Community service	30,227,243	2,447,104	22,313,155	137,141
Interest and other fees	<u>7,950,435</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>162,176,132</u>	<u>16,907,258</u>	<u>28,230,577</u>	<u>5,429,735</u>
Business-type activities				
Electric	65,064,453	67,977,022	-	1,672,656
Water and wastewater	54,268,731	64,697,934	-	-
Airport	1,090,189	723,018	-	-
Drainage	7,424,226	9,345,308	-	-
Transit	2,783,799	-	1,316,860	-
Resource recovery	<u>7,162,401</u>	<u>7,315,800</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>137,793,799</u>	<u>150,059,082</u>	<u>1,316,860</u>	<u>1,672,656</u>
Total government	<u>\$ 299,969,931</u>	<u>\$ 166,966,340</u>	<u>\$ 29,547,437</u>	<u>\$ 7,102,391</u>

General Revenues

Taxes:

 Property taxes

 Sales taxes

 Franchise taxes

 Hotel/motel taxes

 Other taxes

Investment earnings

Miscellaneous

Gain on sale of assets

Transfers

 Total general revenues and transfers

 Change in net position

NET POSITION - BEGINNING

RESTATEMENT OF BEGINNING NET POSITION

NET POSITION AT BEGINNING OF YEAR - AS RESTATED

NET POSITION - ENDING

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

NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION
PRIMARY GOVERNMENT

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
\$ (48,607,293)	\$ -	\$ (48,607,293)
(49,720,991)	-	(49,720,991)
(5,329,843)	-	(5,329,843)
<u>(7,950,435)</u>	<u>-</u>	<u>(7,950,435)</u>
<u>(111,608,562)</u>	<u>-</u>	<u>(111,608,562)</u>
-	4,585,225	4,585,225
-	10,429,203	10,429,203
-	(367,171)	(367,171)
-	1,921,082	1,921,082
-	(1,466,939)	(1,466,939)
-	153,399	153,399
<u>-</u>	<u>15,254,799</u>	<u>15,254,799</u>
<u>(111,608,562)</u>	<u>15,254,799</u>	<u>(96,353,763)</u>
62,184,233	-	62,184,233
38,645,518	-	38,645,518
12,745,854	-	12,745,854
5,134,548	-	5,134,548
632,685	-	632,685
9,175,622	14,046,775	23,222,397
1,943,086	14,441,608	16,384,694
86,544	45,383	131,927
<u>(9,927,104)</u>	<u>9,927,104</u>	<u>-</u>
<u>120,620,986</u>	<u>38,460,870</u>	<u>159,081,856</u>
<u>9,012,424</u>	<u>53,715,669</u>	<u>62,728,093</u>
<u>132,068,622</u>	<u>308,210,545</u>	<u>440,279,167</u>
<u>31,302,821</u>	<u>-</u>	<u>31,302,821</u>
<u>163,371,443</u>	<u>308,210,545</u>	<u>471,581,988</u>
<u>\$ 172,383,867</u>	<u>\$ 361,926,214</u>	<u>\$ 534,310,081</u>

CITY OF SAN MARCOS, TEXAS

BALANCE SHEET – GOVERNMENTAL FUNDS

September 30, 2024

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 13,891,989	\$ 13,891,989
Investments	55,104,721	52,523,383	15,513,458	11,589,410	134,730,972
Receivables - net of allowances for uncollectibles					
Taxes, net	950,314	-	514,291	1,001,916	2,466,521
Accounts	4,628,426	39,274	877,545	818,232	6,363,477
Due from other funds	-	-	-	9,713,282	9,713,282
Due from other governments	-	193,254	-	5,328,176	5,521,430
Inventories	847,324	-	-	-	847,324
Prepays	<u>3,542</u>	<u>-</u>	<u>-</u>	<u>11,451</u>	<u>14,993</u>
Total assets	<u>\$ 61,534,327</u>	<u>\$ 52,755,911</u>	<u>\$ 16,905,294</u>	<u>\$ 42,354,456</u>	<u>\$ 173,549,988</u>
LIABILITIES					
Accounts payable	\$ 1,583,695	\$ 1,368,581	\$ 1,421	\$ 7,375,275	\$ 10,328,972
Accrued liabilities	6,033,177	-	-	86,387	6,119,564
Unearned revenue	2,371,693	-	-	7,290,307	9,662,000
Customer deposits					
Due to other funds	<u>6,683,617</u>	<u>140,154</u>	<u>969,738</u>	<u>1,919,773</u>	<u>9,713,282</u>
Total liabilities	<u>16,672,182</u>	<u>1,508,735</u>	<u>971,159</u>	<u>16,671,742</u>	<u>35,823,818</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	<u>1,053,230</u>	<u>-</u>	<u>548,834</u>	<u>-</u>	<u>1,602,064</u>
FUND BALANCES					
Nonspendable:					
Inventories	847,324	-	-	-	847,324
Prepays	3,542	-	-	11,451	14,993
Restricted for:					
Court technology	-	-	-	134,791	134,791
Seized assets	-	-	-	197,765	197,765
Court security	-	-	-	130,599	130,599
Public safety	-	-	-	118,569	118,569
Juvenile case manager	-	-	-	43,159	43,159
Community services	-	-	-	25,057,525	25,057,525
Capital projects	-	51,247,176	-	-	51,247,176
Debt service	-	-	15,385,301	-	15,385,301
Assigned for emergencies/unforeseen expenditures	25,669,129	-	-	-	25,669,129
Unassigned	<u>17,288,920</u>	<u>-</u>	<u>-</u>	<u>(11,145)</u>	<u>17,277,775</u>
Total fund balances	<u>43,808,915</u>	<u>51,247,176</u>	<u>15,385,301</u>	<u>25,682,714</u>	<u>136,124,106</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 61,534,327</u>	<u>\$ 52,755,911</u>	<u>\$ 16,905,294</u>	<u>\$ 42,354,456</u>	<u>\$ 173,549,988</u>

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

CITY OF SAN MARCOS, TEXAS

**RECONCILIATION OF BALANCE SHEET –
GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION**

September 30, 2024

Total fund balances - total governmental funds \$ 136,124,106

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the statement of net position. 300,448,240

Certain other long-term assets related to unavailable property taxes and prepaids are not available to pay for 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. 1,602,064

The assets and liabilities of the internal service fund are not included in the fund financial statement, but are included in the governmental activities of the statement of net position. 6,875,065

Long-term liabilities including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. (272,665,608)

Net position of governmental activities - statement of net position \$ 172,383,867

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

CITY OF SAN MARCOS, TEXAS

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

For the year ended September 30, 2024

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes	\$ 88,393,597	\$ -	\$ 13,003,941	\$ 17,420,161	\$ 118,817,699
Licenses and permits	4,662,435	-	-	-	4,662,435
Fees and penalties	1,009,084	-	-	105,250	1,114,334
Charges for services	9,318,424	-	-	1,244,818	10,563,242
Intergovernmental	1,148,949	2,602,515	3,619,978	23,203,668	30,575,110
Interest on investments	3,651,654	2,164,439	1,325,888	1,558,301	8,700,282
Contributions and donations	85,000	-	-	-	85,000
Miscellaneous	<u>1,954,802</u>	<u>608,557</u>	<u>-</u>	<u>257,097</u>	<u>2,820,456</u>
Total revenues	<u>110,223,945</u>	<u>5,375,511</u>	<u>17,949,807</u>	<u>43,789,295</u>	<u>177,338,558</u>
EXPENDITURES					
Current:					
General government	31,565,696	231,918	-	24,385,271	56,182,885
Public safety	50,181,370	-	-	661,996	50,843,366
Community service	18,554,618	-	-	9,406,586	27,961,204
Capital outlay	4,218,583	5,751,465	-	13,226,822	23,196,870
Debt service:					
Principal	2,250,220	-	11,485,000	1,186,381	14,921,601
Interest and fiscal charges	124,613	-	5,966,059	2,158,469	8,249,141
Bond issuance cost	<u>-</u>	<u>168,491</u>	<u>6,130</u>	<u>197,790</u>	<u>372,411</u>
Total expenditures	<u>106,895,100</u>	<u>6,151,874</u>	<u>17,457,189</u>	<u>51,223,315</u>	<u>181,727,478</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,328,845</u>	<u>(776,363)</u>	<u>492,618</u>	<u>(7,434,020)</u>	<u>(4,388,920)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	137,791	4,863,000	1,926,991	222,084	7,149,866
Transfers out	(6,687,887)	(8,611,111)	(265,000)	(1,512,972)	(17,076,970)
Other financing sources - SBITAs	180,980	-	-	6,618	187,598
Other financing sources - leases	3,590,241	-	-	708,230	4,298,471
Sale of assets	132,483	-	-	-	132,483
Other financing sources - bond issuance	-	16,190,000	-	6,593,000	22,783,000
Premium (discount) on debt issued	<u>-</u>	<u>1,228,491</u>	<u>-</u>	<u>-</u>	<u>1,228,491</u>
Total other financing sources (uses)	<u>(2,646,392)</u>	<u>13,670,380</u>	<u>1,661,991</u>	<u>6,016,960</u>	<u>18,702,939</u>
Net change in fund balances	682,453	12,894,017	2,154,609	(1,417,060)	14,314,019
FUND BALANCES - BEGINNING	<u>43,126,462</u>	<u>38,353,159</u>	<u>13,230,692</u>	<u>27,099,774</u>	<u>121,810,087</u>
FUND BALANCES - ENDING	<u>\$ 43,808,915</u>	<u>\$ 51,247,176</u>	<u>\$ 15,385,301</u>	<u>\$ 25,682,714</u>	<u>\$ 136,124,106</u>

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

CITY OF SAN MARCOS, 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, 2024

Net change in fund balances - total governmental funds \$ 14,314,019

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay and contributions exceeded depreciation expense. 7,600,222

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 525,139

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. (13,575,959)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 369,512

The change in the net pension liability, other postemployment benefit liabilities, and the related deferred inflows and outflows does not consume a current financial resource and are therefore not reported as expenditures in the governmental funds. 399,628

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) is reported with governmental activities. (620,137)

Change in net position of governmental activities \$ 9,012,424

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

CITY OF SAN MARCOS, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL - GENERAL FUND**

For the year ended September 30, 2024

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET - POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 92,216,627	\$ 92,216,627	\$ 88,393,597	\$ (3,823,030)
Licenses and permits	5,447,527	5,447,527	4,662,435	(785,092)
Fines and penalties	1,004,300	1,004,300	1,009,084	4,784
Charges for services	9,080,942	9,080,942	9,318,424	237,482
Intergovernmental	1,120,600	1,120,600	1,148,949	28,349
Interest on investments	1,525,000	1,525,000	3,651,654	2,126,654
Contributions and donations	85,000	85,000	85,000	-
Miscellaneous	839,310	839,310	1,954,802	1,115,492
Total revenues	<u>111,319,306</u>	<u>111,319,306</u>	<u>110,223,945</u>	<u>(1,095,361)</u>
EXPENDITURES				
Current:				
General government	37,932,426	39,542,233	31,565,696	7,976,537
Public safety	50,112,624	51,142,721	50,181,370	961,351
Community service	19,468,925	19,889,315	18,554,618	1,334,697
Capital outlay	1,542,847	2,017,865	4,218,583	(2,200,718)
Debt service:				
Principal	96,900	-	2,250,220	(2,250,220)
Interest	1,730	-	124,613	(124,613)
Total expenditures	<u>109,155,452</u>	<u>112,592,134</u>	<u>106,895,100</u>	<u>5,697,034</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,163,854</u>	<u>(1,272,828)</u>	<u>3,328,845</u>	<u>4,601,673</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	137,791	137,791	-
Transfers out	(5,824,887)	(6,687,887)	(6,687,887)	-
Other financing sources - SBITAs	-	-	180,980	180,980
Other financing sources - leases	-	-	3,590,241	3,590,241
Sale of assets	132,500	132,500	132,483	(17)
Total other financing sources (uses)	<u>(5,692,387)</u>	<u>(6,417,596)</u>	<u>(2,646,392)</u>	<u>3,771,204</u>
Net change in fund balances	<u>(3,528,533)</u>	<u>(7,690,424)</u>	<u>682,453</u>	<u>8,372,877</u>
FUND BALANCES - BEGINNING	<u>43,126,462</u>	<u>43,126,462</u>	<u>43,126,462</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 39,597,929</u>	<u>\$ 35,436,038</u>	<u>\$ 43,808,915</u>	<u>\$ 8,372,877</u>

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

CITY OF SAN MARCOS, TEXAS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

September 30, 2024

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	ELECTRIC	WATER AND WASTEWATER	STORMWATER DRAINAGE	OTHER ENTERPRISE	TOTAL	ACTIVITIES INTERNAL SERVICE
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and cash equivalents	\$ 4,962,156	\$ 10,412,217	\$ 9,832,728	\$ 1,871,009	\$ 27,078,110	\$ 16,474
Investments	64,520,630	139,117,422	27,278,577	2,379,105	233,295,734	7,876,709
Receivables - net of allowances for uncollectibles	11,877,030	7,534,768	1,101,144	2,041,366	22,554,308	914
Due from other funds	-	92,900	-	-	92,900	-
Due from other governments	-	-	-	-	-	-
Inventories	9,880,762	1,182,975	-	-	11,063,737	-
Prepaid items	<u>6,828</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,828</u>	<u>-</u>
Total current assets	<u>91,247,406</u>	<u>158,340,282</u>	<u>38,212,449</u>	<u>6,291,480</u>	<u>294,091,617</u>	<u>7,894,097</u>
NONCURRENT ASSETS						
Capital assets:						
Land	1,252,765	3,901,826	1,498,534	653,140	7,306,265	-
Buildings	16,480,892	16,727,150	1,431,551	4,339,745	38,979,338	-
Improvements other than buildings	53,267,338	206,203,234	23,158,963	9,956,715	292,586,250	-
Furnishings and equipment	7,983,873	11,820,429	3,263,442	537,730	23,605,474	-
Right to use assets	1,033,848	2,680,627	212,381	99,416	4,026,272	-
Construction in progress	<u>81,238,832</u>	<u>132,614,519</u>	<u>35,695,310</u>	<u>-</u>	<u>249,548,661</u>	<u>-</u>
Totals	161,257,548	373,947,785	65,260,181	15,586,746	616,052,260	-
Less accumulated depreciation	<u>(31,163,505)</u>	<u>(170,596,011)</u>	<u>(14,403,200)</u>	<u>(11,615,561)</u>	<u>(227,778,277)</u>	<u>-</u>
Total capital assets - net of accumulated depreciation	<u>130,094,043</u>	<u>203,351,774</u>	<u>50,856,981</u>	<u>3,971,185</u>	<u>388,273,983</u>	<u>-</u>
Lease receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,081,839</u>	<u>4,081,839</u>	<u>-</u>
Total noncurrent assets	<u>130,094,043</u>	<u>203,351,774</u>	<u>50,856,981</u>	<u>8,053,024</u>	<u>392,355,822</u>	<u>-</u>
Total assets	<u>221,341,449</u>	<u>361,692,056</u>	<u>89,069,430</u>	<u>14,344,504</u>	<u>686,447,439</u>	<u>7,894,097</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows - pension	2,027,872	1,636,760	57,752	32,697	3,755,081	-
Deferred outflows - TMRS SDBF	52,738	43,245	3,790	2,890	102,663	-
Deferred outflows - retiree healthcare	122,228	101,051	10,310	7,635	241,224	-
Deferred charge on refunding	<u>552,612</u>	<u>2,370,933</u>	<u>453,022</u>	<u>-</u>	<u>3,376,567</u>	<u>-</u>
Total deferred outflows of resources	<u>2,755,450</u>	<u>4,151,989</u>	<u>524,874</u>	<u>43,222</u>	<u>7,475,535</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 224,096,899</u>	<u>\$ 365,844,045</u>	<u>\$ 89,594,304</u>	<u>\$ 14,387,726</u>	<u>\$ 693,922,974</u>	<u>\$ 7,894,097</u>

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

CITY OF SAN MARCOS, TEXAS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

September 30, 2024

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	ELECTRIC	WATER AND	STORMWATER	OTHER	TOTAL	ACTIVITIES
		WASTEWATER	DRAINAGE	ENTERPRISE		INTERNAL SERVICE
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable	\$ 4,736,396	\$ 5,141,869	\$ 821,025	\$ 1,834,478	\$ 12,533,768	\$ 9,838
Accrued liabilities	408,507	361,853	82,215	70,605	923,180	68,449
Due to other funds	-	-	-	92,900	92,900	-
Unearned revenue	2,563	-	3,372,770	-	3,375,333	-
Claims payable	-	-	-	-	-	940,745
Customer deposits	3,558,892	2,629,801	1,179	355,335	6,545,207	-
Accrued interest payable	346,573	581,621	177,724	-	1,105,918	-
Compensated absences	296,359	238,086	50,486	24,940	609,871	-
OPEB liability - TMRS SDBF	45,988	38,120	4,068	2,988	91,164	-
OPEB liability - retiree healthcare	90,131	74,604	7,773	5,733	178,241	-
Current maturities of long-term liabilities	5,754,164	11,933,119	3,669,049	19,263	21,375,595	-
Total current liabilities	<u>15,239,573</u>	<u>20,999,073</u>	<u>8,186,289</u>	<u>2,406,242</u>	<u>46,831,177</u>	<u>1,019,032</u>
NONCURRENT LIABILITIES						
Net pension liability	4,968,010	4,107,602	282,442	152,592	9,510,646	-
OPEB liability - TMRS SDBF	137,964	114,360	12,204	8,962	273,490	-
OPEB liability - retiree healthcare	270,394	223,813	23,319	17,201	534,727	-
Compensated absences	100,016	63,057	25,569	12,270	200,912	-
Long-term liabilities	89,152,881	136,425,255	44,363,017	72,876	270,014,029	-
Total noncurrent liabilities	<u>94,629,265</u>	<u>140,934,087</u>	<u>44,706,551</u>	<u>263,901</u>	<u>280,533,804</u>	<u>-</u>
Total liabilities	<u>109,868,838</u>	<u>161,933,160</u>	<u>52,892,840</u>	<u>2,670,143</u>	<u>327,364,981</u>	<u>1,019,032</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows - leases	-	-	-	3,905,453	3,905,453	-
Deferred inflows - pension	17,290	15,368	3,458	2,306	38,422	-
Deferred inflows - TMRS SDBF	70,931	57,381	3,637	2,991	134,940	-
Deferred inflows - retiree healthcare	285,685	233,469	19,058	14,752	552,964	-
Total deferred inflows of resources	<u>373,906</u>	<u>306,218</u>	<u>26,153</u>	<u>3,925,502</u>	<u>4,631,779</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	66,337,694	117,343,990	32,756,926	3,879,046	220,317,656	-
Unrestricted	47,516,461	86,260,677	3,918,385	3,913,035	141,608,558	6,875,065
Total net position	<u>113,854,155</u>	<u>203,604,667</u>	<u>36,675,311</u>	<u>7,792,081</u>	<u>361,926,214</u>	<u>6,875,065</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 224,096,899</u>	<u>\$ 365,844,045</u>	<u>\$ 89,594,304</u>	<u>\$ 14,387,726</u>	<u>\$ 693,922,974</u>	<u>\$ 7,894,097</u>

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

CITY OF SAN MARCOS, TEXAS

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

For the year ended September 30, 2024

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				TOTAL	GOVERNMENTAL
	ELECTRIC	WATER AND WASTEWATER	STORMWATER DRAINAGE	OTHER ENTERPRISE		INTERNAL SERVICE
OPERATING REVENUES						
Charges for services	\$ 67,977,022	\$ 64,697,934	\$ 9,345,308	\$ 8,038,818	\$ 150,059,082	\$ -
Intergovernmental	-	-	-	1,316,860	1,316,860	-
Employer contributions	-	-	-	-	-	9,040,392
Employee contributions	-	-	-	-	-	2,749,744
Pharmacy rebates	-	-	-	-	-	31,823
Miscellaneous	12,268,919	1,118,536	950	1,053,203	14,441,608	702
Total operating revenues	<u>80,245,941</u>	<u>65,816,470</u>	<u>9,346,258</u>	<u>10,408,881</u>	<u>165,817,550</u>	<u>11,822,661</u>
OPERATING EXPENSES						
Purchased power	40,279,725	-	-	-	40,279,725	-
Personnel services	7,752,514	7,257,202	1,684,529	1,063,966	17,758,211	-
Contracted services	4,196,452	18,494,332	529,620	8,723,907	31,944,311	-
Materials and supplies	1,059,008	2,308,705	290,176	164,726	3,822,615	-
Indirect costs	-	5,575,391	1,789,264	-	7,364,655	-
Claims	-	-	-	-	-	10,950,200
Other charges	6,903,576	5,757,349	64,547	784,461	13,509,933	1,967,938
Other supplies and expenses	-	-	-	-	-	-
Depreciation	2,947,446	8,301,592	1,685,510	298,673	13,233,221	-
Total operating expenses	<u>63,138,721</u>	<u>47,694,571</u>	<u>6,043,646</u>	<u>11,035,733</u>	<u>127,912,671</u>	<u>12,918,138</u>
Operating income (loss)	<u>17,107,220</u>	<u>18,121,899</u>	<u>3,302,612</u>	<u>(626,852)</u>	<u>37,904,879</u>	<u>(1,095,477)</u>
NONOPERATING REVENUES (EXPENSES)						
Investment income	3,470,650	8,402,384	1,909,133	264,608	14,046,775	475,340
Gain (loss) on sale of assets	25,140	20,243	-	-	45,383	-
Grant income	-	-	-	-	-	-
Interest and fiscal charges	(1,925,732)	(6,574,160)	(1,380,580)	(656)	(9,881,128)	-
Total nonoperating revenues (expenses)	<u>1,570,058</u>	<u>1,848,467</u>	<u>528,553</u>	<u>263,952</u>	<u>4,211,030</u>	<u>475,340</u>
Income (loss) before transfers	18,677,278	19,970,366	3,831,165	(362,900)	42,115,909	(620,137)
Capital contribution revenue	1,672,656	-	-	-	1,672,656	-
Transfers in	-	-	8,865,000	1,087,104	9,952,104	-
Transfers out	-	(25,000)	-	-	(25,000)	-
Change in net position	20,349,934	19,945,366	12,696,165	724,204	53,715,669	(620,137)
TOTAL NET POSITION - BEGINNING	<u>93,504,221</u>	<u>183,659,301</u>	<u>23,979,146</u>	<u>7,067,877</u>	<u>308,210,545</u>	<u>7,495,202</u>
TOTAL NET POSITION - ENDING	<u>\$ 113,854,155</u>	<u>\$ 203,604,667</u>	<u>\$ 36,675,311</u>	<u>\$ 7,792,081</u>	<u>\$ 361,926,214</u>	<u>\$ 6,875,065</u>

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

CITY OF SAN MARCOS, TEXAS

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year ended September 30, 2024

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				TOTALS	GOVERNMENTAL
	ELECTRIC	WATER AND WASTEWATER	STORMWATER DRAINAGE	OTHER FUNDS		INTERNAL SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 71,359,985	\$ 65,504,904	\$ 9,290,498	\$ 10,412,828	\$ 156,568,215	\$ 11,826,734
Cash paid to suppliers	(55,582,767)	(34,722,653)	(2,561,214)	(8,880,595)	(101,747,229)	(12,647,806)
Cash paid to employees	(7,257,908)	(6,554,715)	(1,692,433)	(1,067,721)	(16,572,777)	-
Net cash provided by (used in) operating activities	<u>8,519,310</u>	<u>24,227,536</u>	<u>5,036,851</u>	<u>464,512</u>	<u>38,248,209</u>	<u>(821,072)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Intercompany borrowings (lending)	-	1,661,133	-	(1,502,752)	158,381	(158,381)
Transfers from other funds	-	-	8,865,000	1,087,104	9,952,104	-
Transfers to other funds	-	(25,000)	-	-	(25,000)	-
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>1,636,133</u>	<u>8,865,000</u>	<u>(415,648)</u>	<u>10,085,485</u>	<u>(158,381)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	6,058,850	7,791,350	-	-	13,850,200	-
Proceeds from sale of assets	25,057	20,243	-	-	45,300	-
Principal paid on debt	(5,097,520)	(10,750,674)	(3,154,963)	(12,009)	(19,015,166)	-
Interest and fiscal charges paid on debt	(2,146,903)	(7,229,255)	(1,742,535)	(656)	(11,119,349)	-
Acquisition of capital assets	<u>(2,579,913)</u>	<u>(17,573,303)</u>	<u>(4,798,166)</u>	<u>(372,454)</u>	<u>(25,323,836)</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(3,740,429)</u>	<u>(27,741,639)</u>	<u>(9,695,664)</u>	<u>(385,119)</u>	<u>(41,562,851)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Sale (purchase) of investment securities	(7,319,473)	(4,477,594)	(6,962,852)	1,743,376	(17,016,543)	520,587
Interest received	<u>3,470,650</u>	<u>8,402,384</u>	<u>1,909,133</u>	<u>264,608</u>	<u>14,046,775</u>	<u>475,340</u>
Net cash provided by (used in) investing activities	<u>(3,848,823)</u>	<u>3,924,790</u>	<u>(5,053,719)</u>	<u>2,007,984</u>	<u>(2,969,768)</u>	<u>995,927</u>
Net increase (decrease) in cash and cash equivalents	930,058	2,046,820	(847,532)	1,671,729	3,801,075	16,474
CASH AND CASH EQUIVALENTS - BEGINNING	<u>4,032,098</u>	<u>8,365,397</u>	<u>10,680,260</u>	<u>199,280</u>	<u>23,277,035</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 4,962,156</u>	<u>\$ 10,412,217</u>	<u>\$ 9,832,728</u>	<u>\$ 1,871,009</u>	<u>\$ 27,078,110</u>	<u>\$ 16,474</u>

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

CITY OF SAN MARCOS, TEXAS

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year ended September 30, 2024

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL
	ELECTRIC	WATER AND WASTEWATER	STORMWATER DRAINAGE	OTHER FUNDS	TOTALS	INTERNAL SERVICE
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN)						
OPERATING ACTIVITIES						
Operating income (loss)	\$ 17,107,220	\$ 18,121,899	\$ 3,302,612	\$ (626,852)	\$ 37,904,879	\$ (1,095,477)
Adjustments to reconcile operating income to net cash provided by Operating activities						
Depreciation	2,947,446	8,301,592	1,685,510	298,673	13,233,221	-
Changes in assets and liabilities						
Decrease (increase) in assets						
Accounts receivable	(1,425,693)	(385,211)	(71,908)	237,350	(1,645,462)	4,073
Inventories	(1,660,024)	(342,700)	-	-	(2,002,724)	-
Prepaid items	(6,828)	-	-	-	(6,828)	-
Increase (decrease) in liabilities						
Accounts payable	(1,052,601)	(1,616,106)	87,638	788,423	(1,792,646)	8,787
Accrued liabilities	70,759	69,897	24,755	4,076	169,487	-
Unearned revenue	(7,546,065)	-	-	19,650	(7,526,415)	-
Claims payable	-	-	-	-	-	261,545
Deferred inflows - leases	-	-	-	(253,053)	(253,053)	-
Net pension liability	(31,317)	(27,839)	(6,264)	(1,096)	(66,516)	-
OPEB liabilities	(8,202)	(7,289)	(1,640)	(4,175)	(21,306)	-
Compensated absences	38,813	39,648	16,148	1,516	96,125	-
Customer deposits	85,802	73,645	-	-	159,447	-
Net cash provided by (used in) operations	\$ 8,519,310	\$ 24,227,536	\$ 5,036,851	\$ 464,512	\$ 38,248,209	\$ (821,072)
SCHEDULE OF NONCASH CAPITAL ACTIVITIES						
Actuarially determined changes in:						
Net pension liability	\$ 850,553	\$ 756,046	\$ 170,110	\$ 113,407	\$ 1,890,116	\$ -
Other postemployment benefit liabilities	46,530	41,358	9,306	6,206	103,400	-
Lease and subscription agreements	3,093,308	970,842	504,805	99,416	4,668,371	-
Contributed capital	1,672,656	-	-	-	1,672,656	-

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



NOTES TO FINANCIAL STATEMENTS



CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(1) Summary of significant accounting policies

Reporting entity

The City of San Marcos, Texas (the City) was incorporated July 11, 1877, while the City's home rule charter was adopted by election in 1967. The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, general and administrative, electric, water and wastewater, and stormwater drainage services.

The accompanying financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City. There are no component units which satisfy requirements for blending within the City's financial statements or for discrete presentation.

Government-wide and fund financial statements

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

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

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is 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 revenue 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.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(1) Summary of significant accounting policies (continued)

Measurement focus, basis of accounting and financial statement presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if collected within 30 days of the end of the current fiscal period. Property taxes availability period is considered to be 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

The *capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by other funds.

The *debt service fund* accounts for the accumulation of resources for the payment of long-term debt principal, interest, and related costs.

The City reports the following major proprietary funds:

The *electric fund* accounts for the activities necessary for the provision of electric services.

The *water and wastewater fund* accounts for the activities necessary for the provision of water and sewer services.

The *stormwater drainage fund* was created to address the need for improvements in drainage channels throughout the City. The fund obtains revenue through the assessment of a monthly drainage utility fee to both residential and commercial customers.

Additionally, the City reports the following fund type:

The *internal service fund* accounts for medical and dental benefits to City employees, participating dependents and eligible retirees on a cost reimbursement basis.

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

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(1) Summary of significant accounting policies (continued)

Measurement focus, basis of accounting and financial statement presentation (continued)

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. Internally dedicated resources are reported as general revenues rather than as program revenue. Likewise, general revenue includes all taxes.

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

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

Assets, liabilities, fund balance, and net position

Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, bank deposits, and certificates of deposit with a maturity of three months or less from the date of purchase.

Statutes authorize the City to invest in obligations of U.S. Treasury or its agencies and instrumentalities, obligations of the state or its agencies, other investments guaranteed by the U.S. Treasury or the State of Texas, or investments rated by a national rating company at "A" or better. Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. The City is also authorized to invest in fully collateralized repurchase agreements, and in certificates of deposit issued by banks domiciled in Texas that are FDIC insured or have securities (of aforementioned quality) pledged to secure these deposits. The investment of idle funds has been restricted to U.S. Government Treasury and agency securities and time deposits with the City's depository banks.

Investments for the City are stated at fair value. The fair value framework uses a hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(1) Summary of significant accounting policies (continued)

Assets, liabilities, fund balance, and net position (continued)

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of net realizable values or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the 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. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 15 percent of outstanding property taxes at September 30, 2024.

Property taxes are levied on October 1 and attach as an enforceable lien on property as of January 1. Statements are mailed on October 1, or as soon thereafter as possible, and are due upon receipt. All unpaid taxes become delinquent if not paid before February 1 of the following year.

Inventories and prepaid items

Inventory is valued at cost using the average cost method of accounting. Inventory in the general fund consists of expendable supplies held for consumption. The cost of inventory is recorded as an expenditure at the time individual inventory items are consumed (consumption method).

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(1) Summary of significant accounting policies (continued)

Assets, liabilities, fund balance, and net position (continued)

Inventory reported in the general fund is offset by a fund balance reserve which indicates that it does not represent “available spendable resources” even though it is a component of net current assets. Inventory in the water and wastewater and electric funds consists of parts and maintenance items.

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

Capital assets

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

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

Property, plant and equipment is depreciated using the straight–line method over the following useful lives:

ASSET	YEARS
Buildings	20 - 50
Improvements other than buildings	10 - 40
Infrastructure (streets and drainage)	35-125
Equipment	5 - 10

Compensated absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in the applicable governmental funds and business-type funds as it is due to the employees at the time of resignation or retirement.

Vacation leave policies apply to all full and part-time employees and the liability is recorded as follows: All employees are entitled to be paid up to 30 days (90 days with 20 years of continuous service) of accumulated vacation at separation.

Sick leave payout applies to sworn civil service employees based on accumulated balance up to 90 days. The number of hour in a day is based on an 8 hour work day (max 720 hours) with the exception of firefighters assigned to shift who work a 24 hour shift and have 12 hour workdays (maximum of 1,080 hours).

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(1) Summary of significant accounting policies (continued)

Assets, liabilities, fund balance, and net position (continued)

Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts 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.

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

Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by court resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- **Unassigned:** This classification includes the residual fund balance for the general fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(1) Summary of significant accounting policies (continued)

Assets, liabilities, fund balance, and net position (continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned.

Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

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

Comparative data/reclassifications

Comparative total data for the prior year have been presented in order to provide an understanding of the changes in the financial position and operations. Also, certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

Deferred outflows and deferred inflows of resources

When applicable, the statement of financial position and the balance sheet will report a separate section for deferred outflows of resources. The deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and that, therefore, will not be recognized as an outflow of resources (expense or expenditure) until that time. Conversely, deferred inflows of resources represents inflows of resources (acquisition of net assets) that apply to future period(s) and that, therefore, are not recognized as an inflow of resources (revenue) until that time.

Pensions

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

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(1) Summary of significant accounting policies (continued)

Other postemployment benefits

The other postemployment benefit liabilities of the Texas Municipal Retirement System (TMRS) Supplemental Death Benefits Fund (SDBF) and retiree healthcare plan have been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net other postemployment benefit (OPEB) liabilities, deferred outflows of resources, and deferred inflows of resources related to the other postemployment benefits, OPEB expenses, and information about additions to/deductions from the TMRS and retiree health care OPEB’s fiduciary net positions. Benefit payments are recognized when due and payable in accordance with the benefit terms. Contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments become net position available for benefits.

(2) Reconciliation of government-wide and fund financial statements

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains, “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$272,665,608 difference are as follows:

General obligation bonds	\$(214,717,000)
SBITA payable	(611,668)
Leases payable	(5,973,619)
Premium on bonds	(10,294,139)
Discount on bonds	440,829
Accrued interest payable	(1,033,707)
Compensated absences	(8,363,455)
Deferred loss on refunding	736,419
Net pension liability, net of related deferred inflows and outflows of resources	(26,291,413)
OPEB liabilities, net of related deferred inflows and outflows of resources	<u>(6,557,855)</u>
Net adjustment to reduce fund balance -	
Total government funds to arrive at net position –governmental activities	<u><u>\$(272,665,608)</u></u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(2) Reconciliation of government-wide and fund financial statements (continued)

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

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental fund and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The detail of this \$3,100,154 difference are as follows:

Capital outlay	\$ 12,496,494
Contributed capital	2,690,079
Loss on disposal	(45,939)
Depreciation expense	<u>(18,240,788)</u>
Net adjustment to increase net changes in fund balances -	
Total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (3,100,154)</u>

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.” The detail of this \$525,139 difference is as follows:

Property taxes	\$ 525,139
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Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.” The details of this \$13,575,959 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$ (22,783,000)
Premium on bond issuance	(1,228,491)
SBITA payable	(187,598)
Leases payable	(4,298,471)
Principal repayments:	
General obligation debt	12,441,000
SBITA payable	1,110,270
Leases payable	<u>1,370,331</u>

Net adjustment to decrease net changes in fund balances -	
Total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (13,575,959)</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(2) Reconciliation of government-wide and fund financial statements (continued)

Another element of that reconciliation states, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$369,512 difference are as follows:

Net change in compensated absences	\$ (301,605)
Accrued interest	(53,079)
Amortization of deferred charge on refunding	(67,065)
Amortization of bond premiums	791,261
Net adjustment to increase net changes in fund balances -	
Total governmental funds to arrive at changes in net position of governmental activities	\$ 369,512

Another element of that reconciliation states, “The change in the net pension liability, other postemployment benefit liabilities, and the related deferred inflows and outflows does not consume current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$399,628 difference are as follows:

Net pension liability	316,606
Other postemployment benefit liability – death benefits	105,058
Other postemployment benefit liability – health benefits	(22,026)
Net adjustment to increase net changes in fund balances -	
Total governmental funds to arrive at changes in net position of governmental activities	\$ 399,628

(3) Stewardship, compliance and accountability

Budgetary information

The City Charter prescribes certain requirements for adoption of an annual operating budget by the City Council. The Council must have a public hearing on the budget and may not adopt the budget until 14 days after the hearing. The budget is to be adopted at least 15 days before the beginning of the fiscal year to which it applies.

The amounts of proposed expenditures become appropriated to the objects and purposes named in the budget upon the effective date after adoption. The total estimated expenditures of the general fund shall not exceed the total estimated resources of the fund (prospective income plus cash on hand).

The City budget may be amended and appropriations may be altered in cases of public necessity, as declared by the City Council. The City Manager has the ability to reallocate funds from one line item to another within the various budget categories within departments in the same fund (i.e., personnel services, other charges, contracted services, etc.), but City Council approval is required for budget adjustments between funds.

The budget ordinance states that expenditures should not exceed the budget in the various departments (general government, human resources, finance, etc.) within an individual fund. The City’s appropriation ordinance approves items as detailed in the approved budget. Budgeted amounts reported are based on the budget ordinance originally adopted and as amended by the City Council throughout the year.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(3) Stewardship, compliance and accountability (continued)

Formal budgetary accounting is employed for all funds of the City, excluding Public Safety Grants, PARD Recreation Programs, the Public Improvement Fund, Library Memorial, PARD Special Contributions, TIRZ, Opioid Settlement, Lone Star Rail Fund, Miscellaneous Grants, Community Enhancement Fund, Tow Forfeiture, Municipal Court Jury Fee Fund, and Capital Projects. Annual operating budgets are prepared and presented for the general fund, debt service fund, and all other special revenue funds. All annual appropriations lapse at fiscal year-end.

Budgets for the governmental fund types are prepared and adopted on the GAAP basis. Budgets for expenses used for managerial control have been prepared for the enterprise funds on a non-GAAP basis, which excludes depreciation, but includes capital outlay and total debt service.

The City Council made several supplemental budgetary appropriations throughout the year. The supplemental budgetary appropriations were not considered material.

(4) Detailed notes on all funds

Deposits and investments

As of September 30, 2024, the carrying amount of the City's cash and cash equivalents on the government-wide financial statements is \$40,986,573 which includes \$21,066,395 in an escrow fund, \$9,225 of cash on hand, and deposits of \$19,910,953 with a bank balance of \$42,571,305. All deposits are insured by Federal depository insurance and/or collateralized with securities held by the City's agent in the City's name.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable investments, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in compliance with the requirements of the Act and with local parties.

In compliance with the Public Fund Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

1. *Custodial credit risk – deposits:* In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government Obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2024, the City's bank balance was fully collateralized with securities held by independent third party financial institutions.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Deposits and investments (continued)

2. *Credit risk* – It is the City’s policy to limit investments to investment types with an investment quality rating no lower than AAA (regular funds) and A (reserved funds) or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 360 days for regular funds and 18 months for reserved funds. The City’s investment pool was rated AAAM by Standard & Poor’s Investors Services.
3. *Interest rate risk* – In accordance with the City’s investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 360 days or less for regular funds and 18 months for reserved funds, dependent on market conditions. The City’s exposure to interest rate risk at September 30, 2024 in the table on page 38 is the weighted average days to maturity and is reviewed quarterly.
4. *Concentration of credit risk* – The government’s investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio. The City’s portfolio is 45% invested in U.S. agencies securities and 11% invested in money market funds as of September 30, 2024. The remaining 44% of the City’s investments are invested in external investment pools and money market funds.

The City maintains money market mutual funds at Wells Fargo and Goldman Sachs Government Funds money market. The money market funds are rated AAAM by Standard & Poors.

Texas Local Government Investment Pool (TexPool) is a public funds investment pool and is rated as AAAM by Standards & Poors under the TexPool Participation Agreement. Administration and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State of Texas Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool.

Local Government Investment Cooperative (LOGIC) operates as a public fund investment pool and is organized as a business trust under the laws of the State of Texas with all participant funds and all investment assets held and managed in trust by a Board of Trustees for the benefit of the participants. The pool is co-administered by Hilltop Securities, Inc. and JP Morgan Investment Management Inc. by providing investment management, custody and fund accounting services. The pool is rated AAAM by Standard & Poor’s.

TexasTERM Local Government Investment Pool (Pool), rating of AAAM by Standard & Poor’s, is a public funds investment pool established by the TexasTERM Advisory Board pursuant to provisions of the TexasTERM Common Investment Contract that established the Pool and the series known as TexasDAILY. TexasDAILY was organized in conformity with the Interlocal Cooperation Act, Chapter 791 and the Public Funds Investment Act, Chapter 2256, both of the Texas Government Code. An advisory board composed of participants and non-participant members elected by the participant shareholders of TexasTERM is responsible for the overall management of the Pool, including formulation and implementation of its investment and operating policies. In addition, the advisory board members select and oversee the activities of the investment advisor and custodian of TexasTERM and monitor investment performance and the method of valuing the shares. The Pool does not have any limitations or restrictions on withdrawals.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Deposits and investments (continued)

TexPool, TexasTERM, LOGIC and the money market fund use amortized cost to value portfolio assets and follows the criteria for GASB Statement No. 79 for use of amortized cost. Those investments do not place any limitations or restrictions such as notice periods or maximum transaction amounts on withdrawals.

TexPool, TexasTERM, and LOGIC are rated AAAM by Standard & Poors. Investments in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. TexPool, Texas Term, and Logic invests in a high quality portfolio of debt securities investments that are legally permissible for local governments in the state.

Texas Short Term Asset Reserve Program (TexSTAR) is co-administrated by Hilltop Securities and JP Investment Management, Inc. through an agreement with the TexSTAR board of directors to provide investment and participant services for this pool. JP Morgan Chase Bank or its subsidiary JP Morgan Investor Services Co. provides the custodial, transfer, agency, fund accounting, and depository services for this pool. The pool is rated AAAM by Standard & Poor's. The fair values of the investments in this type have been determined using the NAV per share of the investments.

The Texas Fixed Income Trust (TexFIT) Cash Pool is rated AAAf/S1 by Fitch. TexFIT is a short-term investment pool designed to add diversification with multiple asset classes and a competitive yield to other cash alternatives. The pool is governed by an eight-member Board of Trustees and managed by Deep Blue Investment Advisors as a dollar-in/dollar-out product and has a floating net asset value.

Texas Cooperative Liquid Assets Securities Systems ("Texas CLASS") is a local government investment pool specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAAM by Standard & Poor's and maintains a maturity of 60 days or less. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools. The fund invests in U.S. Treasuries, agencies, state and local governmental obligations, collateralized certificates of deposit, repurchase agreements (REPOs), and highly rated commercial paper. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Lone Star Investment Pool is a local government investment pool that seeks to provide its participants with the highest possible rate of return for invested funds while preserving the safety of principal, liquidity and yield. Lone Star offers three investment strategies participants can invest in: Government Overnight Fund, Corporate Overnight Fund, and the Corporate Overnight Plus Fund. The City has elected to only invest in the Corporate Overnight Fund during the fiscal year. The pool is rated AAAM by Standard and Poor's and holds a weighted average maturity 60 days or fewer. The pool is administered by First Public, LLC. The fair values of the investments in this type have been determined using the NAV per share of the investments.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Deposits and investments (continued)

The City's investments at September 30, 2024, are shown below:

DESCRIPTION	CARRYING AMOUNT	RATING	RATING ORGANIZATION	WEIGHTED AVERAGE MATURITY (DAYS)
Local Government Investment Pools:				
Texas Term Texas Daily	\$ 6,064,443	AAAmf	Standard & Poor's	45
TexPool	39,810	AAAm	Standard & Poor's	31
LOGIC	117,158,650	AAAm	Standard & Poor's	48
TexSTAR	98,415	AAAm	Standard & Poor's	26
TexFIT	22,135,581	AAAf/S1	Fitch	56
Lone Star Liquidity Fund	45,020	AAAm	Standard & Poor's	14
Texas CLASS	20,768,291	AAAm	Standard & Poor's	83
Money Market Mutual Funds	41,923,768	AAAm	Standard & Poor's	45
U.S. Agencies	<u>167,669,437</u>	AA+	Standard & Poor's	361
Total fair value	<u>\$ 375,903,415</u>			
Portfolio weighted average maturity (days)				190

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Deposits and investments (continued)

The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of assets. The City's investments for all funds at fiscal year-end are listed below at fair value, net of accruals. The City has the following recurring fair value measurements as of September 30, 2024:

	September 30, 2024	Level 1	Level 2	Level 3
Investments by Fair Value Level:				
Money Market Mutual Funds				
Goldman FS	\$ 41,923,768	\$ 41,923,768	\$ -	\$ -
Debt Securities				
Federal Home Loan Mortgage Corporation	9,945,007	-	9,945,007	-
Municipal Coupon Securities	15,617,936	-	15,617,936	-
Federal Agricultural Mortgage Corporation	16,507,282	-	16,507,282	-
Federal National Mortgage Association	12,915,129	-	12,915,129	-
Federal Farm Credit Bank	58,504,139	-	58,504,139	-
Federal Home Loan Bank	54,179,944	-	54,179,944	-
Total debt securities	<u>167,669,437</u>	<u>-</u>	<u>167,669,437</u>	<u>-</u>
Total investments measured by fair value level	<u>209,593,205</u>	<u>\$ 41,923,768</u>	<u>\$ 167,669,437</u>	<u>\$ -</u>
Investments Measured at Amortized Cost:				
External Investment Pools				
TexPool	39,810			
Logic	117,158,650			
Texas Term Texas Daily	6,064,443			
Total investments measured at amortized cost	<u>123,262,903</u>			
Investments Measured at Net Asset Value:				
External Investment Pools				
Texas CLASS	20,768,291			
TexSTAR	98,415			
Texas FIT	22,135,581			
Lone Star Liquidity Fund	45,020			
Total investments measured at net asset value	<u>43,047,307</u>			
Total	<u>\$ 375,903,415</u>			

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Receivables

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

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICE</u>	<u>OTHER GOVERNMENTAL</u>
Receivables				
Taxes	\$ 1,059,245	\$ -	\$ 564,335	\$ 1,001,916
Accounts	4,628,426	39,274	877,545	865,298
Due from other governments	-	193,254	-	5,328,176
Gross receivables	<u>5,687,671</u>	<u>232,528</u>	<u>1,441,880</u>	<u>7,195,390</u>
Less allowance for uncollectibles	<u>(108,931)</u>	<u>-</u>	<u>(50,044)</u>	<u>(47,066)</u>
Net total receivables	<u>\$ 5,578,740</u>	<u>\$ 232,528</u>	<u>\$ 1,391,836</u>	<u>\$ 7,148,324</u>

	<u>ELECTRIC</u>	<u>WATER/ WASTEWATER</u>	<u>STORMWATER DRAINAGE</u>	<u>NONMAJOR ENTERPRISE</u>	<u>INTERNAL SERVICE</u>	<u>TOTAL</u>
Receivables						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,625,496
Accounts	13,622,700	8,547,124	1,300,535	2,468,061	914	32,349,877
Due from other governments	-	-	-	-	-	5,521,430
Gross receivables	<u>13,622,700</u>	<u>8,547,124</u>	<u>1,300,535</u>	<u>2,468,061</u>	<u>914</u>	<u>40,496,803</u>
Less allowance for uncollectibles	<u>(1,745,670)</u>	<u>(1,012,356)</u>	<u>(199,391)</u>	<u>(426,695)</u>	<u>-</u>	<u>(3,590,153)</u>
Net total receivables	<u>\$ 11,877,030</u>	<u>\$ 7,534,768</u>	<u>\$ 1,101,144</u>	<u>\$ 2,041,366</u>	<u>\$ 914</u>	<u>\$ 36,906,650</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Receivables (continued)

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

	DEFERRED INFLOWS	UNEARNED
Delinquent property taxes receivable (general fund)	\$ 1,053,230	\$ -
Grant drawdown (general fund)	-	871,693
Hotel LLC escrow (general fund)	-	1,500,000
Delinquent property taxes receivable (debt service)	548,834	-
Grant drawdowns (nonmajor governmental)	-	7,290,307
Total deferred/unearned revenue for governmental funds	\$ 1,602,064	\$ 9,662,000

Lease receivables

The City has entered into agreements with individuals and organizations for the use of airport facilities. The terms of these various agreements include a fixed minimum payment based on square footage and types of facilities rented.

For the year ended September 30, 2024, the City received \$193,972 in lease revenue, and \$64,861 in lease interest revenues. Future payments due to the City under non-cancelable agreements are as follows for the years ending September 30, 2024.

FISCAL YEAR	BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL
2025	\$ 165,195	\$ 62,578	\$ 227,773
2026	163,160	60,387	223,547
2027	156,004	58,220	214,224
2028	155,113	56,042	211,155
2029	141,193	53,927	195,120
2030-2034	656,624	238,922	895,546
2035-2039	641,453	191,120	832,573
2040-2044	580,903	143,755	724,658
2045-2049	683,891	95,596	779,487
2050-2054	492,020	45,418	537,438
2055-2057	246,283	6,486	252,769
	\$ 4,081,839	\$ 1,012,451	\$ 5,094,290

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Capital assets

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

	BALANCE AS RESTATED	INCREASES	DECREASES	ENDING BALANCE
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 35,028,202	\$ 146,630	\$ -	\$ 35,174,832
Construction in progress	<u>73,208,492</u>	<u>11,912,789</u>	<u>(4,541,614)</u>	<u>80,579,667</u>
Total capital assets not being depreciated	<u>108,236,694</u>	<u>12,059,419</u>	<u>(4,541,614)</u>	<u>115,754,499</u>
Capital assets being depreciated				
Buildings	62,245,882	201,391	-	62,447,273
Machinery and equipment	46,939,554	1,152,075	(440,350)	47,651,279
Improvements other than buildings	228,472,064	9,839,530	-	238,311,594
Infrastructure	56,242,662	2,690,079	-	58,932,741
Right to use asset - equipment	3,392,128	4,298,471	(411,175)	7,279,424
Right to use asset - SBITAs	<u>3,293,126</u>	<u>187,598</u>	<u>(825,541)</u>	<u>2,655,183</u>
Total capital assets being depreciated	<u>400,585,416</u>	<u>18,369,144</u>	<u>(1,677,066)</u>	<u>417,277,494</u>
Less accumulated depreciation:				
Buildings	(15,690,114)	(1,270,213)	-	(16,960,327)
Machinery and equipment	(36,908,970)	(2,390,043)	394,411	(38,904,602)
Improvements other than buildings	(133,717,157)	(10,071,238)	-	(143,788,395)
Infrastructure	(27,256,537)	(2,197,556)	-	(29,454,093)
Right to use asset - equipment	(1,197,137)	(1,174,637)	411,175	(1,960,599)
Right to use asset - SBITAs	<u>(1,204,177)</u>	<u>(1,137,101)</u>	<u>825,541</u>	<u>(1,515,737)</u>
Total accumulated depreciation	<u>(215,974,092)</u>	<u>(18,240,788)</u>	<u>1,631,127</u>	<u>(232,583,753)</u>
Total capital assets being depreciated - net	<u>184,611,324</u>	<u>128,356</u>	<u>(45,939)</u>	<u>184,693,741</u>
Governmental activities capital assets - net	<u>\$ 292,848,018</u>	<u>\$ 12,187,775</u>	<u>\$ (4,587,553)</u>	<u>\$ 300,448,240</u>
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 6,527,368	\$ 778,897	\$ -	\$ 7,306,265
Construction in progress	<u>237,446,163</u>	<u>28,516,711</u>	<u>(16,414,213)</u>	<u>249,548,661</u>
Total assets not being depreciated	<u>243,973,531</u>	<u>29,295,608</u>	<u>(16,414,213)</u>	<u>256,854,926</u>
Capital assets being depreciated				
Buildings	38,979,338	-	-	38,979,338
Machinery and equipment	21,229,066	2,462,766	(86,358)	23,605,474
Improvements other than buildings	277,784,397	14,801,853	-	292,586,250
Right to use asset - equipment	1,796,405	1,472,872	(346,357)	2,922,920
Right to use asset - SBITAs	<u>1,573,694</u>	<u>45,977</u>	<u>(516,319)</u>	<u>1,103,352</u>
Total capital assets being depreciated	<u>341,362,900</u>	<u>18,783,468</u>	<u>(949,034)</u>	<u>359,197,334</u>
Less accumulated depreciation:				
Buildings	(4,962,957)	(779,202)	-	(5,742,159)
Machinery and equipment	(15,660,421)	(1,479,436)	86,358	(17,053,499)
Improvements other than buildings	(193,550,779)	(9,899,699)	-	(203,450,478)
Right to use asset - equipment	(602,686)	(439,404)	346,357	(695,733)
Right to use asset - SBITAs	<u>(717,247)</u>	<u>(635,480)</u>	<u>516,319</u>	<u>(836,408)</u>
Total accumulated depreciation	<u>(215,494,090)</u>	<u>(13,233,221)</u>	<u>949,034</u>	<u>(227,778,277)</u>
Total capital assets being depreciated - net	<u>125,868,810</u>	<u>5,550,247</u>	<u>-</u>	<u>131,419,057</u>
Business-type capital assets - net	<u>\$ 369,842,341</u>	<u>\$ 34,845,855</u>	<u>\$ (16,414,213)</u>	<u>\$ 388,273,983</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Capital assets (continued)

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

Governmental Activities		
General government	\$	13,312,677
Public safety		3,085,436
Community services		<u>1,842,675</u>
Total depreciation expense - governmental activities	\$	<u><u>18,240,788</u></u>
Business-Type Activities		
Electric	\$	2,947,446
Water and wastewater		8,301,592
Stormwater drainage		1,685,510
Airport		240,043
Transit		49,953
Resource recovery		<u>8,677</u>
Total depreciation expense - business-type activities	\$	<u><u>13,233,221</u></u>

Interfund receivables, payables and transfers

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

Due to/from other funds:

RECEIVABLE FUND	PAYABLE FUND	AMOUNT
Nonmajor governmental funds	General fund	\$ 6,683,617
Nonmajor governmental funds	Debt service	969,738
Nonmajor governmental funds	Capital project	140,154
Water wastewater utility	Nonmajor enterprise	92,900
Nonmajor governmental funds	Nonmajor governmental funds	<u>1,919,773</u>
		<u><u>\$ 9,806,182</u></u>

Balances resulted from the time lag between the dates (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Interfund receivables, payables and transfers (continued)

Interfund transfers

	TRANSFERS IN						TOTAL
	GENERAL	CAPITAL PROJECTS	DEBT SERVICE	NONMAJOR GOVERNMENTAL	STORMWATER DRAINAGE	NONMAJOR ENTERPRISE	
Transfers out:							
General	\$ -	\$ 4,863,000	\$ 551,810	\$ 210,973	\$ -	\$ 1,062,104	\$ 6,687,887
Debt service	-	-	-	-	265,000	-	265,000
Nonmajor governmental	137,791	-	1,375,181	-	-	-	1,512,972
Capital projects	-	-	-	11,111	8,600,000	-	8,611,111
Water and wastewater	-	-	-	-	-	25,000	25,000
Totals	<u>\$ 137,791</u>	<u>\$ 4,863,000</u>	<u>\$ 1,926,991</u>	<u>\$ 222,084</u>	<u>\$ 8,865,000</u>	<u>\$ 1,087,104</u>	<u>\$ 17,101,970</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Long-term liabilities

Lease purchase agreements

The City has various lease purchase agreements for equipment in the general fund, capital projects fund, water/wastewater, electric, and drainage funds.

The assets acquired through lease purchase agreements are as follows:

	Governmental Activities	Business-Type Activities
Assets:		
Equipment	\$ 4,024,300	\$ 4,968,972
Less accumulated depreciation	<u>3,440,123</u>	<u>2,594,984</u>
Total	<u>\$ 584,177</u>	<u>\$ 2,373,988</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Long-term liabilities (continued)

Lease purchase agreements (continued)

Principal and interest requirements to maturity as of September 30, 2024 are as follows:

FISCAL YEAR	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2025	\$ 231,195	\$ 11,706	\$ 242,901	\$ 815,944	\$ 168,930	\$ 984,874
2026	207,702	6,563	214,265	843,460	141,414	984,874
2027	110,539	1,879	112,418	872,032	112,843	984,875
2028	-	-	-	742,534	83,171	825,705
2029	-	-	-	640,772	54,681	695,453
2030	-	-	-	667,566	27,911	695,477
	<u>\$ 549,436</u>	<u>\$ 20,148</u>	<u>\$ 569,584</u>	<u>\$ 4,582,308</u>	<u>\$ 588,950</u>	<u>\$ 5,171,258</u>

Notes payable

On July 20, 2016, Guadalupe-Blanco River Authority (GBRA) authorized the issuance of Contract Revenue Refunding Bonds, Series 2016 (San Marcos Water Treatment Plant Project) in the amount of \$4,850,000. Proceeds from the sale of the bonds were used to refund the City's outstanding Waterworks and Waste Water System Revenue Bonds, Series 2006 and Taxable Series 2006A, in the amount of \$4,910,000. The original proceeds from the Series 2006 and 2006A were used to expand the capacity of the existing water treatment plant located in San Marcos, Texas. The City will make the principal and interest payments to GBRA to fund the Series 2016 bonds. Annual debt service requirements as of September 30, 2024 for this note payable is as follows:

YEAR ENDING SEPTEMBER 30,	BUSINESS-TYPE ACTIVITIES	
	PRINCIPAL	INTEREST
2025	\$ 110,000	\$ 158,481
2026	110,000	155,181
2027	115,000	151,881
2028	120,000	149,006
2029	120,000	146,006
2030-2034	2,340,000	538,030
2035-2036	1,250,000	58,907
	<u>\$ 4,165,000</u>	<u>\$ 1,357,492</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Long-term liabilities (continued)

General obligation bonds and combination tax and revenue bonds

The City issued combination tax and revenue bonds, combination tax and surplus bonds and special assessment revenue bonds during the year to provide funds for the acquisition and construction of major capital facilities. These debt issues have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenue. During the year, the City issued the following:

- Combination Tax and Revenue Certificates of Obligation, Series 2024 of \$29,095,000 with interest rates ranging from 4.00% – 5.00% that matures August 15, 2044.
- Special Assessment Revenue Bonds, Series 2024 of \$6,593,000 with interest rates ranging from 4.00% - 5.00% that matures August 15, 2048.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. Combination tax and revenue bonds constitute direct obligations of the City and are payable from a combination of the levy of ad valorem taxes and a limited pledge of surplus revenues of the City’s water and wastewater system. Both bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. Bonds currently outstanding are as follows:

PURPOSE	INTEREST RATES	AMOUNT
Governmental activities	3.50 - 5.00%	\$ 167,472,000
Governmental activities - refunding	2.00 - 5.375%	47,245,000
Business-type activities	3.50 - 5.00%	201,567,679
Business-type activities - refunding	2.00 - 5.00%	59,520,000
		\$ 475,804,679

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Long-term liabilities (continued)

General obligation bonds

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

YEAR ENDING SEPTEMBER 30,	GOVERNMENTAL ACTIVITIES								
	BONDS PAYABLE			PRIVATELY PLACED DEBT			TOTAL		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2025	\$ 12,366,000	\$ 8,519,934	\$ 20,885,934	\$ 600,000	\$ 120,675	\$ 720,675	\$ 12,966,000	\$ 8,640,609	\$ 21,606,609
2026	12,991,000	7,757,168	20,748,168	620,000	96,337	716,337	13,611,000	7,853,505	21,464,505
2027	13,289,000	7,232,569	20,521,569	650,000	70,977	720,977	13,939,000	7,303,546	21,242,546
2028	13,463,000	6,787,839	20,250,839	675,000	44,298	719,298	14,138,000	6,832,137	20,970,137
2029	13,870,000	6,256,014	20,126,014	95,000	16,383	111,383	13,965,000	6,272,397	20,237,397
2030-2034	57,154,000	24,062,864	81,216,864	495,000	61,072	556,072	57,649,000	24,123,936	81,772,936
2035-2039	47,224,000	14,386,570	61,610,570	430,000	19,279	449,279	47,654,000	14,405,849	62,059,849
2040-2044	26,328,000	6,923,264	33,251,264	-	-	-	26,328,000	6,923,264	33,251,264
2045-2049	11,937,000	2,460,940	14,397,940	-	-	-	11,937,000	2,460,940	14,397,940
2050-2051	2,530,000	162,225	2,692,225	-	-	-	2,530,000	162,225	2,692,225
	<u>\$ 211,152,000</u>	<u>\$ 84,549,387</u>	<u>\$ 295,701,387</u>	<u>\$ 3,565,000</u>	<u>\$ 429,021</u>	<u>\$ 3,994,021</u>	<u>\$ 214,717,000</u>	<u>\$ 84,978,408</u>	<u>\$ 299,695,408</u>

Revenue bonds

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

YEAR ENDING SEPTEMBER 30,	BUSINESS-TYPE ACTIVITIES								
	BONDS PAYABLE			PRIVATELY PLACED DEBT			TOTAL		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2025	\$ 16,570,000	\$ 8,731,980	\$ 25,301,980	\$ 1,367,954	\$ 267,321	\$ 1,635,275	\$ 17,937,954	\$ 8,999,301	\$ 26,937,255
2026	17,505,000	7,851,558	25,356,558	1,338,263	249,318	1,587,581	18,843,263	8,100,876	26,944,139
2027	18,585,000	7,171,997	25,756,997	1,358,809	230,886	1,589,695	19,943,809	7,402,883	27,346,692
2028	15,455,000	6,612,459	22,067,459	1,379,606	211,813	1,591,419	16,834,606	6,824,272	23,658,878
2029	16,045,000	6,017,357	22,062,357	1,395,438	192,207	1,587,645	17,440,438	6,209,564	23,650,002
2030-2034	79,640,000	21,157,783	100,797,783	3,764,285	688,480	4,452,765	83,404,285	21,846,263	105,250,548
2035-2039	61,515,000	9,062,267	70,577,267	1,738,508	366,391	2,104,899	63,253,508	9,428,658	72,682,166
2040-2044	22,515,000	1,678,681	24,193,681	914,816	105,184	1,020,000	23,429,816	1,783,865	25,213,681
	<u>\$ 247,830,000</u>	<u>\$ 68,284,082</u>	<u>\$ 316,114,082</u>	<u>\$ 13,257,679</u>	<u>\$ 2,311,600</u>	<u>\$ 15,569,279</u>	<u>\$ 261,087,679</u>	<u>\$ 70,595,682</u>	<u>\$ 331,683,361</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Long-term liabilities (continued)

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2024, was as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
Governmental Activities					
General obligation bonds	\$ 200,235,000	\$ 22,783,000	\$ (11,866,000)	\$ 211,152,000	\$ 12,366,000
General obligation bonds - privately placed	4,140,000	-	(575,000)	3,565,000	600,000
Premium on bonds	9,873,236	1,228,491	(807,588)	10,294,139	869,013
Discount on bonds	(457,156)	-	16,327	(440,829)	(16,327)
Lease purchase agreements	807,581	-	(258,145)	549,436	231,195
Lease payable	2,237,898	4,298,471	(1,112,186)	5,424,183	1,453,940
SBITA payable	1,534,340	187,598	(1,110,270)	611,668	273,066
Compensated absences	8,061,850	3,530,137	(3,228,532)	8,363,455	2,441,776
TMRS net pension liability	52,141,312	-	(8,927,128)	43,214,184	-
OPEB liability - TMRS SDBF	1,482,824	153,576	-	1,636,400	409,100
OPEB liability - retiree healthcare	2,978,327	234,445	-	3,212,772	803,193
GOVERNMENTAL ACTIVITY					
LONG-TERM LIABILITIES	<u>\$ 283,035,212</u>	<u>\$ 32,415,718</u>	<u>\$ (27,868,522)</u>	<u>\$ 287,582,408</u>	<u>\$ 19,430,956</u>
Business-Type Activities					
Bonds payable					
Revenue bonds	\$ 249,625,000	\$ 12,905,000	\$ (14,700,000)	\$ 247,830,000	\$ 16,570,000
Revenue bonds - privately placed	15,553,051	-	(2,295,372)	13,257,679	1,367,954
Premium on bonds	20,028,422	945,119	(1,804,865)	19,168,676	1,860,249
Lease purchase agreements	2,350,013	3,149,604	(917,309)	4,582,308	815,944
Note payable	4,275,000	-	(110,000)	4,165,000	110,000
Lease payable	1,210,255	1,472,872	(413,989)	2,269,138	575,486
SBITA payable	649,343	45,976	(578,496)	116,823	75,962
Compensated absences	714,658	724,536	(628,411)	810,783	609,871
TMRS net pension liability	11,470,357	-	(1,959,711)	9,510,646	-
OPEB liability - TMRS SDBF	330,944	33,710	-	364,654	91,164
OPEB liability - retiree healthcare	661,505	51,463	-	712,968	178,241
BUSINESS-TYPE ACTIVITY					
LONG-TERM LIABILITIES	<u>\$ 306,868,548</u>	<u>\$ 19,328,280</u>	<u>\$ (23,408,153)</u>	<u>\$ 302,788,675</u>	<u>\$ 22,254,871</u>

For governmental activities, TMRS net pension liability, OPEB liabilities, and compensated absences are generally liquidated by the general fund.

Bonds outstanding that are considered defeased as a result of prior year refunding's total \$0-.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Long-term liabilities (continued)

Changes in long-term liabilities (continued)

Lease payable

At September 30, 2024, the City was obligated under right to use leases for various equipment and facilities. Future minimum lease payments on these leases are as follows:

FISCAL YEAR	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2025	\$ 1,453,940	\$ 122,398	\$ 1,576,338	\$ 575,486	\$ 50,923	\$ 626,409
2026	1,272,622	90,020	1,362,642	532,845	37,858	570,703
2027	1,195,086	57,642	1,252,728	492,250	24,738	516,988
2028	789,408	29,053	818,461	428,033	12,073	440,106
2029	359,935	14,221	374,156	240,524	2,804	243,328
2030-2034	261,557	31,077	292,634	-	-	-
2035-2039	54,699	12,219	66,918	-	-	-
2040-2042	36,936	2,101	39,037	-	-	-
	<u>\$ 5,424,183</u>	<u>\$ 358,731</u>	<u>\$ 5,782,914</u>	<u>\$ 2,269,138</u>	<u>\$ 128,396</u>	<u>\$ 2,397,534</u>

Subscription-Based Information Technology Arrangements (SBITAs) payable

At September 30, 2024, the City was obligated under right to use SBITAs. Future minimum lease payments on these leases are as follows:

FISCAL YEAR	GOVERNMENTAL ACTIVITIES			BUSINESS-TYPE ACTIVITIES		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2025	\$ 273,066	\$ 15,895	\$ 288,961	\$ 75,962	\$ 6,601	\$ 82,563
2026	191,904	9,408	201,312	29,282	1,248	30,530
2027	146,698	3,972	150,670	10,390	340	10,730
2028	-	-	-	1,189	411	1,600
	<u>\$ 611,668</u>	<u>\$ 29,275</u>	<u>\$ 640,943</u>	<u>\$ 116,823</u>	<u>\$ 8,600</u>	<u>\$ 125,423</u>

Other information

Benefits management

The City offers a medical, dental, vision and voluntary life insurance plans to eligible employees and qualified dependents. Plan benefits are designed to provide competitive benefits to attract and retain a qualified workforce.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other information (continued)

Benefits management (continued)

The medical plan is funded by contributions made by the City and enrolled employees. These contributions go into a fund which pays claims and associated plan costs such as the plan administration, network expenses, programs, and services to provide an effective and comprehensive health plan. Excess insurance (stop-loss) coverage is purchased to cover claims in excess of the \$150,000 attachment point as well as aggregate insurance. This excess insurance covers medical and pharmacy claims. Features of the medical plan include a preferred provider network, specialty networks, and pharmacy benefits which includes a tiered co-pay structure and various techniques to provide incentives to utilize lower cost drugs, over the counter alternatives, and to manage utilization based on therapeutic equivalencies. The stop-loss contract establishes the aggregate attachment point based on census and aggregate factors defined in the contract. Funding levels are based on maximum plan exposure as calculated and recommended by an employee benefits specialty firm.

Projected claim costs are based on claims experience, lag studies, industry trends, census, aggregate factors, and other fixed costs. A liability for claims is established based on estimated incurred but not reported outstanding claims, and anticipated insurance and administrative costs.

Employees are incentivized to participate in an on-site annual health screening. This screening informs employees about the state of their health and provides an individual roadmap for the employee. A report is provided to the City with aggregate data which is used to develop future programs and services. These programs and services are implemented to improve plan participant’s health, to develop a focus on early detection and prevention and to mitigate future claims. An annual benefit and wellness fair is hosted to increase employee awareness of their health and their benefit offerings.

The City continues to identify and implement features to look for best cost/benefit alternatives and minimizes the need for healthcare to provide a sustainable benefit program.

A reconciliation of changes in the aggregate liabilities of the two prior years and current year is presented below:

YEAR ENDED SEPTEMBER 30,	BEGINNING LIABILITY	CURRENT YEAR CLAIMS AND CHANGES IN ESTIMATE	CLAIM PAYMENTS	ENDING LIABILITY
2022	\$ 781,212	\$ 7,515,287	\$ 7,653,351	\$ 643,148
2023	643,148	8,353,465	8,385,803	610,810
2024	610,810	10,659,865	10,329,930	940,745

Risk and safety management

The City of San Marcos maintains a risk management program to prevent and mitigate financial loss. Components of the program include the identification of exposure to loss and the selection, implementation, and monitoring of risk management techniques. Prevention measures include activities such as training, annual review of assets and exposures, drug testing programs, safety awareness events, and the "Safety Coach" Safety Leadership Development Program.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other information (continued)

Risk and safety management (continued)

Post incident measures designed to mitigate losses include incident investigation, post-accident training and management of all claims through final disposition. A cornerstone of our commitment to managing workers' compensation claims is a return-to-work program. In rating a workers' compensation program, an underwriter begins at 100% which represents an average employer. This is 'modified' based on a specific employer's claims history. During this reporting period, the City has a 51% premium modifier.

The City participates in the National Safety Council Annual Awards Program, which presents awards for occupational health and safety. In 2024, twenty departments were recognized for maintaining a perfect record or a reduction in frequency of lost time injuries.

Contingent liabilities

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

There are currently several claims and lawsuits pending against the City. It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that, if decided against the City, would have a material adverse effect upon the operations of the City or that would exceed the contingency amounts set aside for such purpose.

Commitments

The City purchases electric power at wholesale rates from The Lower Colorado River Authority for its own use to resell to customers of its electric distribution system. The initial term of the purchased-power agreement ends in 2041, with successive renewal periods of 10 years.

The capital improvements programs (CIP) for fiscal years 2018–2027 recognizes City Council priorities and demonstrates a commitment to address the growth-related challenges facing the community. Growth issues, the economy, and the quality of life of the citizens are all impacted by the effectiveness of the City's thoroughfare system, and the CIP reflects a focus on future financial resources toward streets, and drainage projects. Past CIPs have indicated a strong City Council commitment to upgrading and building the City's water and wastewater systems and building new facilities to provide better services to the public. These and other past projects, such as the construction of a new library, fire station, and activity center have been part of City Council's commitment to the CIP program.

Estimated costs to complete construction in progress at year-end totals approximately \$31,056,596 for governmental capital assets, \$61,128,596 for water and wastewater, \$29,697,737 for electric, and \$30,684,713 for drainage.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other information (continued)

Alliance Regional Water Authority

The Alliance Regional Water Authority (Agency) and Sponsoring Public Entities which includes the cities of Buda, Kyle and San Marcos and the Canyon Regional Water Authority have entered into a Regional Water Supply Contract dated January 15, 2008 as amended by amendment No. 1. The Agency agreed to design, finance, construct, own, acquire, maintain and operate the Project in a manner that will allow the Agency to deliver water to the Sponsoring Public Entities which includes the City. The City agreed to pay its share (35.86%) of the Project Costs and to make payments to or on behalf of the Agency in amount sufficient to meet all of the Agency's obligations under the Contract including its share of the Project Costs to allow the Agency own, operate and maintain the Project. For the period ending September 30, 2024, the City paid \$7,987,933 under the water supply contract.

Defined benefit pension plans

Texas Municipal Retirement System

Plan description

The City of San Marcos participates as one of 934 plans in the defined benefit cash-balance pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of the system with a six-member, Governor appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (Annual Report) that can be obtained at www.tmr.com.

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

Benefits provided

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

At retirement, the member's benefit is calculated based on the sum of the member's contributions, with interest, and the City-financed monetary credits with interest, and their age at retirement and other actuarial factors. The retiring member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total member contribution and interest.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Texas Municipal Retirement System (continued)

Benefits provided (continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members are eligible to retire at age sixty (60) and above with five (5) or more years of service or with twenty (20) years of service regardless of age. A member is vested after five (5) years. The contribution rate for the employees is 7%, and the City matching percent is currently 2 to 1.

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	423
Inactive employees entitled to but not yet receiving benefits	420
Active employees	<u>807</u>
Total	<u>1,650</u>

Contributions

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

Employees for the City were required to contribute 7% of their annual compensation during the fiscal year. The contribution rates for the City were 18.35% and 19.00% for calendar years 2023 and 2024, respectively. The City's total contributions to TMRS for the years ended September 30, 2023 and 2024 were \$10,855,474 and \$12,711,751, which were equal to the required contributions.

Net pension liability

The City's net pension liability (NPL) was measured as of December 31, 2023, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Texas Municipal Retirement System (continued)

Net pension liability (continued)

Actuarial assumptions:

The total pension liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income to satisfy the short-term and long-term funding needs of TMRS.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Texas Municipal Retirement plans (continued)

Net pension liability (continued)

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2024 are summarized in the following table:

ASSET CLASS	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC)
Global Equity	35.0%	6.70%
Core Fixed Income	6.0%	4.70%
Non-Core Fixed Income	20.0%	8.00%
Other public and private markets	12.0%	8.00%
Real Estate	12.0%	7.60%
Hedge funds	5.0%	6.40%
Private Equity	10.0%	11.60%
Total	100.0%	

Discount rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Texas Municipal Retirement plans (continued)

Net pension liability (continued)

Changes in the net pension liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2022	\$ 297,106,134	\$ 233,494,465	\$ 63,611,669
Changes for the year:			
Service cost	10,663,945	-	10,663,945
Interest	20,030,507	-	20,030,507
Change of benefit terms	-	-	-
Difference between expected and actual experience	2,368,003	-	2,368,003
Changes of assumptions	(1,833,939)	-	(1,833,939)
Contributions - employer	-	11,031,859	(11,031,859)
Contributions - employee	-	4,208,331	(4,208,331)
Net investment income	-	27,048,740	(27,048,740)
Benefit payments, including refunds of employee contributions	(11,379,724)	(11,379,724)	-
Administrative expense	-	(171,923)	171,923
Other changes	-	(1,202)	1,202
Net changes	<u>19,848,792</u>	<u>30,736,081</u>	<u>(10,887,289)</u>
Balance at December 31, 2023	<u>\$ 316,954,926</u>	<u>\$ 264,230,546</u>	<u>\$ 52,724,380</u>

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

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

1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
<u>\$ 99,023,933</u>	<u>\$ 52,724,830</u>	<u>\$ 14,816,782</u>

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the schedule of changes in fiduciary net position, by participant city. The report may be obtained at www.tmr.com.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Texas Municipal Retirement plans (continued)

Net pension liability (continued)

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended September 30, 2024, the City recognized pension expense of \$12,306,967.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 6,433,863	\$ -
Changes in actuarial assumptions	12,809	1,429,987
Difference between projected and actual investment earnings	6,159,854	-
Contributions subsequent to the measurement date	9,462,891	-
Total	\$ 22,069,417	\$ 1,429,987

The City reported \$7,801,132 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

September 30,		
2025	\$	3,808,197
2026		3,866,961
2027		5,695,428
2028		(2,194,047)
2029		-
Thereafter		-
Total	\$	11,176,539

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other postemployment benefits (OPEB)

Supplemental death benefit fund – Texas Municipal Retirement System

Plan description

The City participates in a single-employer defined benefit plan, which operates like a group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired members. 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 members provides a lump-sum payment approximately equal to the member's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired members are insured for \$7,500; this coverage is an "other postemployment benefit" or OPEB. As the SDBF covers both active and retiree members, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated).

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one year delay between the actuarial valuation that serves as the basis for the City's contribution rate and the calendar year when the rate goes into effect. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.

The contribution rate for the City was 0.16% and 0.27% for calendar years 2024 and 2023. The City's contributions to TMRS for the SDBF program for the year ended September 30, 2024 and 2023 were \$162,703 and \$141,563 and were equal to the required contributions.

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	326
Inactive employees entitled to but not yet receiving benefits	133
Active employees	<u>807</u>
	<u>1,266</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other postemployment benefits (OPEB) (continued)

Supplemental death benefit fund – Texas Municipal Retirement System (continued)

OPEB liability

The City’s total OPEB liability of \$2,001,054 was measured as of December 31, 2023, and was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The total OPEB liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.5% to 11.50% including inflation
Discount rate*	4.05%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.
Other information	There were no benefit changes during the year.

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

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

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

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other postemployment benefits (OPEB) (continued)

Supplemental death benefit fund – Texas Municipal Retirement System (continued)

Changes in total OPEB liability

Balance at December 31, 2022	\$	1,813,768
Changes for the year:		
Service cost		72,135
Interest on the total OPEB liability		73,823
Changes of benefit terms		-
Difference between expected and actual experience		(9,864)
Change of assumptions		105,293
Benefit payments		<u>(54,101)</u>
Net changes		<u>187,286</u>
Balance at December 31, 2023	\$	<u><u>2,001,054</u></u>

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.77%, as well as what the City's total OPEB liabilities would be if it were calculated using a discount rate that is 1-percentage-point lower (2.77%) or 1-percentage-point higher (5.77%) than the current rate:

<u>1% Decrease in Discount Rate (2.77%)</u>	<u>Discount Rate (3.77%)</u>	<u>1% Increase in Discount Rate (5.77%)</u>
\$ <u>2,421,041</u>	\$ <u>2,001,054</u>	\$ <u>1,675,674</u>

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended September 30, 2024, the City recognized OPEB expense of \$100,733.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other postemployment benefits (OPEB) (continued)

Supplemental death benefit fund – Texas Municipal Retirement System (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 40,297	\$ 50,588
Changes in actuarial assumptions	337,602	697,871
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	134,543	-
Total	\$ 512,442	\$ 748,459

The City reported \$134,543 as deferred outflows of resources related to the OPEB resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the OPEB liability for the year ended September 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

September 30,		
2025	\$	(42,944)
2026		(66,620)
2027		(114,476)
2028		(136,736)
2029		(9,784)
Thereafter		-
Total	\$	(370,560)

Postemployment health care coverage

Plan description and benefits provided

The City provides medical insurance benefits through the City of San Marcos Retiree Health Care Plan, a single employer benefit OPEB plan. This plan provides benefits for full-time and part-time employees in eligible classes. In compliance with Texas Local Government Code Chapter 175, the City of San Marcos provides employees who are eligible for retirement with our elected retirement system, the Texas Municipal Retirement System (TMRS), the right to purchase continued coverage if elected on the date of retirement and maintaining continuous coverage as outlined in the statute and in the City of San Marcos Medical Plan Book. The same level of benefit is provided for eligible retirees as to active employees. Retirees pay the full blended rate for coverage (the employer and employee contribution for active employees).

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other postemployment benefits (OPEB) (continued)

Postemployment health care coverage (continued)

The Texas Municipal Retirement System provides a variety of retirement options. The City of San Marcos has elected service retirement with 20 years of service at any age or age 60 with at least 5 years of service. Retirees pay contributions for coverage in the OPEB programs.

Retirees are eligible for medical and prescription benefits as provided in the plan document. Upon the death of active employee or a covered retiree, covered dependents are eligible for coverage continuation through COBRA only.

Retirees are eligible for benefits immediately upon service retirement with the Texas Municipal Retirement System; however, this is a one-time election. If retiree opts out of coverage, the retiree is not eligible for re-enrollment at any other time.

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

Contributions

The City contributes to the blended Medical Plan as approved through the annual approved budget. Retirees also contribute the equivalent of the City's contribution for active employees and the active employee contribution as reflected in the table below. The retiree medical contribution rates as of January 1, 2024 were as follows:

Medical plan monthly rates:

Retiree only	\$ 676
Retiree + spouse	\$1,424
Retiree + child(ren)	\$1,387
Retiree + family	\$2,131

Contributions for postemployment benefits were recognized on a pay-as-you-go basis in the past. Contributions paid by retirees during the fiscal years ended September 30, 2024 and 2023 were \$473,990 and \$340,152, respectively.

Employees covered by benefit terms

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

Retirees and beneficiaries	20
Inactive, nonretired members	0
Active members	<u>704</u>
	<u>724</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other postemployment benefits (OPEB) (continued)

Postemployment health care coverage (continued)

OPEB liability

The City's total OPEB liability of \$3,925,740 was measured as of December 31, 2023, and was determined by an actuarial valuation as of December 31, 2023.

Actuarial valuation information:

Actuarial assumptions and other inputs - The total OPEB liability in the December 31, 2023 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	Entry age normal
Inflation	2.50%
Salary increases	3.60% to 11.85% including inflation
Discount rate*	3.77% as of December 31, 2023
Demographic assumptions	Based on the 2023 experience study conducted for the Texas Municipal Retirement System (TMRS).
Mortality	For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used, with male rates multiplied by 103% and female rates multiplied by 105%. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP-2021 table to account for future mortality improvements.
Health care trend rates	Initial rate of 7.00% declining to an ultimate rate of 4.25% after 15 years.
Participation rates	It was assumed that 25% of employees retiring between the ages of 50 and 64 would choose to receive retiree health care benefits through the City. No employees retiring prior to age 50 for reasons other than disability or after age 65 were assumed to choose to receive health care benefits through the City.
Other information:	
Notes	The discount rate changed from 4.05% as of December 31, 2022 to 3.77% as of December 31, 2023. Additionally, the demographic and salary increase assumptions were updated to reflect the 2023 TMRS experience study to reflect the plan's anticipated experience.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other postemployment benefits (OPEB) (continued)

Postemployment health care coverage (continued)

Changes in the total OPEB liability

Balance at December 31, 2022	\$ 3,639,832
Changes for the year:	
Service cost	332,020
Interest on the total OPEB liability	150,626
Changes of benefit terms	-
Difference between expected and actual experience	68,751
Change of assumptions	(92,123)
Benefit payments	<u>(173,366)</u>
Net changes	<u>285,908</u>
Balance at December 31, 2023	<u><u>\$ 3,925,740</u></u>

Sensitivity of the total OPEB liability to changes in the discount rate and healthcare cost trend rates:

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.77%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.77%) or 1 percentage point higher (4.77%) than the current rate.

<u>1% Decrease in</u> <u>Discount Rate (2.77%)</u>	<u>Discount Rate (3.77%)</u>	<u>1% Increase in</u> <u>Discount Rate (4.77%)</u>
\$ <u>4,307,413</u>	\$ <u>3,925,740</u>	\$ <u>3,579,003</u>

The following presents the total OPEB liability of the City, calculated using the current healthcare cost trend rates as well as what the City's total OPEB liability would be if it were calculated using the trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates.

<u>1% Decrease</u>	<u>Current Health Cost</u> <u>Trend Rate Assumption</u>	<u>1% Increase</u>
\$ <u>3,425,026</u>	\$ <u>3,925,740</u>	\$ <u>4,523,609</u>

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other postemployment benefits (OPEB) (continued)

Postemployment health care coverage (continued)

OPEB expense and deferred outflows of resources and deferred inflows of resources as related to OPEB

For the year ended September 30, 2024, the City recognized OPEB expense of \$295,598.

As of September 30, 2024, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 236,924	\$ 1,236,623
Changes in actuarial assumptions	660,310	1,821,733
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	344,439	-
Total	\$ 1,241,673	\$ 3,058,356

The City reported \$344,439 as deferred outflows of resources related to the OPEB resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the OPEB liability for the year ended September 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

September 30,		
2025	\$	(187,048)
2026		(187,751)
2027		(225,947)
2028		(336,141)
2029		(371,478)
Thereafter		(852,757)
Total	\$	(2,161,122)

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Other postemployment benefits (OPEB) (continued)

Postemployment health care coverage (continued)

Summary of other postemployment benefit plans

	OPEB TMRS - SDBF	OPEB RETIREE HEALTHCARE	TOTAL
Total OPEB liability	\$ 2,001,054	\$ 3,925,740	\$ 5,926,794
Plan fiduciary net position	-	-	-
Net OPEB liability	<u>\$ 2,001,054</u>	<u>\$ 3,925,740</u>	<u>\$ 5,926,794</u>
Total deferred outflows of resources	\$ 512,442	\$ 1,241,673	\$ 1,754,115
Total deferred inflows of resources	748,459	3,058,356	3,806,815
Contributions subsequent to the measurement date	134,543	344,439	478,982
Total OPEB expense	100,733	295,598	396,331

Tax abatements and economic incentives

The City enters into economic development agreements designed to promote development and redevelopment within the City, spur economic improvement, stimulate commercial activity, generate additional sales tax and enhance the property tax base and economic vitality of the City. These programs abate or rebate property taxes and sales tax, and also include incentive payments and reductions in fees that are not tied to taxes.

The City's economic development agreements are authorized under Chapter 380 of the Texas Local Government Code and Chapter 311 (Tax Increment Financing Act) and 312 (Property Redevelopment and Tax Abatement Act) of the Texas Tax Code. Recipients may be eligible to receive economic assistance based on the employment impact, economic impact or community impact of the project requesting assistance. Recipients receiving assistance generally commit to building or expanding operations, renewing facility leases, or bringing targeted businesses to the City. Agreements generally contain recapture provisions which may require repayment or termination if recipients do not meet the required provisions of the economic incentives.

CITY OF SAN MARCOS, TEXAS
NOTES TO FINANCIAL STATEMENTS

September 30, 2024

(4) Detailed notes on all funds (continued)

Tax abatements and economic incentives (continued)

The City has paid the following tax abatements and economic incentives during the current year:

<u>Economic Development</u>	<u>Tax Type</u>	<u>2024 Actual</u>
<u>380 Agreement</u>		
Amazon.com.kydc, LLC	Real & Sales Taxes	\$ 1,052,217
Humpty Dumpty SSM, Ltd.	Personal, Real & Sales Taxes	<u>340,564</u>
		<u>1,392,781</u>
<u>Tax Increment Reinvestment Zone</u>		
TIRZ #3-Conference Center	TRZ	129,522
TIRZ #4-Kissing Tree	TRZ	1,295,023
TIRZ #5-Downtown	TRZ	1,440,800
TRZ Loop 110	TRZ	<u>4,586,444</u>
		<u>7,451,789</u>
Total economic development payments		<u>\$ 8,844,570</u>

(5) Correction of an error

During the fiscal year, the City identified capital assets in the amount of \$31,302,821 for its governmental activities that was not previously included with the City's capital assets. The result of the restatement is as follows:

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>NET POSITION</u>	<u>CAPITAL ASSETS (NET)</u>
Beginning balances	\$ 132,068,622	\$ 261,545,197
Additional capital assets	<u>31,302,821</u>	<u>31,302,821</u>
Beginning balance, as restated	<u>\$ 163,371,443</u>	<u>\$ 292,848,018</u>



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SAN MARCOS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OTHER POSTEMPLOYMENT BENEFIT LIABILITY
(OPEB) - RETIREE HEALTH CARE PLAN**

For the measurement year ended December 31,

	2023	2022	2021
Total OPEB liability			
Service cost	\$ 332,020	\$ 616,191	\$ 432,397
Interest on the total OPEB liability	150,626	117,315	129,434
Changes of benefit terms	-	-	-
Difference between expected and actual experience	68,751	(1,239,306)	(151,402)
Change of assumptions	(92,123)	(1,810,141)	(466,423)
Benefit payments	(173,366)	(223,906)	(39,674)
Net change in total OPEB liability	285,908	(2,539,847)	(95,668)
Total OPEB liability - beginning	3,639,832	6,179,679	6,275,347
Total OPEB liability - ending	\$ 3,925,740	\$ 3,639,832	\$ 6,179,679
Covered-employee payroll	\$ 61,505,701	\$ 53,504,028	\$ 49,966,371
Total OPEB liability as a percentage of covered payroll	6.38%	6.80%	12.37%
Note to schedule			
Discount Rate	3.77%	4.05%	1.84%

Changes of assumptions reflect the effects of changes in the discount rate each period. The discount rate at the beginning of 2017 was 3.31%

2023 - The demographic and salary increased assumptions were updated to reflect the 2023 TMRS experience study.

2022 - The participation rate, male spousal coverage, and health care trend assumptions were modified.

2021 - The methodology for determining service cost was changed such that the attribution period for the accumulation of service costs is now based only on employment with the City of San Marcos.

2019 - The demographic assumptions were updated to reflect the 2019 TMRS Experience Study.

2018 - The participation rate and health care trend assumptions were modified.

GASB 75 requires 10 fiscal years of data to be provided in this schedule. This is the seventh year of implementation of GASB 75. The City will develop the schedule prospectively.

2020	2019	2018	2017
\$ 379,003	\$ 281,711	\$ 241,628	\$ 181,195
158,640	188,413	126,566	130,158
-	-	-	-
(275,679)	(4,163)	465,058	105,312
497,051	345,724	571,635	163,733
<u>(125,808)</u>	<u>(214,401)</u>	<u>(125,931)</u>	<u>(280,224)</u>
633,207	597,284	1,278,956	300,174
<u>5,642,140</u>	<u>5,044,856</u>	<u>3,765,900</u>	<u>3,465,726</u>
<u>\$ 6,275,347</u>	<u>\$ 5,642,140</u>	<u>\$ 5,044,856</u>	<u>\$ 3,765,900</u>
<u>\$ 48,969,040</u>	<u>\$ 45,812,736</u>	<u>\$ 43,253,608</u>	<u>\$ 39,967,203</u>
12.81%	12.32%	11.66%	9.42%
2.00%	2.75%	3.71%	3.31%

CITY OF SAN MARCOS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

For the measurement year ended December 31,

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total pension liability				
Service cost	\$ 10,663,945	\$ 9,592,413	\$ 8,973,188	\$ 8,652,829
Interest (on the total pension liability)	20,030,507	18,518,881	17,250,721	16,166,655
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	2,368,003	5,175,478	3,331,465	1,197,191
Change of assumptions	(1,833,939)	-	-	-
Benefit payments, including refunds of employee contributions	<u>(11,379,724)</u>	<u>(11,476,447)</u>	<u>(10,678,428)</u>	<u>(9,554,788)</u>
Net change in total pension liability	19,848,792	21,810,325	18,876,946	16,461,887
Total pension liability - beginning	<u>297,106,134</u>	<u>275,295,809</u>	<u>256,418,863</u>	<u>239,956,976</u>
Total pension liability - ending (a)	<u>\$ 316,954,926</u>	<u>\$ 297,106,134</u>	<u>\$ 275,295,809</u>	<u>\$ 256,418,863</u>
Plan fiduciary net position				
Contributions - employer	\$ 11,031,859	\$ 9,750,420	\$ 8,973,351	\$ 8,466,747
Contributions - employee	4,208,331	3,740,511	3,491,579	3,427,833
Net investment income	27,048,740	(18,237,111)	28,619,412	15,328,611
Benefit payments, including refunds of employee contributions	(11,379,724)	(11,476,447)	(10,678,428)	(9,554,788)
Administrative expense	(171,923)	(157,719)	(132,347)	(99,141)
Other	<u>(1,203)</u>	<u>188,205</u>	<u>906</u>	<u>(3,868)</u>
Net change in plan fiduciary net position	30,736,080	(16,192,141)	30,274,473	17,565,394
Plan fiduciary net position - beginning	<u>233,494,465</u>	<u>249,686,606</u>	<u>219,412,133</u>	<u>201,846,739</u>
Plan fiduciary net position - ending (b)	<u>\$ 264,230,545</u>	<u>\$ 233,494,465</u>	<u>\$ 249,686,606</u>	<u>\$ 219,412,133</u>
Net pension liability (a) - (b)	<u>\$ 52,724,381</u>	<u>\$ 63,611,669</u>	<u>\$ 25,609,203</u>	<u>\$ 37,006,730</u>
Plan fiduciary net position as a percentage of total pension liability	<u>83.37%</u>	<u>78.59%</u>	<u>90.70%</u>	<u>85.57%</u>
Covered payroll	<u>\$ 60,112,430</u>	<u>\$ 53,409,841</u>	<u>\$ 49,823,366</u>	<u>\$ 48,969,040</u>
Net pension liability as a percentage of total covered payroll	<u>87.71%</u>	<u>119.10%</u>	<u>51.40%</u>	<u>75.57%</u>

2019	2018	2017	2016	2015	2014
\$ 7,930,188	\$ 7,467,890	\$ 6,900,642	\$ 6,447,988	\$ 5,741,822	\$ 5,118,797
15,018,615	14,025,269	13,126,553	12,261,584	11,963,523	11,242,134
-	-	-	-	-	-
2,110,147	1,501,153	548,309	968,779	(1,315,300)	(1,010,160)
1,080,074	-	-	-	17,530	-
<u>(9,429,918)</u>	<u>(7,588,523)</u>	<u>(7,501,093)</u>	<u>(6,679,553)</u>	<u>(5,350,540)</u>	<u>(5,362,893)</u>
16,709,106	15,405,789	13,074,411	12,998,798	11,057,035	9,987,878
<u>223,247,870</u>	<u>207,842,081</u>	<u>194,767,670</u>	<u>181,768,872</u>	<u>170,711,837</u>	<u>160,723,959</u>
<u>\$ 239,956,976</u>	<u>\$ 223,247,870</u>	<u>\$ 207,842,081</u>	<u>\$ 194,767,670</u>	<u>\$ 181,768,872</u>	<u>\$ 170,711,837</u>
\$ 7,943,928	\$ 7,497,962	\$ 6,999,120	\$ 6,544,860	\$ 6,251,205	\$ 5,799,742
3,206,893	3,007,781	2,802,407	2,625,028	2,406,164	2,287,301
26,828,508	(5,270,985)	21,150,405	9,509,452	202,628	7,288,110
(9,429,918)	(7,588,523)	(7,501,093)	(6,679,553)	(5,350,540)	(5,362,893)
(151,520)	(101,841)	(109,592)	(107,384)	(123,411)	(76,080)
<u>(4,551)</u>	<u>(5,321)</u>	<u>(5,554)</u>	<u>(5,786)</u>	<u>(6,095)</u>	<u>(6,255)</u>
28,393,340	(2,460,927)	23,335,693	11,886,617	3,379,951	9,929,925
<u>173,453,399</u>	<u>175,914,326</u>	<u>152,578,633</u>	<u>140,692,016</u>	<u>137,312,065</u>	<u>127,382,140</u>
<u>\$ 201,846,739</u>	<u>\$ 173,453,399</u>	<u>\$ 175,914,326</u>	<u>\$ 152,578,633</u>	<u>\$ 140,692,016</u>	<u>\$ 137,312,065</u>
<u>\$ 38,110,237</u>	<u>\$ 49,794,471</u>	<u>\$ 31,927,755</u>	<u>\$ 42,189,037</u>	<u>\$ 41,076,856</u>	<u>\$ 33,399,772</u>
<u>84.12%</u>	<u>77.70%</u>	<u>84.64%</u>	<u>78.34%</u>	<u>77.40%</u>	<u>80.43%</u>
<u>\$ 45,812,757</u>	<u>\$ 42,968,297</u>	<u>\$ 39,957,397</u>	<u>\$ 37,357,981</u>	<u>\$ 34,361,593</u>	<u>\$ 32,674,655</u>
<u>83.19%</u>	<u>115.89%</u>	<u>79.90%</u>	<u>112.93%</u>	<u>119.54%</u>	<u>102.22%</u>

CITY OF SAN MARCOS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS - PENSION**

For the fiscal year ended September 30,

	2024	2023	2022	2021
Actuarially determined contributions	\$ 12,711,751	\$ 10,855,474	\$ 9,166,815	\$ 8,810,022
Contributions in relation to the actuarially determined contributions	<u>12,711,751</u>	<u>10,855,474</u>	<u>9,166,815</u>	<u>8,810,022</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 67,430,374</u>	<u>\$ 59,249,099</u>	<u>\$ 50,425,031</u>	<u>\$ 49,494,033</u>
Contributions as a percentage of covered payroll	<u>18.85%</u>	<u>18.32%</u>	<u>18.18%</u>	<u>17.80%</u>

Note to Schedule of Contributions

Valuation date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and assumption used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years (longest amortization ladder)
Asset valuation method	10 year smoothed market, 12% soft corridor
Inflation	2.50%
Salary increases	3.60% to 11.85% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis with scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and 100% of the General Employee table used for females. The rates are projected on a fully generational basis with scale MP-2021 (with immediate convergence).
Other information:	There were no benefit changes during the year.

<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 8,055,680	\$ 7,856,525	\$ 7,397,137	\$ 6,875,814	\$ 6,735,430	\$ 6,048,023
<u>8,055,680</u>	<u>7,856,525</u>	<u>7,397,137</u>	<u>6,875,814</u>	<u>6,735,430</u>	<u>6,048,023</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>\$ 46,559,700</u>	<u>\$ 45,242,434</u>	<u>\$ 42,362,287</u>	<u>\$ 39,295,602</u>	<u>\$ 38,113,150</u>	<u>\$ 33,467,492</u>
<u>17.30%</u>	<u>17.37%</u>	<u>17.46%</u>	<u>17.50%</u>	<u>17.67%</u>	<u>18.07%</u>

CITY OF SAN MARCOS, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT BENEFIT LIABILITY (OPEB)
AND RELATED RATIOS – SUPPLEMENTAL DEATH BENEFIT FUND**

For the measurement year ended December 31,

	2023	2022	2021	2020	2019	2018	2017
Total OPEB liability							
Service cost	\$ 72,135	\$ 144,207	\$ 124,558	\$ 107,732	\$ 68,719	\$ 77,343	\$ 59,936
Interest on the total OPEB liability	73,823	49,206	49,333	55,597	58,627	52,320	50,582
Changes of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	(9,864)	58,804	(27,713)	(55,127)	(34,123)	9,372	-
Change of assumptions	105,293	(1,021,904)	87,745	353,105	340,651	(124,101)	135,684
Benefit payments	<u>(54,101)</u>	<u>(37,387)</u>	<u>(34,876)</u>	<u>(14,691)</u>	<u>(9,163)</u>	<u>(12,890)</u>	<u>(11,987)</u>
Net change in total OPEB liability	187,286	(807,074)	199,047	446,616	424,711	2,044	234,215
Total OPEB liability - beginning	<u>1,813,768</u>	<u>2,620,842</u>	<u>2,421,795</u>	<u>1,975,179</u>	<u>1,550,468</u>	<u>1,548,424</u>	<u>1,314,209</u>
Total OPEB liability - ending	<u>\$ 2,001,054</u>	<u>\$ 1,813,768</u>	<u>\$ 2,620,842</u>	<u>\$ 2,421,795</u>	<u>\$ 1,975,179</u>	<u>\$ 1,550,468</u>	<u>\$ 1,548,424</u>
Covered-employee payroll	<u>\$ 60,112,430</u>	<u>\$ 53,409,841</u>	<u>\$ 49,823,366</u>	<u>\$ 48,969,040</u>	<u>\$ 45,812,757</u>	<u>\$ 42,968,297</u>	<u>\$ 39,957,397</u>
Total OPEB liability as a percentage of covered payroll	<u>3.33%</u>	<u>3.40%</u>	<u>5.26%</u>	<u>4.95%</u>	<u>4.31%</u>	<u>3.61%</u>	<u>3.88%</u>

GASB 75 requires 10 fiscal years of data to be provided in this schedule. This is the seventh year of implementation of GASB 75. The City will develop the schedule prospectively.

APPENDIX C

SELECTED PROVISIONS OF THE ORDINANCE

SELECTED PROVISIONS OF THE ORDINANCE

The following are excerpts of certain provisions of the Ordinance adopted by the Council authorizing the issuance of the Bonds. Such excerpts do not purport to be complete and reference should be made to the Ordinance for the entirety thereof. Copies of the Ordinance are available upon request to the City or the City's Bond Counsel.

The following capitalized terms appearing in this Official Statement have the meanings set forth below, unless the context otherwise requires. A reference to any of these terms in the singular number includes the plural and vice versa.

Excerpted Definitions from the Master Ordinance and the First Supplement

“Annual Debt Service Requirements” means, for any Fiscal Year, (i) the principal of, premium, if any, and interest on all Parity Debt coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Parity Debt, or be payable in respect of any required purchase of such Parity Debt by the City) plus (ii) all payments required to be made by the City under each Credit Agreement constituting Parity Debt (net of any credits as provided in (7) below) in such Fiscal Year, and minus (iii) all amounts on deposit to the credit of the Interest and Sinking Account from original proceeds from the sale of Parity Debt or from any other lawfully available source (other than moneys that would constitute Pledged Revenues in the subject annual period) and, for such purposes, any one or more of the following rules shall apply at the election of the City; provided, however, that this definition shall never be applied in a manner which results in Annual Debt Service Requirements for any Fiscal Year being an amount that is less than the aggregate amount actually required to be paid in such Fiscal Year with respect to Outstanding Parity Debt:

(1) Committed Take Out. If the City has entered into a Credit Agreement constituting Parity Debt and constituting a binding commitment within normal commercial practice, from any bank, savings and loan association, insurance company, or similar institution to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such debt is subject to required purchase, all pursuant to arrangements whereby the City's obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharge or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added to such calculation, and the remaining provisions of this definition shall be applied to such added Funded Debt;

(2) Balloon Debt. If the principal, including the accretion of interest resulting from original issue discount or compounding of interest (collectively, “Principal”), of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the City) in any Fiscal Year either is equal to at least 25% of the total Principal of such Funded Debt or exceeds by more than 50% the greatest amount of Principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such Principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein as “Balloon Debt”), the amount of Principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the Principal of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(3) Consent Sinking Fund. In the case of Balloon Debt (as defined in clause (2) above), if an Authorized Representative shall deliver to the City an Officer's Certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed schedule stated in such Officer's Certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other payments due on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the City has elected to apply the rule set forth in clause (2) above;

(4) Prepaid Debt. Principal of, premium, if any, and interest on Parity Debt, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal, premium, if any, or interest are payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including, without limitation, capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Parity Debt;

(5) Variable Rate. As to any Parity Debt that bears interest at a variable interest rate which cannot be ascertained at the time of calculation of the Annual Debt Service Requirement, at the election of the City, the interest rate for such Parity Debt shall be determined to be either (i) an interest rate equal to the average rate borne by such Parity Debt (or by comparable debt in the event that such Parity Debt has not been outstanding during the preceding 24 months) for any 24 month period ending within 30 days prior to the date of calculation, (ii) if the Parity Debt bears interest at tax-exempt

rates, an interest rate equal to the 24 month average of the Bond Market Association Bond Index (as most recently published in The Bond Buyer), unless such index is no longer published in The Bond Buyer, in which case the index to be used in its place shall be that index which the City determines most closely replicates such index as set forth in a certificate of an Authorized Representative, (iii) if the Parity Debt bears interest at taxable rates, an interest rate equal to the rate of the 30 day London Interbank Offered Rate, (iv) that interest rate which, in the judgment of the Chief Financial Officer, based, to the extent possible, upon an accepted market index which corresponds with the provisions of the subject Parity Debt, is the average rate anticipated to be in effect with respect to such Parity Debt or (v) that interest rate which, in the judgment of the Chief Financial Officer, based upon the interest rate methodology in the applicable Credit Agreement if calculating payments under a Credit Agreement in accordance with paragraph 7 of this definition, is the average rate anticipated to be in effect;

(6) Short-Term Obligations. Notwithstanding anything in the foregoing to the contrary, with respect to any Parity Debt issued as Short-Term Obligations, the debt service on such Parity Debt shall be calculated assuming that such Parity Debt will be refunded and refinanced to mature over a 20-year period with level principal requirements and bearing interest at then current market rates; provided, however, that to the extent permitted by law, if in the judgment of the Chief Financial Officer, as set forth in an Officer's Certificate delivered to the City, the result of the foregoing calculation is inconsistent with the reasonable expectations of the City, the interest on such Parity Debt shall be calculated in the manner provided in clause (5) of this definition and the maturity schedule shall be calculated in the manner provided in clause (2) of this definition; and

(7) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Parity Debt, payments due under any such Credit Agreement (other than payments for fees and expenses) from either the City or the provider of a Credit Agreement shall be included in such calculation, except to the extent that the payments are already taken into account under clauses (1) through (6) above and any payments otherwise included under clauses (1) through (6) above which are to be replaced by payments under such a Credit Agreement, from either the City or the provider under a Credit Agreement, shall be excluded from such calculation.

"Authorized Representative" means the City Manager, Assistant City Manager and Chief Finance Officer or such other individuals so designated by the City to perform the duties of an Authorized Representative under this Master Ordinance.

"Bond Proceeds Account" has the meaning assigned to that term in Section 3(d) hereof.

"Certified Public Accountant" means a certified public accountant or firm or corporation of certified public accountants, selected by the City, which in the case of an individual is not a member of the City Council or an employee of the City, and in the case of a firm or corporation does not have a partner, director, officer, or employee who is a member of the City or a director, officer, or employee of the City.

"Chief Financial Officer" means the Finance Director of the City or such other officer or employee of the City or such other individual so designated by the City to perform the duties of Chief Financial Officer under this Master Ordinance.

"City" means the City of San Marcos, Texas.

"Code" means the Internal Revenue Code of 1986, as amended, and the rulings, regulations, and procedures (including temporary, proposed, and final regulations and procedures) promulgated thereunder.

"Credit Agreement" means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Debt, purchase or sale agreements, interest rate swap, cap and/or floor agreement or commitment, or other contract or agreement authorized, recognized, and approved by the City as a Credit Agreement in connection with the authorization, issuance, sale, resale, security, exchange, payment, purchase, remarketing, or redemption of Debt, the interest on Debt, or both.

"Debt" means all indebtedness of the City payable from all or part of the Security that is also:

(1) indebtedness incurred or assumed by the City for borrowed money (including all obligations arising under Credit Agreements) and all other financial obligations of the City that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(2) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(3) all indebtedness secured by any mortgage, lien, charge, encumbrance, pledge, or other security interest upon property owned by the City whether or not the City has assumed or become liable for the payment thereof.

For the purpose of determining the “Debt” of the City, only outstanding Debt shall be included. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the City in prior Fiscal Years.

“Defeased Debt” means any Parity Debt and the interest thereon deemed to be paid, retired, and no longer Outstanding pursuant to the provisions of the applicable Supplement authorizing such Parity Debt; and thus, no longer secured by, payable from, or entitled to the benefits of the Security.

“Enabling Act” means Chapter 1502, Texas Government Code, as amended.

“Financing Program” means the “City of San Marcos, Texas Utility System Revenue Financing Program.”

“Fiscal Year” means the twelve-month accounting period used by the City in connection with the operation of the Utility System, currently ending on September 30 of each year, which may be any twelve consecutive month period established by the City, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

“Funded Debt” means all Parity Debt created, assumed, or guaranteed by the City that matures by its terms (in the absence of the exercise of any earlier right of demand), or is renewable at the option of the City to a date, more than one year after the original creation, assumption, or guarantee of such Debt by the City.

“Gross Revenues” and “Gross Revenues of the City’s Utility System” mean all revenues, income and receipts of every nature derived or received by the City from the operation and ownership of the Utility System including the interest income from investment or deposit of money in any account or subaccount created by this Master Ordinance or maintained by the City in connection with the Utility System (Except any account or subaccount not pledged as Security under this Master Ordinance or any Supplement) and any other revenues hereafter pledged to the payment of all Parity Debt. Any interest income related to any reserve account shall operate as provided in the applicable Supplement.

“Holder” or “Bondholder” or “owner” means the (i) registered owner of any Parity Debt registered as to ownership, (ii) holder of any Parity Debt payable to bearer or (iii) obligee (other than the City) pursuant to any Credit Agreement.

“Interest and Sinking Account” has the meaning assigned to that term in Section 3(c) hereof.

“Master Ordinance” means this “Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program” as may be supplemented or amended from time to time as authorized by the City and this Master Ordinance.

“Maturity” when used with respect to any Debt means the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by call for redemption, or otherwise.

“Maintenance and Operating Expenses” means the reasonable and necessary expenses of operation and maintenance of the Utility System as required by Section 1502.056, Texas Government Code, as amended, or other applicable State law including all salaries, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the Chief Financial Officer, are necessary to keep the Utility System in operation and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or conditions which would otherwise impair the Parity Debt), and all payments under contracts now or hereafter defined as operating expenses by State law. Depreciation shall never be considered as a Maintenance and Operating Expense.

“Net Revenues” and “Net Revenues of the City’s Utility System” mean all Gross Revenues remaining after deducting the Maintenance and Operating Expenses.

“Non-Recourse Debt” means any debt secured by a lien (other than a lien on the Security), liability for which is effectively limited to the property subject to such lien with no recourse, directly or indirectly, to the Security.

“Officer’s Certificate” means a certificate signed by an Authorized Representative.

“Opinion of Counsel” means a written opinion of counsel which shall be acceptable to the City.

“Outstanding” when used with respect to Parity Debt means, as of the date of determination, all Parity Debt theretofore delivered under this Master Ordinance or any Supplement, except:

- (1) Parity Debt theretofore cancelled and delivered to the City or delivered to the Paying Agent or the Registrar for cancellation;
- (2) Parity Debt deemed to be Defeased Debt;

(3) Parity Debt upon transfer of or in exchange for and in lieu of which other Parity Debt has been authenticated and delivered pursuant to this Master Ordinance or any Supplement; and

(4) Parity Debt under which the obligations of the City have been released, discharged, or extinguished in accordance with the terms thereof;

provided, however, that unless the same is acquired for purposes of cancellation, Parity Debt owned by the City and Parity Debt purchased with funds advanced pursuant to a Credit Agreement shall be deemed to be Outstanding as though it was owned by any other owner.

“Outstanding Principal Amount” means, as of any record date established by a Registrar in connection with a proposed amendment of this Master Ordinance or any Supplement, with respect to all Parity Debt or to a series of Parity Debt that is in the form of bonds, notes, or other similar instruments that have a stated principal amount, the outstanding and unpaid principal amount of such Parity Debt on which interest is paid on a current basis and the outstanding and unpaid principal and compounded interest on such Parity Debt paying accrued, accreted, or compounded interest only at maturity and, with respect to Credit Agreements shall total the amount, if any, then due under such Credit Agreement if it was to be terminated as of the date of calculation of Outstanding Principal Amount.

“Parity Debt” means all Debt of the City which may be issued or assumed in accordance with the terms of this Master Ordinance and a Supplement, subject to the provisions of the ordinances securing the Prior Obligations, secured by a lien on and pledge of the Security.

“Paying Agent” means each entity designated in a Supplement as the place of payment of a series or issue of Parity Debt.

“Pledged Revenues” means (1) the Net Revenues plus (2) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the City to the payment of the Parity Debt, and excluding those revenues excluded from Gross Revenues.

“Prior Obligations” has the meaning assigned to that term in the preamble to this Master Ordinance.

“Registrar” means the entity designated in a Supplement as the Registrar of a series or issue of Parity Debt.

AReserve Account Obligation@ means a surety bond or insurance policy deposited in any reserve account established pursuant to a Supplement whereby the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement or instrument.

“Security” has the meaning assigned to that term in Section 2(a) hereof.

“Special Project” means, to the extent permitted by law, any waterworks, sanitary sewer, wastewater reuse, municipal drainage system or other similar system property, improvement or facility declared by the City not to be part of the Utility System, for which the costs of acquisition, construction and installation are paid from proceeds of a financing transaction other than the issuance of bonds payable from ad valorem taxes, Pledged Revenues or Net Revenues and for which all maintenance and operation expenses are payable from sources other than ad valorem taxes, Pledged Revenues or Net Revenues, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

“State” means the State of Texas.

“Stated Maturity” when used with respect to any Parity Debt or any installment of interest thereon means any date specified in the instrument evidencing or authorizing such Parity Debt or such installment of interest as a fixed date on which the principal of such Parity Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

“Subordinated Debt” means any Debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Debt then outstanding or subsequently issued.

“Supplement” means a resolution supplemental to, and authorized and executed pursuant to the terms of, this Master Ordinance as may be supplemented or amended from time to time as authorized by the City and such Supplement.

“System Account” has the meaning assigned to that term in Section 3(b) hereof.

“Term of Issue” means with respect to any Balloon Debt a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or the maximum maturity date in the case of commercial paper or (ii) twenty-five years.

“Utility System” or “System” means as currently comprised, the City’s combined waterworks and sewer system, which includes all properties, facilities, plants, improvements, equipment, interests and rights currently owned, operated and maintained

by the City for the supply, treatment, and transmission and distribution of treated potable water and collection and treatment of wastewater, and for water reuse, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, whether situated within or without the limits of the City, and all water (in any form) owned by the City; provided, however, that the City expressly retains the right to (i) sale or disaggregate the Utility System as set forth in Section 6(q) of this Master Ordinance and (ii) incorporate any other utility system (other than telecommunications system) as provided by the laws of the State as a part of the Utility System. The Utility System shall not include any Special Project or any disaggregated part of the Utility System as provided in this Master Ordinance.

Excerpted Provisions of the Master Ordinance

Section 1. ESTABLISHMENT OF FINANCING PROGRAM AND ISSUANCE OF PARITY DEBT. As authorized by the Enabling Act and other applicable provisions of State law, the Utility System Revenue Financing Program is hereby established for the purpose of providing a new financing structure for the issuance of Debt by the City secured by and payable from a pledge of and lien on all or part of the Security subject to the provisions of the ordinances authorizing the Prior Obligations. This Master Ordinance is intended to establish a master financing program under which Parity Debt of the Financing Program can be incurred. Each issue or series of Parity Debt shall be issued pursuant to a Supplement and no Parity Debt shall be issued unless the City has complied with this Master Ordinance. The City covenants that it will not issue obligations payable from Net Revenues with a lien superior to the lien created by this Master Ordinance.

Each Supplement shall provide for the authorization, issuance, sale, delivery, form, characteristics, provisions of payment and redemption, and security of each issue or series of Parity Debt and any other matters related to Parity Debt not inconsistent with this Master Ordinance.

Section 2. SECURITY AND PLEDGE. (a) Pledge. Subject to the provisions of the ordinances authorizing the Prior Obligations, Parity Debt shall be secured by and payable solely from a lien on and pledge of the following (collectively, the "Security"): (i) all Pledged Revenues; (ii) all amounts in the System Account and the Interest and Sinking Account; (iii) any additional account or subaccount that is subsequently established and so designated as being included within the Security pursuant to Section 3(f) hereof; (iv) all of the proceeds of the foregoing, including, without limitation, investments thereof; and (v) any applicable Credit Agreement to the extent set forth in such Credit Agreement. With respect to any applicable series of Parity Debt, the term "Security" shall also include all amounts in any reserve account or subaccount applicable to such Parity Debt pursuant to Section 3(e) hereof, including any reserve fund surety policy or other Credit Agreement entered into for the benefit of such account or subaccount. The City hereby assigns and pledges the Security to the payment of the Annual Debt Service Requirements on Parity Debt including the obligations due under and in connection with any Credit Agreement, to the extent set forth therein and in the related Supplement, and the Security is further pledged to the establishment and maintenance of any accounts or subaccounts which may be provided to secure the repayment of Parity Debt including the obligations due under and in connection with any Credit Agreement, to the extent set forth therein and in the related Supplement, in accordance with this Master Ordinance and any Supplement.

(b) Credit Agreements. Pursuant to Chapter 1371, Texas Government Code, as amended, the City may execute and deliver one or more Credit Agreements (i) to additionally secure Parity Debt or an issue or series or part of any issue or series of Parity Debt or (ii) in connection with the authorization, issuance, sale, resale, security, exchange, payment, purchase, remarketing or redemption of Parity Debt or an issue or series or part of an issue or series of Parity Debt or interest on an issue or series or part of an issue or series of Parity Debt without regard to whether a Credit Agreement was contemplated, authorized or executed in relation to the initial issuance, sale or delivery of Parity Debt. Credit Agreements and the obligations thereunder may, pursuant to their terms, constitute: (i) Parity Debt secured by a pledge of the Security on parity with all Parity Debt, (ii) Subordinated Debt secured by a pledge of the Security subordinate to Parity Debt or (iii) partially on a parity with Parity Debt and partially as Subordinated Debt.

(c) Perfection. Chapter 1208, Texas Government Code, applies to the issuance of Parity Debt and the pledge of the Security granted by the City under this Section and in any applicable Supplement, and such pledge is therefore valid, effective, and perfected. If State law is amended at any time while Parity Debt is outstanding and unpaid such that the pledge of the Security granted by the City under this Section and in any applicable Supplement is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve for the owners of Parity Debt the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under State law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

Section 3. ACCOUNTS. (a) Creation or Affirmation of Funds. The City hereby establishes and/or affirms the creation of the following funds or accounts:

- (i) the System Revenue Fund or Account (the "System Account");
- (ii) the Utility System Interest and Sinking Account (the "Interest and Sinking Account"); and

(iii) the Utility System Bond Proceeds Account (the "Bond Proceeds Account").

(b) System Account. Subject to the provisions of Section 4 of this Master Ordinance, moneys in the System Account may be used for any lawful purpose authorized pursuant to the Enabling Act and other State law.

(c) Interest and Sinking Account. Moneys in the Interest and Sinking Account shall be used to pay amounts due on or with respect to Parity Debt, including the principal of, premium, if any, and interest on Parity Debt as the same become due and payable (whether at Stated Maturity or upon prior redemption), and the City shall maintain such account as long as Parity Debt is Outstanding.

(d) Bond Proceeds Account. Proceeds from the issuance of Parity Debt shall be deposited from time to time upon the issuance of such Parity Debt as provided by the applicable Supplement into the Bond Proceeds Account, or any subaccount thereof created with respect to such Parity Debt. Such proceeds and the interest thereon shall remain in the Bond Proceeds Account or applicable subaccount thereof until expended to accomplish the purposes for which such Parity Debt was issued or until otherwise utilized as provided in the applicable Supplement. Amounts in the Bond Proceeds Account do not constitute Security.

(e) Reserve Accounts or Subaccounts. The City may establish a reserve account and/or any other account or subaccount pursuant to the provisions of the applicable Supplement for the purpose of paying or securing a particular issue or series of Parity Debt or any specific group of issues or series of Parity Debt and the amounts, once deposited into said accounts or subaccounts, shall no longer constitute Security for all Parity Debt but shall be held solely for the benefit of the owners of the particular issue or series or group of issues or series of Parity Debt for which such account or subaccount was established. Each such account or subaccount shall be designated in such manner as is necessary to identify the Parity Debt it secures and to distinguish such account or subaccount from any other accounts created for the benefit of any other Parity Debt. Any such reserve accounts or subaccounts shall be established in the Supplement related to such series or issue of Parity Debt. The City may, in its discretion, provide in the applicable Supplement for a surety bond, insurance policy or other Credit Agreement, to the extent then authorized by State law, to be held for the benefit of such a reserve account or subaccount.

(f) Other Accounts. The City reserves the right to establish, in connection with the issuance of Parity Debt or for other purposes, one or more additional accounts or subaccounts for such other purposes as the City may determine from time to time. The City may, at its option, declare in the action establishing the account or subaccount that the amounts in such additional account or subaccount will be either included within or excluded from the Security.

Section 4. FLOW OF FUNDS. All Gross Revenues shall be deposited in the System Account immediately upon receipt by the City. All Gross Revenues are hereby and shall be appropriated, deposited, and transferred from the System Account to the other accounts and subaccounts to the extent required for the following uses and in the order of priority shown:

FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, including, but not limited to, Chapter 1502, Texas Government Code, as amended, to be a first charge on and claim against the Gross Revenues, including any reserve amount based upon the budgeted amount of Maintenance and Operating Expenses for the current Fiscal Year as determined by the Chief Financial Officer, which amount shall be retained in the System Account;

SECOND: to the payment of amounts required to be deposited and credited to all funds and accounts to meet all financial obligations of the City relating to the Prior Obligations;

THIRD: to the payment of amounts required to be deposited and credited to the Interest and Sinking Account to meet all financial obligations of the City relating to the Financing Program, including payments due on or with respect to the payment of Parity Debt as the same mature or come due;

FOURTH: pro rata, on the basis that the Outstanding Principal Amount of each particular issue or series of Parity Debt secured by a reserve account bears to the aggregate Outstanding Principal Amount of all such issues or series of such Parity Debt secured by any reserve account, to the payment of the amounts required to be deposited and credited to each reserve account created and established to maintain a reserve in accordance with the provisions of any Supplement relating to the issuance of any Parity Debt;

FIFTH: any amounts to be deposited into any other fund, account or subaccount to the extent required pursuant to the provisions of any Supplement relating to the issuance of Parity Debt;

SIXTH: to the extent required by any resolution or other instrument adopted or approved by the City pursuant to which Subordinated Debt is issued, the amount necessary to meet all financial obligations on such Subordinated Debt and to accumulate or restore any required reserves to ensure payment of such principal, premium, and interest shall be deposited to any account or subaccount created for such purpose; and

SEVENTH: all remaining Pledged Revenues shall be retained in the System Account and may be used for any lawful purpose authorized pursuant to the Enabling Act and other State law.

Section 5. RATE COVENANT. For the benefit of the Holders of the Parity Debt and in addition to all provisions and covenants in the laws of the State and in this Master Ordinance and any Supplement, the City hereby expressly stipulates and agrees, while any of the Parity Debt is Outstanding, to establish and maintain rates and charges for facilities and services afforded by the Utility System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year reasonably anticipated to be sufficient:

1. to pay Maintenance and Operating Expenses;
2. to pay and meet all financial obligations related to the Prior Obligations;
3. to produce Pledged Revenues at least equal to the greater of 1.25 times the average Annual Debt Service Requirements or 1.10 times the maximum Annual Debt Service Requirements;
4. to produce Pledged Revenues in amounts sufficient to enable the City to make the deposits and credits, if any, from Pledged Revenues to the accounts and subaccounts required by this Master Ordinance and any Supplement including to fund or replenish any reserve account required by a Supplement, including the payment of any Reserve Fund Obligation then due.
5. to produce Pledged Revenues, together with any other lawfully available funds (including the proceeds of Debt which the City expects will be utilized to pay all or part of the principal of and/or interest on any obligations) sufficient to meet all financial obligations for Subordinate Debt issued by the City; and
6. to pay any other Debt payable from the Pledged Revenues and/or secured by a lien on the Security.

Should the annual audit report reflect that the Security for the Fiscal Year covered thereby is less than necessary to meet the requirements of this Section, the City Council will review the operations of the Utility System and the rates and charges for services provided, and the City Council will make the necessary adjustments or revisions, if any, in order that the Security for the succeeding year will be sufficient to satisfy the foregoing coverage requirements.

Section 6. GENERAL REPRESENTATIONS AND COVENANTS. The City further represents, covenants and agrees that while Parity Debt or interest thereon is Outstanding:

(a) Payment of Parity Debt. The City will duly and punctually pay solely from the Security, (i) the Annual Debt Service Requirements on, and other payments with respect to, each and every Parity Debt on the dates and at the places, as such Parity Debt accrues or matures, or becomes subject to mandatory redemption prior to maturity and such payments will be made in the manner provided in said Parity Debt and the Supplement governing its issuance, according to the true intent and meaning thereof and (ii) the fees and expenses related to Parity Debt, including the fees and expenses of the Paying Agent and any registrar, trustee, remarketing agent, tender agent, or credit provider.

(b) Performance. The City will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Master Ordinance and in each Supplement, and in each and every Parity Debt or evidence thereof and will take such action as is reasonably possible to perform each and every duty with respect to the Parity Debt.

(c) Redemption. The City will duly cause to be called for redemption prior to maturity, and will cause to be redeemed prior to maturity, all Parity Debt which by its terms is mandatorily required to be redeemed prior to maturity, when and as required.

(d) Determination of Annual Debt Service Requirements. For all purposes of this Master Ordinance, the judgment of the Chief Financial Officer shall be deemed final in the determination of the Annual Debt Service Requirements of the Financing Program.

(e) Lawful Authority. The City is lawfully authorized to pledge the Security herein pledged in the manner prescribed herein and has lawfully exercised such right.

(f) Preservation of Lien. Subject to the conditions set forth in subsection (g) of this Section and in Section 7 of this Master Ordinance, the City (i) will not do or suffer any act or thing whereby the pledge of the Security might or could be impaired and (ii) will take all actions to the extent necessary to ensure that the City does not do or suffer any act or thing whereby the pledge of the Security might or could be impaired.

(g) No Additional Encumbrance. The City shall not incur additional Debt secured by the Security in any manner, except as permitted by this Master Ordinance in connection with Parity Debt, unless said Debt is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of this Master Ordinance and any Supplement. Any Debt incurred by the City without satisfying the conditions for the issuance of Parity Debt, as set forth in this Master Ordinance, is hereby declared to be Subordinated Debt junior and subordinate in all respects to the liens, pledges, covenants, and agreements of this Master Ordinance and any Supplement whether such status is noted or not.

(h) Investments and Security. Moneys in all accounts and subaccounts established pursuant to this Master Ordinance and any Supplement will be held uninvested or invested and secured in the manner prescribed by State law for such funds and in accordance with the applicable Supplement and written policies adopted by the City. The investments of each account and

subaccount shall be made under conditions that will timely provide money sufficient to satisfy the City's obligations hereunder and under any Supplement. Money in all accounts and subaccounts established pursuant to this Master Ordinance and any Supplement may be combined for investment purposes, as directed by the City. Such treatment does not constitute a commingling of the money in such accounts and subaccounts and the City shall keep or cause to be kept full and complete records indicating the money, investments and securities credited to each such account and subaccount. Any profits or losses from investments shall be credited or charged, respectively, on a pro rata basis among the accounts and other sources of money from which such investment was made.

(i) Records; Annual Audit. The City will keep proper books of record and account in which full, true, and correct entries will be made of all dealings, activities, and transactions relating to the Utility System. Each year while any Parity Debt is Outstanding, the City covenants that as soon as practicable beginning with the end of the first Fiscal Year in which Parity Debt is issued, it will prepare or cause to be prepared a financial report of the Utility System for such Fiscal Year in accordance with generally accepted accounting principles, certified by a Certified Public Accountant. The City shall promptly furnish such audited financial report to the municipal bond rating agencies then maintaining a rating on Parity Debt and to any owner of Parity Debt who shall request the same in writing, and shall file or make available such audited financial report as required by each Supplement. In addition, a copy of each such audited financial report shall be retained on file in the City's finance office and open to the inspection of the owners of Parity Debt, and their respective agents and representatives, at all reasonable times during regular business hours, for at least 365 days following the preparation thereof.

(j) Inspection of Records. The City will permit any owner or owners of twenty-five percent (25%) or more of the then Outstanding Principal Amount of Parity Debt at all reasonable times to inspect all records, accounts, and data of the City relating to the Utility System and the Financing Program, except such records as federal or State law may designate as privileged and exempt from disclosure.

(k) Title. The City has or will obtain lawful title to the lands, buildings, structures and facilities constituting the Utility System, that it warrants that it will defend the title to all the aforesaid lands, buildings, structures and facilities, and every part thereof, for the benefit of any Owner of the Parity Debt, against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Pledged Revenues to the payment of the Parity Debt in the manner prescribed herein, and has lawfully exercised such rights.

(l) Liens. The City will from time to time and before the same become delinquent pay and discharge all taxes, assessments and governmental charges, if any, which shall be lawfully imposed upon it, or the Utility System; it will pay all lawful claims for rents, royalties, labor, materials and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman's or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided, however, that no such tax, assessment or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the City.

(m) Operation of Utility System. The City will, while the Parity Debt is Outstanding and unpaid, continuously and efficiently operate the Utility System, and shall maintain the Utility System in good condition, repair and working order, all at reasonable cost. Except as may be authorized by law, the City shall not provide any free service from the Utility System.

(n) Sale or Disposal of Property. While the Parity Debt is Outstanding and unpaid, the City will not sell, convey, mortgage, encumber, lease or in any manner transfer title to, or otherwise dispose of the Utility System, or any significant or substantial part thereof; provided that whenever the City deems it necessary to dispose of any property, machinery, fixtures or equipment, it may sell or otherwise dispose of such property, machinery, fixtures or equipment when it has made arrangements to replace the same or provide substitutes therefor, unless it is determined by an Authorized Representative that no such replacement or substitute is necessary; and, provided further, that the City retains the right to sell, convey, mortgage, encumber, lease or otherwise dispose of any significant or substantial part of the Utility System if (i) the Authorized Representative delivers a certificate to the City Council to the effect that, following such action by the City, the Utility System is expected to produce Gross Revenues in amounts sufficient in each Fiscal Year while the Parity Debt is to be Outstanding to comply with the obligations of the City contained in this Master Ordinance, (ii) the City Council makes a finding and determination to the same effect as the certificate of the Authorized Representative set forth in (i) above and (iii) for insured Parity Debt, the Net Revenues for the Fiscal Year prior to such sell, conveyance, mortgage, encumbrance, lease or disposal of any significant or substantial part of the Utility System are at least equal to 1.30 times the average Annual Debt Service requirements or for uninsured Parity Debt, each Rating Agency then maintaining a rating on such Parity Debt delivers a letter to the City to the effect that such sale, conveyance, mortgage, encumbrance, lease or other disposition of a significant or substantial part of the Utility System will not cause the Rating Agency to withdraw or lower the rating then in effect. Proceeds from any sale hereunder not used to replace or provide for substitution of such property sold, shall be used for improvements to the Utility System or to purchase or redeem Parity Debt.

(o) Insurance. The City shall cause to be insured such parts of the Utility System as would usually be insured by municipal corporations operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by municipal corporations operating like properties, including, to the extent reasonably obtainable at reasonable cost, fire and extended coverage insurance, insurance against damage by floods,

and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney of the City gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the City shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Owners and their representatives at all reasonable times. Upon the happening of any loss or damage covered by insurance from one or more of said causes, the City shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the City. Subject to the provisions of the Ordinances authorizing the Prior Obligations, the proceeds of insurance covering such property are hereby pledged as security for the Parity Debt and, together with any other funds necessary and available for such purpose, shall be used forthwith by the City for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the Utility System shall be used promptly as follows:

(i) for the redemption prior to maturity of the Parity Debt, ratably in the proportion that the Outstanding principal of each series of Parity Debt bears to the total Outstanding principal of all Parity Debt, provided that if on any such occasion the principal of any such series is not subject to redemption, it shall not be regarded as Outstanding in making the foregoing computation; or

(ii) if none of the Outstanding Parity Debt is subject to redemption, then for the purchase on the open market and retirement of said Parity Debt in the same proportion as prescribed in the foregoing clause (i), to the extent practicable; provided that the purchase price for any Parity Debt shall not exceed the redemption price of such Parity Debt on the first date upon which it becomes subject to redemption; or

(iii) to the extent that the foregoing clauses (i) and (ii) cannot be complied with at the time, the insurance proceeds, or the remainder thereof, shall be deposited in a special and separate trust fund, at an official depository of the City, to be designated the Insurance Account. The Insurance Account shall be held until such time as the foregoing clauses (i) and/or (ii) can be complied with, or until other funds become available which, together with the Insurance Account, will be sufficient to make the repairs or replacements originally required, whichever of said events occurs first.

(2) The foregoing provisions of (1) above notwithstanding, the City shall have authority to enter into a self insurance program or coinsurance or similar plans where risk of loss is shared in whole or in part by the City.

(3) The payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses. Nothing in this Master Ordinance shall be construed as requiring the City to expend any funds which are derived from sources other than the operation of the Utility System, but nothing herein shall be construed as preventing the City from doing so.

(p) Governmental Agencies. The City will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the Utility System, and which have been obtained from any governmental agency; and the City has or will obtain and keep in full force and effect all franchises, permits, authorization and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the Utility System.

(q) Disaggregation of Utility System. The City retains the right to disaggregate the Utility System into one or more independent resulting systems if (i) the Authorized Representative delivers a certificate to the City Council to the effect that, following such action by the City, the remaining System is expected to produce Gross Revenues in amounts sufficient in each Fiscal Year while any of the Parity Debt is to be Outstanding to comply with the obligations of the City contained in this Master Ordinance and any Supplement; (ii) the City Council makes a finding and determination to the same effect as the certificate of the Authorized Representative set forth in (i) above and (iii) for insured Parity Debt the Net Revenues for the Fiscal Year after disaggregation will be equal to at least 1.30 times the average Annual Debt Service Requirements or for uninsured Parity Debt, each Rating Agency then maintaining a rating on any Parity Debt delivers a letter to the City to the effect that such disaggregation will not cause the Rating Agency to withdraw or lower the rating then in effect.

Section 7. ISSUANCE OF PARITY DEBT.

(a) General. The City reserves and shall have the right and power to issue or incur Parity Debt for any purpose authorized by State law, including the refunding of Parity Debt, Prior Obligations, Subordinated Debt, or other obligations of the City issued to finance the costs of a project authorized to be financed under the Financing Program, pursuant to the provisions of this Master Ordinance and Supplements to be hereafter authorized. The City hereby covenants and agrees to comply with all constitutional and statutory requirements of State law and, to the extent applicable, federal law governing the issuance of Parity Debt.

(b) Parity Debt. Provided that the City is in compliance with the requirements of any then applicable provisions of State law, the City may from time to time incur, assume, guarantee, or otherwise become liable in respect of Parity Debt if, in the applicable Supplement, the City finds that, upon the issuance of such Parity Debt, the Security will be sufficient to meet the financial obligations relating to the Financing Program, including Security in amounts sufficient to satisfy the Annual Debt Service Requirements of the Financing Program. In addition, the City shall not issue or incur such Parity Debt unless (i) an Authorized

Representative shall deliver to the City an Officer's Certificate stating that, to the best of his or her knowledge, the City, has not failed to comply with the covenants contained in this Master Ordinance and any Supplement, to any material extent, and are not in default, to any material extent, in the performance and observance of any of the terms, provisions, and conditions hereof, thereof or under any Credit Agreement that constitutes Parity Debt and (ii) the Chief Financial Officer signs and delivers to the City a written certificate to the effect that, during either the next preceding Fiscal Year, or any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Debt, the Net Earnings were, in the opinion thereof, at least equal to the sum of 1.30 times the average Annual Debt Service Requirements (computed on a Fiscal Year basis) of the Parity Debt to be outstanding after the issuance of the then proposed Parity Debt and 1.10 times the average annual debt service requirement (computed in the same manner as for Parity Debt) of the Subordinate Debt to be outstanding after the issuance of the then proposed Parity Debt.

In making a determination of Net Earnings for any of the purposes described in this Section, the Chief Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Utility System that became effective at least 60 days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the Net Earnings tests described above, make a pro forma determination of the Net Earnings of the Utility System for the period of time covered by said Chief Financial Officer's certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Chief Financial Officer's certificate or opinion.

As used in this Section, the term "Net Earnings" shall mean the Gross Revenues of the Utility System after deducting the Maintenance and Operating Expenses of the Utility System but not expenditures which, under standard accounting practice, should be charged to capital expenditures.

(c) Credit Agreements. To the extent permitted by law, the City may execute and deliver one or more Credit Agreements (i) upon the delivery to the City of the Chief Financial Officer's Certificate to the effect that the Credit Agreement is in the best interest of the City and (ii) compliance with the requirements of subsection (b) or (c) of this section, as the case may be, if the Credit Agreement is to constitute Parity Debt. Each Credit Agreement shall be approved by the City, to the extent required by law, either pursuant to a Supplement or by other action. Credit Agreements and the obligations thereunder may, pursuant to their terms, constitute (i) Parity Debt secured by a pledge of the Security on parity with other Parity Debt, (ii) Subordinated Debt secured by a pledge of the Security subordinate to Parity Debt, or (iii) partially Parity Debt and partially Subordinated Debt.

(d) Non-Recourse Debt and Subordinated Debt. Non-Recourse Debt and Subordinated Debt may be incurred by the City in accordance with State law.

Section 8. WAIVER OF CERTAIN COVENANTS. The City may omit in any particular instance to comply with any covenant or condition set forth in Sections 6 and 7 hereof if before or after the time for such compliance the Holders of the same percentage in Outstanding Principal Amount, the consent of which would be required to amend the applicable provisions to permit such noncompliance, shall either waive such compliance in the particular instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of the City and the duties of the City in respect of any such covenant or condition shall remain in full force and effect. For the purpose of this Section, the City may determine in each Supplement the treatment of who may act as an "owner," "Holder," or "Bondholder" and other matters relating to such Parity Debt, including designating any municipal bond insurance company providing an insurance policy on the payment of Parity Debt or the provider under a Credit Agreement as the sole owner of such Parity Debt.

Section 9. INDIVIDUALS NOT LIABLE. All covenants, stipulations, obligations, and agreements of the City contained in this Master Ordinance and any Supplement shall be deemed to be covenants, stipulations, obligations, and agreements of the Financing Program, the Utility System and the City to the full extent authorized or permitted by State law. No covenant, stipulation, obligation, or agreement herein contained shall be deemed to be a covenant, stipulation, obligation, or agreement of any member of the City Council or agent or employee of the City in his or her individual capacity and neither the members of the City Council, nor any officer, employee, or agent of the City shall be liable personally on Parity Debt when issued, or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 10. SPECIAL OBLIGATIONS; ABSOLUTE OBLIGATION TO PAY PARITY DEBT. All Parity Debt and the interest thereon shall constitute special obligations of the City payable from the Security and the owners of Parity Debt shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than those specified in this Master Ordinance or any Supplement. The obligation of the City to pay or cause to be paid the amounts payable under this Master Ordinance and each Supplement out of the Security shall be absolute, irrevocable, complete, and unconditional, and the amount, manner, and time of payment of such amounts shall not be decreased, abated, rebated, setoff, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever, regardless of any right of setoff, recoupment, or counterclaim that the City might otherwise have against any owner or any other party and regardless of any contingency, force majeure, event, or cause whatsoever and notwithstanding any circumstance or occurrence that may arise or take place before, during, or after the issuance of Parity Debt while any Parity Debt is outstanding.

Section 11. DEFAULTS AND REMEDIES. (a) Events of Default. Each of the following occurrences or events for the purpose of this Master Ordinance is hereby declared to be an Event of Default:

(i) the failure to make payment of the principal of or interest on any Debt when the same becomes due and payable; or

(ii) default in the performance or observance of any other covenant, agreement or obligation of the City, the failure to perform which materially, adversely affects the rights of the Registered Owners of the Debt, including, but not limited to, their prospect or ability to be repaid in accordance with this Master Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any Registered Owner to the City.

(b) Remedies for Default.

(i) Upon the happening of any Event of Default, then and in every case, any Registered Owner or an authorized representative thereof, including, but not limited to, a trustee or trustees therefor, may proceed against the City, or any official, officer or employee of the City in their official capacity, for the purpose of protecting and enforcing the rights of the Registered Owners under this Master Ordinance, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Registered Owners hereunder or any combination of such remedies.

(ii) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Registered Owners of Debt then outstanding.

(c) Remedies Not Exclusive.

(i) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Debt or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Master Ordinance, the right to accelerate the Debt shall not be available as a remedy under this Master Ordinance.

(ii) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

(iii) By accepting the delivery of Debt authorized under this Master Ordinance, such Registered Owner agrees that the certifications required to effectuate any covenants or representations contained in this Master Ordinance do not and shall never constitute or give rise to a personal or pecuniary liability or charge against the officers, employees or trustees of the City or the City Council.

(iv) None of the members of the City Council, nor any other official or officer, agent, or employee of the City, shall be charged personally by the Registered Owners with any liability, or be held personally liable to the Registered Owners under any term or provision of this Master Ordinance, or because of any Event of Default or alleged Event of Default under this Master Ordinance.

Section 12. DEFEASANCE OF PARITY DEBT. Each Supplement authorizing Parity Debt may provide by its respective terms the circumstances and conditions under which such Parity Debt may be considered Defeased Debt.

Section 13. AMENDMENT OF MASTER ORDINANCE. (a) Amendment Without Consent. This Master Ordinance and the rights and obligations of the City and of the owners of the Outstanding Parity Debt may be modified or amended at any time without notice to or the consent of any owner of the Outstanding Parity Debt, solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the City contained in this Master Ordinance, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the City in this Master Ordinance;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Master Ordinance, upon receipt by the City of an approving Opinion of Counsel, that the same is needed for such purpose, and will more clearly express the intent of this Master Ordinance;

(iii) To supplement the Security for the Outstanding Parity Debt in accordance with the Constitutional Provision and State law;

(iv) To make such other changes in the provisions hereof as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of Outstanding Parity Debt;

(v) To make any changes or amendments requested by the State Attorney General's Office as a condition to the approval of a series or issue of Parity Debt, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Parity Debt; or

(vi) To make any changes or amendments requested by any bond rating agency then rating or requested to rate Parity Debt, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the Outstanding Parity Debt.

(b) Amendments With Consent. Subject to the provisions of Section 13(g) of this Master Ordinance, the owners of Outstanding Parity Debt aggregating a majority in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in subsection (a) of this Section, to this Master Ordinance which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Parity Debt (unless such amendment shall be determined by the City to affect only the owners of certain Parity Debt, in which case such amendment shall not be made without the approval of the owners so affected), the amendment of the terms and conditions in this Master Ordinance so as to:

- (i) Grant to the owners of any Outstanding Parity Debt a priority over the owners of any other Outstanding Parity Debt; or
- (ii) Materially adversely affect the rights of the owners of less than all Parity Debt then Outstanding; or
- (iii) Change the minimum percentage of the Outstanding Principal Amount necessary for consent to such amendment; or
- (iv) Make any change in the maturity of any Outstanding Parity Debt; or
- (v) Reduce the rate of interest borne by any Outstanding Parity Debt; or
- (vi) Reduce the amount of the principal payable on any Outstanding Parity Debt; or
- (vii) Modify the terms of payment of the amounts required to meet any financial obligations of the City relating to the Financing Program, including payments due on or with respect to the payment of any Outstanding Parity Debt, or impose any conditions with respect to such; or
- (viii) Amend this subsection (b) of this Section.

(c) Notice. If at any time the City shall desire to amend this Master Ordinance pursuant to subsection (b) of this Section, the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in the City of New York, New York (including, but not limited to, The Bond Buyer or The Wall Street Journal) or in the State (including, but not limited to, The Texas Bond Reporter), once during each calendar week for at least two successive calendar weeks or disseminated by electronic means customarily used to convey notices of redemption. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each Registrar for any Parity Debt for inspection by all owners of Parity Debt. Such publication is not required, however, if the City gives or causes to be given such notice in writing, by certified mail, to each owner of Parity Debt. A copy of such notice shall be provided in writing to each national rating agency maintaining a rating on any Parity Debt.

(d) Receipt of Consents. With respect to any amendment undertaken pursuant to subsection (b) above, whenever at any time the City shall receive an instrument or instruments executed by all of the owners or the owners of a majority in Outstanding Principal Amount, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the City may adopt the amendatory resolution in substantially the same form.

(e) Effect of Amendments. Upon the adoption by the City of any resolution to amend this Master Ordinance pursuant to the provisions of this Section, this Master Ordinance shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the City and all the owners of then Outstanding Parity Debt and all future Parity Debt shall thereafter be determined, exercised, and enforced under this Master Ordinance, as amended.

Excerpted Provisions of the First Supplement

Section 1.02. ESTABLISHMENT OF FINANCING PROGRAM AND ISSUANCE OF PARITY DEBT. (a) First Supplement. By adoption of the Master Ordinance, the City has established the City of San Marcos, Texas Utility System Revenue Financing Program for the purpose of enabling the City to provide for the financing of utility system projects authorized by the Enabling Act and any other applicable provisions of State law pursuant to which, subject to the lien of Prior Obligations, the City may issue and enter into obligations, including bonds and other types of obligations, secured by and payable from a pledge of and lien on all or part of the Security. This First Supplement provides for the authorization, form, characteristics, provisions of

payment and redemption, and security of the Bonds. This First Supplement is subject to the terms of the Master Ordinance and the terms of the Master Ordinance are incorporated herein by reference and as such are made a part hereof for all purposes.

(b) **Bonds Are Parity Debt.** As required by Section 7 of the Master Ordinance governing the issuance of Parity Debt such as the Bonds, the City hereby finds that, upon the issuance of the Bonds, the Security will be sufficient to meet the financial obligations relating to the Financing Program, including Security in amounts sufficient to satisfy the Annual Debt Service Requirements of the Financing Program. The Bonds are hereby declared to be Parity Debt under the Master Ordinance.

Section 1.03. FIRST SUPPLEMENT TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, this First Supplement shall be deemed to be and shall constitute a contract between the City and the Owners from time to time of the Bonds, and the pledge made in this First Supplement by the City and the covenants and agreements set forth in this First Supplement to be performed by the City shall be for the equal and proportionate benefit, security, and protection of all Owners from time to time of the Bonds, without preference, priority, or distinction as to security or otherwise of any of the Bonds authorized hereunder over any of the other Bonds by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this First Supplement and the Master Ordinance.

Section 1.04. LIMITATION OF BENEFITS WITH RESPECT TO THIS FIRST SUPPLEMENT. With the exception of the rights or benefits herein expressly conferred, nothing expressed or contained herein or implied from the provisions of this First Supplement or the Bonds is intended or should be construed to confer upon or give to any person other than the City, the Owners, and the Paying Agent/Registrar, any legal or equitable right, remedy, or claim under or by reason of or in respect to this First Supplement or any covenant, condition, stipulation, promise, agreement, or provision herein contained. This First Supplement and all of the covenants, conditions, stipulations, promises, agreements, and provisions hereof are intended to be and shall be for and inure to the sole and exclusive benefit of the City, the Owners, and the Paying Agent/Registrar as herein and therein provided.

Section 4.01. PAYMENTS. (a) **Accrued and Capitalized Interest.** Immediately after the delivery of the Bonds the City shall deposit any accrued interest and any sale proceeds to be used to pay capitalized interest received from the sale and delivery of such Bonds to the credit of the Interest and Sinking Account to be held to pay interest on such Bonds.

(b) **Debt Service Payments.** Semiannually on or before each principal or interest payment date while any of the Bonds are outstanding and unpaid, commencing on the first interest payment date for the Bonds, the City shall make available from the Interest and Sinking Account to the Paying Agent/Registrar, money sufficient to pay such interest on and such principal of the Bonds as will accrue or mature, or be subject to mandatory redemption prior to maturity, on such principal, redemption, or interest payment date. The Paying Agent/Registrar shall cancel all paid Bonds and shall furnish the City with an appropriate certificate of cancellation.

Section 4.02. REBATE ACCOUNT. A separate and special account to be known as the Rebate Account is hereby established by the City pursuant to the requirements of Section 148(f) of the Code and the tax covenants of the City contained in Section 5.01 of this First Supplement for the benefit of the United States of America and the City, as their interests may appear pursuant to this First Supplement. Such amounts shall be deposited therein and withdrawn therefrom as is necessary to comply with the provisions of Section 5.01. Any moneys held within the Rebate Account shall not constitute Security under the Master Ordinance.

Section 4.03. RESERVE ACCOUNT. (a) To accumulate and maintain a reserve for the payment of the Bonds equal to the Average Annual Debt Service Requirements of the Bonds (calculated by the City at the beginning of each Fiscal Year) (the "Required Reserve Amount"), the Reserve Account has been established and shall be maintained by the City. Earnings and income derived from the investment of amounts held for the credit of the Reserve Account shall be retained in the Reserve Account until the Reserve Account contains the Required Reserve Amount; thereafter, such earnings and income shall be deposited to the credit of the System Account. The City shall deposit and credit to the Reserve Account amounts required to maintain the balance in the Reserve Account in an amount equal to the Required Reserve Amount by making monthly deposits and credits in amounts equal to not less than 1/60th of the Required Reserve Amount or by the deposit of a Reserve Account Obligation. There shall be deposited into the Reserve Account any Reserve Account Obligations so designated by the City. All funds, investments and Reserve Account Obligations on deposit and credited to the Reserve Account shall be used solely for (i) the payment of the principal of and interest on the Bonds, when and to the extent other funds available for such purposes are insufficient, (ii) to make Reserve Account Obligation Payments and (iii) to retire the last Stated Maturity or Stated Maturities of or interest on the Bonds. The Reserve Account is solely for the benefit of this series of Bonds and is not available to pay Annual Debt Service Requirements on any other Parity Debt.

(b) When and for so long as the cash, investments and Reserve Account Obligations in the Reserve Account equal the Required Reserve Amount, no deposits need be made to the credit of the Reserve Account; but, if and when the Reserve Account at any time contains less than the Required Reserve Amount, the City covenants and agrees that the City shall cure the deficiency in the Reserve Account by resuming the deposits to such Account from the Pledged Revenues by monthly deposits and credits in amounts equal to not less than 1/60th of the Required Reserve Amount with any such deficiency payments being made on or before each interest payment date until the Required Reserve Amount has been fully restored; provided, however, that no such deposits

shall be made into the Reserve Account during any six month period beginning on an interest payment date until there has been deposited into the Interest and Sinking Account the full amount required to be deposited therein by the next following semi-annual payment date, as the case may be. In addition, in the event that a portion of the Required Reserve Amount is represented by a Reserve Account Obligation, the Required Reserve Amount shall be restored as soon as possible from monthly deposits of Pledged Revenues on deposit in the System Account, but subject to making the full deposits and credits to the Interest and Sinking Account required to be made by the next following interest payment date, as the case may be. The City further covenants and agrees that, subject only to the prior deposits and credits to be made to the Interest and Sinking Account, the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve Amount, including by paying Reserve Account Obligation Payments when due, and to cure any deficiency in such amounts as required by the terms of this First Supplement.

During such time as the Reserve Account contains the Required Reserve Amount, the obligation to maintain the Required Reserve Amount has been suspended pursuant to subsection (d) below or any cash is replaced with a Reserve Account Obligation pursuant to subsection (c) below, the City may, at its option, withdraw all surplus funds in the Reserve Account and deposit such surplus in the Interest and Sinking Account or otherwise use such amount in any manner permitted by law unless such surplus is required to be rebated in which case such event shall be deposited into the Rebate Account.

(c) A Reserve Account Obligation issued in an amount equal to all or part of the Required Reserve Amount for the Bonds may be used in lieu of depositing cash into the Reserve Account. In addition, a Reserve Account Obligation may be substituted for monies and investments in the Reserve Account if the substitution of the Reserve Account Obligation will not, in and of itself, cause any ratings then assigned to the Bonds by any rating agency to be lowered and the ordinance authorizing the substitution of the Reserve Account Obligation for all or part of the Required Reserve Amount contains a finding that such substitution is cost effective.

(d) Notwithstanding anything to the contrary contained herein, the requirement set forth in subsection (a) above to maintain the Required Reserve Amount in the Reserve Account shall be suspended for such time as the Net Revenues for each Fiscal Year are equal to at least 1.30 times the average Annual Debt Service Requirements. In the event that the Net Revenues for any Fiscal Year are less than 1.30 times the average Annual Debt Service Requirements, the City will be required to commence making Required Reserve Account Deposits, as provided in subsection (b) above, and to continue such Required Reserve Account Deposits until the earlier of (i) such time as the Reserve Account contains the Required Reserve Amount or (ii) the Net Revenues in each of two consecutive years have been equal to not less than 1.30 times the average Annual Debt Service Requirements. Notwithstanding the provisions of Section 4.03(a) of this section, if the City commences deposits in the Reserve Account and later is authorized to suspend payments into the fund under this section any funds so accumulated may, at the discretion of the City: (i) remain in the Reserve Account or (ii) be used for any lawful purpose including additional projects or to pay debt service on the Bonds.

(e) A Reserve Account Obligation permitted under (a) above, must be in the form of a surety bond or insurance policy meeting the requirements described below.

(1) (i) A surety bond or insurance policy issued to the Paying Agent/Registrar, as agent of the Holders, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the Bonds (a "municipal bond insurer") if the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa," respectively, by S&P and Moody's, or (ii) a surety bond or insurance policy issued to the Paying Agent/Registrar, as agent of the Holders, by an entity other than a municipal bond insurer, if the form and substance of such instrument and the issuer thereof shall be approved in writing by each Bond Insurer of record.

(2) The obligation to reimburse the issuer of a Reserve Account Obligation for any claims or draws upon such Reserve Account Obligation in accordance with its terms, including expenses incurred in connection with such claims or draws, to the extent permitted by law, (a Reserve Account Obligation Payment) shall be made from the deposits made to the Reserve Account as provided in this Section. The Reserve Account Obligation shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Account Obligation to reimbursement will be subordinated to the cash replenishment of the Reserve Account to an amount equal to the difference between the full original amount available under the Reserve Account Obligation and the amount then available for further draws or claims. In the event (a) the issuer of a Reserve Account Obligation becomes insolvent, or (b) the issuer of a Reserve Account Obligation defaults in its payment obligations thereunder, or (c) the claims paying ability of the issuer of the insurance policy or surety bond falls below "AAA" or "Aaa," by S&P and Moody's, respectively, the obligation to reimburse the issuer of the Reserve Account Obligation shall be subordinated to the cash replenishment of the Reserve Account.

(3) In the event (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated, or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below "AAA" or "Aaa," by S&P and Moody's, respectively, the City shall either (i) deposit into the Reserve Account, in accordance with this Section, an amount sufficient to cause the cash or investments credited to the Reserve Account to accumulate to the Required Reserve Amount, or (ii) replace such instrument with a surety bond or insurance policy meeting the requirements of 1 and 2 above, within six months of such occurrence.

(4) The Paying Agent/Registrar shall ascertain the necessity for a claim or draw upon any Reserve Account Obligation and provide notice to the issuer of the Reserve Account Obligation in accordance with its terms not later than three days (or such appropriate time period as will, when combined with the timing of required payment under the Reserve Account Obligation, ensure payment under the Reserve Account Obligation on or before the interest payment date) prior to each date upon which the principal of or interest on the Parity Obligations will be due.

It is recognized that a Reserve Account Obligation may be issued which is payable only with respect to a part of the Bonds with the remainder of the Required Reserve Amount being satisfied by monies and investments and in that case any draws upon the Reserve Account will have to be made on a pro-rata basis. Therefore, (i) draws upon one or more such Reserve Account Obligations shall be made on a pro-rata basis with cash and investments available in the Reserve Account and (ii) deposits and credits to the Reserve Account to restore it to the Required Reserve Amount shall be utilized on a pro-rata basis to pay Reserve Account Obligation Payments to reimburse the issuers of the Reserve Account Obligations, thus restoring that part of the Required Reserve Amount, and to restore with cash and investments the balance of the Required Reserve Amount.

(f) In connection with the issuance of the Bonds, the City is satisfying the Required Reserve Amount by meeting the standard described in Section 4.03(d) above which provides that the Required Reserve Amount in the Reserve Account shall be suspended for such time as the Net Revenues for each Fiscal Year are equal to at least 1.30 times the average Annual Debt Service Requirements. In the event that the Net Revenues for any Fiscal Year are less than 1.30 times the average Annual Debt Service Requirements, the City will fund the Reserve Account according to the provisions herein.

(f) Consent Irrevocable. Any consent given by any owner of Parity Debt pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section or the date of such consent, whichever is later, and shall be conclusive and binding upon all future owners of the same Parity Debt during such period. Such consent may be revoked at any time after the applicable period of time that a consent is irrevocable by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Registrar for such Parity Debt and the City, but such revocation shall not be effective if the owners of the requisite amount of the Outstanding Principal Amount, prior to the attempted revocation, consented to and approved the amendment. Notwithstanding the foregoing, any consent given by an owner at the time of and in connection with the initial sale or incurrence of an issue or series Parity Debt by the City shall be irrevocable.

(g) Ownership. For the purpose of this Section, the City may determine in each Supplement the treatment of who may act as an "owner," "Holder," or "Bondholder" and other matters relating to all Parity Debt, including designating any municipal bond insurance company providing an insurance policy on the payment of Parity Debt or the provider under a Credit Agreement as the sole owner of such Parity Debt.

(h) Amendments of Supplements. Each Supplement shall contain provisions governing the ability of the City to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of Outstanding Parity Debt under such Supplement a priority over the owners of any other Outstanding Parity Debt.

Section 6.01. AMENDMENTS OR MODIFICATIONS WITHOUT CONSENT OF OWNERS OF BONDS.

Subject to the provisions of the Master Ordinance, this First Supplement and the rights and obligations of the City and of the Owners of the Outstanding Bonds may be modified or amended at any time without notice to or the consent of any Owner of the Bonds or any other Parity Debt, solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the City contained in this First Supplement, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the City in this First Supplement;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this First Supplement, upon receipt by the City of an Opinion of Counsel, that the same is needed for such purpose, and will more clearly express the intent of this First Supplement;

(iii) To supplement the Security for the Bonds;

(iv) To make such other changes in the provisions hereof, as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the Owners of the Outstanding Bonds;

(v) To make any changes or amendments requested by the State Attorney General's Office as a condition to the approval of the Bonds, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the Owners of the Outstanding Bonds; or

(vi) To make any changes or amendments requested by any bond rating agency then rating or requested to rate the Bonds, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the Owners of the Outstanding Bonds.

Section 6.02. AMENDMENTS OR MODIFICATIONS WITH CONSENT OF OWNERS OF BONDS. (a)

Amendments. Subject to the other provisions of this First Supplement, the Master Ordinance and the consent of the Bond Insurer, the Owners of Outstanding Bonds aggregating a majority in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in Section 6.01 hereof, to this First Supplement that may be deemed necessary or desirable by the City, provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the Owners of all of the Outstanding Bonds, the amendment of the terms and conditions in this First Supplement or in the Bonds so as to:

- (i) Make any change in the maturity of the Outstanding Bonds;
- (ii) Reduce the rate of interest borne by Outstanding Bonds;
- (iii) Reduce the amount of the principal payable on Outstanding Bonds;
- (iv) Modify the terms of payment of principal of or interest on the Outstanding Bonds, or impose any conditions with respect to such payment;
- (v) Affect the rights of the Owners of less than all Bonds then Outstanding; or
- (vi) Change the minimum percentage of the Outstanding Principal Amount of Bonds necessary for consent to such amendment.

(b) Notice. If at any time the City shall desire to amend this First Supplement pursuant to Subsection (a), the City shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in the City of New York, New York (including, but not limited to, The Bond Buyer or The Wall Street Journal) or in the State (including, but not limited to, The Texas Bond Reporter), once during each calendar week for at least two successive calendar weeks or disseminated by electronic means customarily used to convey notices of redemption. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Paying Agent/Registrar for inspection by all Owners of Bonds. Such publication is not required, however, if the City gives or causes to be given such notice in writing to each Owner of Bonds. A copy of such notice shall be provided in writing to each rating agency maintaining a rating on the Bonds and to the Bond Insurer.

(c) Receipt of Consents. Whenever at any time the City shall receive an instrument or instruments executed by all of the Owners or the Owners of Outstanding Bonds aggregating a majority in Outstanding Principal Amount, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the City may adopt the amendatory resolution in substantially the same form.

(d) Consent Irrevocable. Any consent given by any Owner pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future Owners of the same Bond during such period. Such consent may be revoked at any time after six (6) months from the date of the first publication of such notice by the Owner who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent/Registrar and the City, but such revocation shall not be effective if the Owners of Outstanding Bonds aggregating a majority in Outstanding Principal Amount prior to the attempted revocation consented to and approved the amendment. Notwithstanding the foregoing, any consent given at the time of and in connection with the initial purchase of Bonds shall be irrevocable.

(e) Ownership. For the purpose of this Section, the ownership and other matters relating to all Bonds registered as to ownership shall be determined from the Security Register kept by the Paying Agent/Registrar therefor. The Paying Agent/Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Paying Agent/Registrar.

Section 6.03. EFFECT OF AMENDMENTS. Upon the adoption by the City of any resolution to amend this First Supplement pursuant to the provisions of this Article, this First Supplement shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the City and all the Owners of Outstanding Bonds shall thereafter be determined, exercised, and enforced under the Master Ordinance and this First Supplement, as amended.

Section 7.01. DISPOSITION OF BOND PROCEEDS AND OTHER FUNDS. Proceeds from the sale of the Bonds shall, promptly upon receipt thereof, be applied by the Chief Financial Officer as follows:

- (i) any underwriting discount or fees and any Credit Agreement fees for the Bonds may be retained by and/or wired directly to such parties;
- (ii) any accrued interest and sale proceeds to be used to pay capitalized interest for the Bonds, if any, shall be deposited as provided in Section 4.01;
- (iii) an amount sufficient to pay the remaining costs of issuance of the Bonds and the cost of acquiring, purchasing, constructing, improving, enlarging, and equipping the improvements being financed with the proceeds of the Bonds shall be deposited in the Bond Proceeds Account to be used for such purposes.

Any sale proceeds of the Bonds remaining after making all deposits and payments provided for above shall be deposited into the Interest and Sinking Account and applied to the payment of principal of and interest on the Bonds.

Section 7.03. DEFEASANCE OF BONDS. (a) Deemed Paid. The principal of and/or the interest and redemption premium, if any, on any Bonds shall be deemed to be Defeased Debt within the meaning of the Master Ordinance, except to the extent provided in subsections (c) and (e) of this Section, when payment of the principal of such Bonds, plus interest thereon to the due date or dates (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption or the establishment of irrevocable provisions for the giving of such notice) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such Bonds or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the City with the Paying Agent/Registrar for such Bonds or an eligible trust company or commercial bank for the payment of its services until all Defeased Debt shall have become due and payable or (3) any combination of (1) and (2). At such time as Bonds shall be deemed to be a Defeased Debt hereunder, as aforesaid, such Bonds and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of the Security as provided in the Master Ordinance and this First Supplement, and such principal and interest shall be payable solely from such money or Defeasance Securities.

(b) Investments. The deposit under clause (ii) of subsection (a) of this Section shall be deemed a payment of Bonds as aforesaid when proper notice of redemption of such Bonds shall have been given or upon the establishment of irrevocable provisions for the giving of such notice, in accordance with the Master Ordinance and this First Supplement. Any money so deposited with the Paying Agent/Registrar for such Bonds or an eligible trust company or commercial bank as provided in this Section may at the discretion of the City also be invested in Defeasance Securities, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Defeasance Securities in possession of the Paying Agent/Registrar for such Bonds or an eligible trust company or commercial bank pursuant to this Section which is not required for the payment of such Bonds and premium, if any, and interest thereon with respect to which such money has been so deposited, shall be remitted to the City for deposit to the General Account of the System Account.

(c) Continuing Duty of Paying Agent and Registrar. Notwithstanding any provision of any other Section of this First Supplement which may be contrary to the provisions of this Section, all money or Defeasance Securities set aside and held in trust pursuant to the provisions of this Section for the payment of principal of Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Debt shall have become due and payable, the Paying Agent/Registrar for such Defeased Debt shall perform the services of Paying Agent/Registrar for such Defeased Debt the same as if they had not been defeased, and the City shall make proper arrangements to provide and pay for such services as required by this First Supplement.

(d) Amendment of this Section. Notwithstanding anything elsewhere in this First Supplement, if money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar for such Bonds or an eligible trust company or commercial bank pursuant to this Section for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the provisions of this Section shall be made without the consent of the registered owner of each Bonds affected thereby.

(e) Retention of Rights. Notwithstanding the provisions of subsection (a) of this Section, to the extent that, upon the defeasance of any Defeased Debt to be paid at its maturity, the City retains the right under State law to later call that Defeased Debt for redemption in accordance with the provisions of this First Supplemental Ordinance relating to the Defeased Debt, the City may call such Defeased Debt for redemption upon complying with the provisions of State law and upon the satisfaction of the provisions of subsection (a) of this Section with respect to such Defeased Debt as though it was being defeased at the time of the exercise of

the option to redeem the Defeased Debt and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Debt.

Section 7.07. EFFECT OF SATURDAYS, SUNDAYS, AND LEGAL HOLIDAYS. Whenever this First Supplement requires any action to be taken on a Saturday, Sunday, or legal holiday, such action shall be taken on the first business day occurring thereafter. Whenever in this First Supplement the time within which any action is required to be taken or within which any right will lapse or expire shall terminate on a Saturday, Sunday, or legal holiday, such time shall continue to run until midnight on the next succeeding business day.

Section 7.11. DEFAULT AND REMEDIES. (a) Events of Default. Each of the following occurrences or events for the purpose of this First Supplement is hereby declared to be an Event of Default:

(i) the failure to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable; or

(ii) default in the performance or observance of any other covenant, agreement or obligation of the City, the failure to perform which materially, adversely affects the rights of the Registered Owners of the Bonds, including, but not limited to, their prospect or ability to be repaid in accordance with this First Supplement, and the continuation thereof for a period of 60 days after notice of such default is given by any Registered Owner to the City.

(b) Remedies for Default.

(i) Upon the happening of any Event of Default, then and in every case, any Registered Owner or an authorized representative thereof, including, but not limited to, a trustee or trustees therefor, may proceed against the City, or any official, officer or employee of the City in their official capacity, for the purpose of protecting and enforcing the rights of the Registered Owners under this First Supplement, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Registered Owners hereunder or any combination of such remedies.

(ii) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Registered Owners of Bonds then outstanding.

(c) Remedies Not Exclusive.

(i) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this First Supplement, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under this First Supplement.

(ii) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

(iii) By accepting the delivery of a Bond authorized under this First Supplement, such Registered Owner agrees that the certifications required to effectuate any covenants or representations contained in this First Supplement do not and shall never constitute or give rise to a personal or pecuniary liability or charge against the officers, employees or trustees of the City or the City Council.

(iv) None of the members of the City Council, nor any other official or officer, agent, or employee of the City, shall be charged personally by the Registered Owners with any liability, or be held personally liable to the Registered Owners under any term or provision of this First Supplement, or because of any Event of Default or alleged Event of Default under this First Supplement.

Section 7.13. INDIVIDUALS NOT LIABLE. All covenants, stipulations, obligations, and agreements of the City contained in this First Supplement shall be deemed to be covenants, stipulations, obligations, and agreements of the Financing Program, the Utility System and the City to the full extent authorized or permitted by State law. No covenant, stipulation, obligation, or agreement herein contained shall be deemed to be a covenant, stipulation, obligation, or agreement of any member of the City Council or agent or employee of the City in his or her individual capacity and neither the members of the City Council, nor any officer, employee, or agent of the City shall be liable personally on the Bonds when issued, or be subject to any personal liability or accountability by reason of the issuance thereof.

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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

CITY OF SAN MARCOS, TEXAS
WATERWORKS AND WASTEWATER SYSTEM REVENUE BONDS, SERIES 2025
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$30,450,000*

AS BOND COUNSEL FOR THE CITY OF SAN MARCOS, TEXAS (the "City") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds and in the "Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program" adopted by the City Council on April 15, 2025 and the "First Supplemental Ordinance to the Master Ordinance Establishing the City of San Marcos, Texas Utility System Revenue Financing Program" also adopted by the City Council on April 15, 2025, authorizing the issuance of the Bonds (collectively, the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, certified copies of the proceedings of the City, and other pertinent documents authorizing and relating to the issuance of the Bonds, including the executed bonds (Bond Number R-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the City relating to governmental immunity, bankruptcy, reorganization and other similar matters now or hereinafter enacted relating to affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and legally binding obligations of the City payable together with, but subordinate to, any Prior Obligations and together with all other outstanding Parity Debt, from and secured by a lien on and pledge of the "Net Revenues" of the "System" (which is generally described as the City's combined waterworks and sewer system), all as provided in the Ordinance.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance by the City with certain

* Preliminary, subject to change.

covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of a result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the City, or the disclosure thereof in connection with the sale of the Bonds and have not assumed any responsibility

with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of the City and sufficiency of the revenues pledged by the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,