

PRELIMINARY OFFICIAL STATEMENT

Dated: June 18, 2026

In the opinion of McCall, Parkhurst & Horton L.L.P., 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.

CITY OF MARSHALL, TEXAS

(A municipal corporation and political subdivision of the State of Texas located in Harrison County)

\$33,365,000*

Combination Tax and Revenue Certificates of Obligation, Series 2026

Dated Date: July 15, 2026

Due: August 15, as shown on page ii

Interest to accrue from Date of Delivery (as defined below)

The City of Marshall, Texas (the "City" or "Issuer") \$33,365,000* Combination Tax and Revenue Certificates of Obligation, Series 2026 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended, and an ordinance to be adopted by the City Council on June 25, 2026 (the "Ordinance"). (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct obligations of the Issuer payable from an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law, and are further secured by and payable from a pledge of the surplus net revenues, derived from the operation of the City's waterworks and sewer system (the "System") as provided in the Ordinance. (See "THE CERTIFICATES - Security for Payment" herein.)

Interest on the Certificates will accrue from the Date of Delivery and will be payable February 15 and August 15 of each year, commencing February 15, 2027, until maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully-registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Certificates, within a stated maturity, will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOK Financial Corporate Trust, Dallas, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participating members, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for (i) water and wastewater system repairs, upgrades, replacements and improvements of transmission lines, disinfection systems and pump stations; and (ii) paying legal, fiscal, engineering, architectural and other professional services rendered in connection therewith. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2036, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (See "THE CERTIFICATES - Redemption" herein.)

The City has made an application for qualification for the issuance of a municipal bond insurance policy in conjunction with the issuance of the Certificates. See "BOND INSURANCE" and "BOND INSURANCE RISKS" herein.

MATURITY SCHEDULE

(See Page ii)

The Certificates are offered for delivery when, as and if received by the Underwriters listed below (collectively referred to herein as the "Underwriters"), subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Jackson Walker LLP, Houston, Texas. It is expected that the Certificates will be available for delivery through DTC on or about July 21, 2026 (the "Date of Delivery").

PNC CAPITAL MARKETS LLC

RAYMOND JAMES

*Preliminary; subject to change.

\$33,365,000*
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2026
MATURITY SCHEDULE*
(Due August 15)
Base CUSIP Number: 572665 ⁽¹⁾

Stated Maturity (August 15)	Principal Amount *	Interest Rate (%)	Initial Yield (%)	CUSIP Suffix⁽¹⁾
2027	\$ 370,000			
2028	530,000			
2029	555,000			
2030	585,000			
2031	610,000			
2032	645,000			
2033	680,000			
2034	715,000			
2035	745,000			
2036 ⁽²⁾	785,000			
2037 ⁽²⁾	820,000			
2038 ⁽²⁾	865,000			
2039 ⁽²⁾	905,000			
2040 ⁽²⁾	950,000			
2041 ⁽²⁾	1,000,000			
2042 ⁽²⁾	1,045,000			
2043 ⁽²⁾	1,100,000			
2044 ⁽²⁾	1,155,000			
2045 ⁽²⁾	1,210,000			
2046 ⁽²⁾	1,270,000			
2047 ⁽²⁾	1,340,000			
2048 ⁽²⁾	1,405,000			
2049 ⁽²⁾	1,475,000			
2050 ⁽²⁾	1,550,000			
2051 ⁽²⁾	1,625,000			
2052 ⁽²⁾	1,705,000			
2053 ⁽²⁾	1,795,000			
2054 ⁽²⁾	1,880,000			
2055 ⁽²⁾	1,975,000			
2056 ⁽²⁾	2,075,000			

(Interest to accrue from the Date of Delivery)

⁽¹⁾ CUSIP numbers are included solely for the convenience of the owner of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the City or the Municipal Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2036, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. (See "THE CERTIFICATES - Redemption" herein.)

*Preliminary; subject to change.

**CITY OF MARSHALL, TEXAS
401 S Alamo Blvd.
Marshall, Texas 75670
(903) 935-4421
ELECTED OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>First Elected</u>	<u>Term Expires</u>	<u>Occupation</u>
Amy Ware	Mayor	2019	May 2028	Business Manager
Amanda Abraham	Mayor Pro-Tem	2020	May 2030	Attorney
Risa Jordan - Anderson	Council Member	2024	May 2028	Retired
Leo Morris	Council Member	2020	May 2028	Retired
Dathaniel Campbell	Council Member	2024	May 2028	Pastor
Reba Godfrey	Council Member	2022	May 2030	Retired
Micah Fenton	Council Member	2020	May 2030	Contract Consultant

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Years of Service in Current Position</u>	<u>Total Years of Service</u>
Greg Smith	City Manager	less than year ⁽¹⁾	23 years
Nikki Smith	City Secretary	6 years	11 years
Lisa Pepi	Finance Director	less than 1 year	26 years

CONSULTANTS AND ADVISORS

Bond Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Municipal Advisor	Hilltop Securities, Inc. Dallas, Texas
Certified Public Accountants	Patillo, Brown & Hill, L.L.P. Waco, Texas

For Additional Information Please Contact:

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michael.martin@hilltopsecurities.com

⁽¹⁾ Mr. Smith began his tenure as City Manager on June 1, 2026. Mr. Smith has 23 years of experience in public administration.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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

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

NONE OF THE CITY, ITS FINANCIAL ADVISOR OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS PRELIMINARY OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

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

The prices and other terms respecting the offering and sale of the Certificates may be changed from time to time by the Underwriters after such Certificates are released for sale, and the Certificates may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Certificates into investment accounts.

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this preliminary official statement for purposes of, and as that term is defined in, the Rule.

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The cover page, subsequent pages hereof and appendices attached hereto, are part of this Preliminary Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The City of Marshall, Texas (the “City” or “Issuer”), is located in Harrison County. The City is a political subdivision of the State of Texas (the “State”) and a Home Rule municipal corporation organized and existing under the laws of the State and its Home Rule Charter.
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOK Financial Corporate Trust, Dallas, Texas.
Security	The Certificates constitute direct obligations of the Issuer payable from an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law, and are further secured by and payable from a pledge of the surplus net revenues, derived from the operation of the City’s combined Waterworks and Sewer System (the “System”). (See “THE CERTIFICATES – Security for Payment” and “AD VALOREM TAX PROCEDURES – Debt Tax Rate Limitations” herein).
Redemption Provisions	The Certificates maturing on and after August 15, 2036, are subject to redemption prior to their stated maturity at the option of the City on August 15, 2035, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof within a maturity, at the redemption price of par plus accrued interest. (See “THE CERTIFICATES – Redemption Provisions” herein.)
Tax Exemption	In the opinion of McCall, Parkhurst & Horton L.L.P., 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. See “TAX MATTERS” herein.
Use of Proceeds	Proceeds from the sale of the Certificates will be used for (i) water and wastewater system repairs, upgrades, replacements and improvements of transmission lines, disinfection systems and pump stations; and (ii) paying legal, fiscal, engineering, architectural and other professional services rendered in connection therewith. (See “THE CERTIFICATES – Use of Certificate Proceeds” and “Sources and Uses of Funds” herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company (“DTC”), New York, New York described herein. No physical delivery of the Certificates will be made to the beneficial owners of the Certificates. Such Book-Entry-Only System may affect the method and timing of payments on the Certificates and the manner the Certificates may be transferred. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)
Ratings	S&P Global Ratings (“S&P”) has assigned its underlying rating of “_____”, to the Certificates. An explanation of the significance of such ratings may be obtained from S&P. (See “OTHER PERTINENT INFORMATION – Ratings” herein.)
Payment Record	The City has not defaulted in repayment of any of its bonded indebtedness.
Delivery	When issued, it is anticipated the Certificates will be available for delivery through DTC on or about July 21, 2026.
Legality	Delivery of the Certificates is subject to approval by the Attorney General of the State of Texas and the rendering of an opinion by McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas in substantially the form attached hereto as Appendix C.

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Marshall, Texas (the "City" or "Issuer"), of its \$33,365,000* Combination Tax and Revenue Certificates of Obligation, Series 2026 (the "Certificates").

The Issuer is a political subdivision and a Home Rule municipality of the State of Texas (the "State") and operates under the statutes and the Constitution of the State of Texas and its Home Rule Charter. The Certificates are being issued pursuant to the laws of the State of Texas including particularly Texas Local Government Code, Subchapter C, Chapter 271, as amended and an ordinance to be adopted by the City Council on June 25, 2026 (the "Ordinance"). (See "THE CERTIFICATES - Authority for Issuance" herein.)

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Certificates and certain information about the Issuer and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** Copies of such documents may be obtained from the Issuer or the Municipal Advisor.

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

THE CERTIFICATES

General

The Certificates will be dated July 15, 2026 (the "Dated Date"). The Certificates are stated to mature on August 15 in the years and in the principal amounts set forth on page ii hereof. The Certificates shall bear interest from July 21, 2026* (the "Date of Delivery") on the unpaid principal amounts, and the amount of interest to be paid each payment period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Certificates will be payable on February 15 and August 15 of each year commencing February 15, 2027, until maturity or prior redemption. Interest on the Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar, initially BOK Financial Corporate Trust, Dallas, Texas, (the "Paying Agent/Registrar") at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Certificates will be paid to the registered owner at their stated maturity or upon prior redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Certificates, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. If the date for any payment on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the City where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Authority for Issuance

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

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for (i) water and wastewater system repairs, upgrades, replacements and improvements of transmission lines, disinfection systems and pump stations; and (ii) paying legal, fiscal, engineering, architectural and other professional services rendered in connection therewith.

Security for Payment

The Certificates constitute direct obligations of the Issuer payable from an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law, and are further secured by and payable from a pledge of the surplus net revenues, derived from the operation of the City's combined Waterworks and Sewer System (the "System"). (See "AD VALOREM TAX PROCEDURES" herein).

*Preliminary; subject to change.

Tax Rate Limitation

All taxable property within the City is subject to the assessment, levy, and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5 of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 taxable assessed valuation for all City purposes. Administratively, the Attorney General of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% tax collection rate.

Redemption

Optional Redemption: The Certificates maturing on and after August 15, 2036 are subject to redemption prior to their stated maturity at the option of the City on August 15, 2035, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption.

Notice of Redemption: At least 30 days prior to the date fixed for any such redemption, the Issuer shall cause a written notice of such redemption to be deposited in the United States mail, first class postage prepaid, addressed to each registered owner of a Certificate to be redeemed at the address shown on the registration books of the Paying Agent/Registrar on the business day of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED TO THE REGISTERED OWNERS WILL BE DEEMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE OF THE REGISTERED OWNERS FAIL TO RECEIVE SUCH NOTICE. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or portions thereof, which are to be so redeemed. If such notice of redemption is given and if due provisions for such payment is made, all as provided above, the Certificates or portions thereof shall be deemed to be redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar from the funds provided for such payment.

With respect to any optional redemption of the Certificates, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Certificates 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 Issuer, 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 Issuer will not redeem such Certificates, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Certificates have not been redeemed.

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the Issuer will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the beneficial owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Certificates for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Payment Record

The City has never defaulted in repayment of its bonded indebtedness.

Legality

The Certificates are offered when, as and if issued, subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The form of the legal opinion of Bond Counsel appears in Appendix C attached hereto.

Defeasance

The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on the Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent (or other financial institution permitted by applicable law), in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities that mature as to principal and interest

in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. Thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Certificates including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Certificates. In connection with the sale of the Certificates, an authorized City official may restrict such eligible securities as deemed appropriate. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment of the Certificates.

Upon such deposit as described above, the Certificates shall no longer be regarded to be outstanding or unpaid. Provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Certificates to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption, (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes. After firm banking and financial arrangements for the discharge and final payment of the Certificates have been made as described above, all rights of the City to initiate proceedings to take any other action amending the terms of the Certificates are extinguished.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described in clauses (a) – (c) in the first paragraph of this section above to be made with amounts deposited to defease the Certificates. Because the Ordinance specifically permits the use of other investments that may be permitted by future law, registered owners are 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 Texas 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 holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

The Ordinance further provides that the holders of the Certificates aggregating in principal amount 51% of the outstanding Certificates shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Certificates so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Certificates; (ii) reducing the rate of interest borne by any of the outstanding Certificates; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Certificates, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Certificates necessary for consent to such amendment.

Defaults and Remedies

The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of principal or interest on the Certificates when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set for in the Ordinance, the failure to perform which materially, adversely affects the rights of the registered owners of the Certificates, 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 registered owner, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates if there is no other available remedy at law to compel performance of the Certificates or Ordinance

and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

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

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 holders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and may be limited by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

Sources and Uses of Funds

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

<u>Sources of Funds</u>	<u>Amount</u>
Par Amount of Certificates:	
Net Premium:	
Total Sources of Funds	_____

<u>Uses of Funds</u>	
Deposit to Project Fund:	
Deposit to Debt Service Fund:	
Costs of Issuance:	
Underwriters' Discount:	
Total Uses of Funds	_____

BOND INSURANCE

The City has made an application for qualification for the issuance of a municipal bond insurance policy in conjunction with the issuance of the Certificates. See "BOND INSURANCE RISKS" herein.

BOND INSURANCE RISKS

If an insurance policy is purchased (the "Policy"), the following are risk factors relating to bond insurance.

Bond Insurance Risk Factors

In the event of default of the scheduled payment of principal of or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the provider of the Policy (the "Insurer") at such time and in such amounts as would have been due absent such prepayment by the City (unless the Insurer chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Certificates will not be subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE CERTIFICATES – Defaults and Remedies"). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Certificateholders. In the event the Insurer is unable to make payment of principal and interest as such

payments become due under the Policy, the Certificates are payable solely from ad valorem taxes levied, within the limits prescribed by law, as further described in "THE CERTIFICATES – Security for Payment ".

In the event the Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Certificates. If the Policy is acquired, the long-term ratings on the Certificates will be dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer's financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the ratings on the Certificates, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) of the Certificates (see "OTHER PERTINENT INFORMATION – Ratings"). The obligations of the Insurer under the Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the City, the City's Municipal Advisor or the Underwriters have made independent investigation into the claims-paying ability of any potential insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential insurer is or will be given.

Claims Paying Ability and Financial Strength of Municipal Bond Insurers

Rating agencies have, in the past, downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims-paying ability of any such bond insurer, particularly over the life of the Certificates.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOK Financial Corporate Trust, Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking institution, shall be an association or a corporation organized and doing business under the laws of the United States America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and shall be authorized by law to serve as a Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid.

In the event the Book-Entry-Only System should be discontinued, interest on the Certificates will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Certificates will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Certificates is a Saturday, Sunday, a legal holiday or a day when banking institutions in the City where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Certificates, principal, interest and redemption payments on the Certificates will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

Record Date

The record date ("Record Date") for interest payable to the registered owner of a Certificate on any interest payment date means the last calendar day of the month next preceding such interest payment date. (See "Special Record Date for Interest Payment" herein.)

Special Record Date for Interest Payment

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 Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date"), which shall be 15 days after the Special Record Date, shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Registration

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

Limitation on Transfer or Exchange of Certificates

The Paying Agent/Registrar is not required to transfer or exchange any Certificate during the period commencing with the close of business on any Record Date immediately preceding a principal or interest payment date for such Certificates and ending with the opening of business on the next following such principal or interest payment date.

Replacement Certificates

In the Ordinance, provision is made for the replacement of mutilated, destroyed, lost, or stolen Certificates upon surrender of the mutilated Certificates to the Paying Agent/Registrar, or the receipt of satisfactory evidence of destruction, loss, or theft, and the receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of certificated securities. 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 rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the Issuer or the Paying Agent/Registrar. Under such circumstances, and in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered to DTC Participants or the Beneficial Owners, as the case may be.

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, physical Certificates will be printed and delivered. (See "REGISTRATION, TRANSFER, AND EXCHANGE" herein.)

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer and the Underwriters believe to be reliable, but neither the Issuer nor the Underwriters take responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

INVESTMENT POLICIES

Under State law, the City is authorized to make investments meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) ("PFIA"), which currently include (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 is 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 the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of 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 FDIC or the NCUSIF, or their respective successors, or 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) above, clause (12) below, 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 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (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 in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the City and deposited with the City or a third party selected and approved by the City.

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 ten (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.

Political subdivisions such as the City are authorized to implement 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.

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, 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 PFI. 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 market 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 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.

Additional Provisions

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

Current Investments

As of April 30, 2026, the City had investments totaling \$42,271,775.56 (unaudited) held in savings and local government investment pools.

DEFINED BENEFIT PENSION PLAN

The City participates as one of 909 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS. For more detailed information concerning the benefits provided, contributions and net pension liability in connection with the Defined Benefit Pension Plan, see Appendix D, "Certificates to the Basic Financial Statements from the City's Annual Financial Report", Note VII, Page 44.

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Harrison Central Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

State Mandated Homestead Exemptions

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See Table 1 for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons 65 years of age or older and the disabled. Each taxing

unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. The governing body of a school district, municipality, or county that adopted an exemption described in (1), above, for the 2022 tax year may not reduce the amount of or repeal the exemption through December 31, 2027. See Table 1 for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

Local Option Freeze for the Elderly and Disabled

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. See Table 1 for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. Subject to voter approval at a Statewide election to be held on November 4, 2025 legislation passed by the State legislature and signed by the Governor during the 89th Regular Session (as defined herein) would provide a person with an exemption from taxation by a taxing unit of \$125,000 of the appraised value of tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit (or if the person leases such property regardless of where the property is located in the taxing unit).

Freeport Exemptions

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation: however, the Property Tax Code permits a taxing unit on a local option basis to tax Goods-in-Transit if the taxing unit takes official action after conducting a public hearing before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil natural gas or petroleum products and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory or a dealer's motor vehicle, boat or heavy equipment inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See Table 1 for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

Other Exempt Property

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

Tax Increment Financing Zones

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

Tax Abatement Agreements

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

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

Temporary Exemption for Qualified Property Damaged by a Disaster

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

City and Taxpayer Remedies

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller of Public Accounts (the "State Comptroller") and situated in a county with a population of 1.2 million or more may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board appointed by the chairman of the appraisal review board consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$61,349,201 for the 2025 calendar year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

Levy and Collection of Taxes

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

Public Hearing and Maintenance and Operations Tax Rate Limitations

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

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

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

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

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

“unused increment rate” means the cumulative difference between a city’s voter-approval tax rate and its actual tax rate for each of the three tax years prior to the current tax year divided by the current total.

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

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

A city must annually calculate its “voter-approval tax rate” and “no-new-revenue tax rate” (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year. Furthermore, beginning for tax year 2026, if the Texas Attorney General determines that a city did not have its audited annual financial statements on file with its city secretary before the 180th day after the city’s fiscal year end, the city may not adopt an ad valorem tax rate that exceeds the city’s no-new-revenue tax rate.

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

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

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

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

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

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

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

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and

the calculation of the various defined tax rates.

Debt Tax Rate Limitations

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 taxable assessed valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 taxable assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligations debt service, as calculated at the time of issuance based on a 90% collection factor. See Table 19 of Appendix A for further information on the City's bonded indebtedness authority.

The City's Rights in the Event of Tax Delinquencies

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

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

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

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless in either case an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF THE PROPERTY TAX CODE

The City grants an exemption of \$12,500 to the market value of the residence homestead of persons 65 years of age or older and the disabled.

The City has not granted an additional exemption of 20% of the market value of residence homesteads.

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

The City does not tax non-business personal property.

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

The City does grant the Article VIII, Section 1-j ("Freeport Property") exemption.

The City does not tax goods in transit.

The City does collect an additional one-half cent sales tax for reduction of ad valorem taxes. City's Total Local Sales Tax Rate is 2%. Breakdown: 50% to General Fund, 25% to Property Tax Reduction; 18.75% to EDC; 6.25% to Street Maintenance.

The City has adopted a tax abatement policy and has no active tax abatement agreements.

The City has one active TIRZ.

ADDITIONAL TAX COLLECTIONS

The City has adopted the Municipal Sales and Use Tax Act, Texas, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates.

The City also collects a sales and use tax of 1/2% for property tax reduction; a sales and use tax of 3/8 of 1% for the benefit of its economic development corporation; and a sales and use tax of 1/8 of 1% for street maintenance and repairs.

Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

The total local sales tax rate for the City is 8.25%.

TAX MATTERS

Opinion

On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Certificates will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See Appendix C - Form of Opinion of Bond Counsel.

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

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates 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 Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinion of Bond Counsel to the City is conditioned on compliance by the City with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

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. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such 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 Certificates.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the facilities financed or refinanced with the proceeds of the Certificates. 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 Certificates, 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 City as the taxpayer and the holders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Certificates may be less than the principal amount thereof or one or more periods for the payment of interest on the Certificates may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Certificates"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Certificates 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 Certificate 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 Certificate 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 Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such

Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Certificate is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Certificate for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (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 Certificate.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Certificates 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 Certificates 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 Certificates and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Certificates.

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 Certificates. 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 Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Certificates, 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 Certificates, 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 Certificates" to the extent such gain does not exceed the accrued market discount of such Certificates; 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 Certificates 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 Certificates will be sent to each registered holder and to the Internal Revenue Service. 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 foreign investors, 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 Certificates under Federal or state law and could affect the market price or marketability of the Certificates. 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 Underwriters of the Certificates should consult their own tax advisors regarding the foregoing matters.

LEGAL MATTERS

The City will furnish to the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel. A form of such opinion is attached hereto as Appendix C.

The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Certificates, will also be furnished. In connection with the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City. Though it may represent the Municipal Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in the issuance of the Certificates. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "THE CERTIFICATES" (except under the subcaptions "Payment Record", "Default and Remedies" and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE", "LEGAL MATTERS" (excluding the last two sentences of the second paragraph thereof), "TAX MATTERS", "OTHER PERTINENT INFORMATION- Registration and Qualification of Certificates for Sale" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Agreements"), and such firm is of the opinion that the information relating to the Certificates and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Certificates, such information conforms to the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent upon the sale and delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by its counsel, Jackson Walker LLP, Houston, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Certificates.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates unless it amends or repeals the agreement as described below. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available free of charge from the MSRB's Electronic Municipal Market Access ("EMMA") System at www.emma.msrb.org.

Annual Reports

The City will provide certain updated financial information and operating data to the MSRB on an annual basis via EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered Tables 1-4, 6, 7 and 11 in Appendix A (the "Updated Tables"), and the information in Appendix D. The City will update and provide the information in the Updated Tables within six months after the end of each fiscal year ending in and after 2026. If the City does not provide audited financial statements with such financial information and operating data, the City will provide audited financial statements when and if available, within 12 months after the end of each fiscal year ending in or after 2026. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will 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.

Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site identified below or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is December 31. Accordingly, it must provide the Updated Tables by the last day of June in each year and audited financial statements, or unaudited financial statement if audited financial statements are not yet available, must be provided by December 31 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. Neither the Certificates nor the Ordinance make any provision for debt service reserves, liquidity enhancement, credit enhancement, or a trustee though there is a paying agent/registrar. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in the immediately preceding clause (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. For the purposes of the above described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "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.

Availability of Information

In connection with its continuing disclosure agreements entered into with respect to the Certificates, the City will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreements from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City,

but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Certificates in the primary offering of the Certificates in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorize such an amendment) of the outstanding Certificates subject to the proposed amendment, as the case may be, consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Certificates subject to the proposed amendment. The City may also amend or repeal the provisions of its continuing disclosure agreements if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City amends its agreements, it must include with the next financial information and operating data provided in accordance with its agreements 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 last five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

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

Litigation

The City is not a party to any pending or threatened litigation.

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

Ratings

S&P Global Ratings ("S&P"), has assigned its underlying rating of "____" to the Certificates. An explanation of the significance of such rating may be obtained from S&P. A rating by S&P reflects only the view of such company at the time the rating is given, and the Issuer makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time, or that it will not be revised downward or withdrawn entirely by S&P, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

Municipal Advisor

Hilltop Securities Inc. is employed as a Municipal Advisor to the Issuer in connection with the issuance of the Certificates. In

this capacity, the Municipal Advisor has compiled certain data relating to the Certificates and has assisted in drafting this Official Statement. The Municipal Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Municipal Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Municipal Advisor are contingent upon the issuance, sale and delivery of the Certificates.

Underwriting

The Underwriters have agreed, subject to certain customary conditions, to purchase the Certificates at a price equal to the initial offering prices to the public, as shown on the inside cover page, less an Underwriters' Discount of \$_____. The Underwriters' obligation is subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates may be offered and sold to certain dealers and others at prices lower than such public offering prices and such public prices may be changed, from time to time, by the Underwriter.

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

The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities sales and trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities and other financial and non-financial activities and services. In the ordinary course of its various business activities, the Underwriters and their affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve or relate to assets, securities and/or other instruments of the City. The Underwriters and their affiliates also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

PNC Capital Markets LLC and PNC Bank, National Association are both wholly-owned subsidiaries of the PNC Financial Services Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association. PNC Bank, National Association has/may have other banking and financial relationships with the Issuer.

PNC Capital Markets LLC may offer to sell to its affiliate, PNC Wealth Management LLC ("PNCWM"), securities in PNCCM's inventory for resale to PNCWM's customers, including securities such as those to be offered by the issuer. PNCCM may share with PNCWM a portion of the fee or commission paid to PNCCM if any Bonds are sold to customers of PNCWM.

AUDITED FINANCIAL STATEMENTS

Patillo, Brown & Hill, L.L.P., the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. Excerpts from the report of Patillo, Brown & Hill, L.L.P. relating to City's financial statements for the fiscal year ended December 31, 2025 are included in this Official Statement in Appendix D; however, Patillo, Brown & Hill, L.L.P. has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials.

Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any such assumptions could be inaccurate and, therefore, there can be no assurance

that the forward-looking statements included in this Official Statement will prove to be accurate.

CONCLUDING STATEMENT

The financial data and other information contained in this Official Statement 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 ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinance. 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.

In the Ordinance, the City Council will authorize (i) the form and content of this Preliminary Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriters' use of this Preliminary Official Statement in connection with the public offering and the sale of the Certificates in accordance with the provisions of the Rule.

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APPENDIX A

FINANCIAL INFORMATION OF THE CITY OF MARSHALL

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FINANCIAL INFORMATION OF THE CITY

ASSESSED VALUATION AND DEBT INFORMATION

TABLE 1

2025 Actual Market Value of Taxable Property	\$2,773,001,080
Less Exemptions and Losses:	
Homestead	\$140,340,204
Exempt Property	726,903,736
Homestead Local Over 65/Disabled	26,929,280
Veterans	28,392,616
Homestead Cap Loss	254,896,091
Minimum Value	243,906
Freeport	7,180,559
Pollution Control	114,100
Productivity Value Loss	18,269,601
Other	26,122
Total Exemptions	<u>\$1,203,296,215</u>
2025 Net Taxable Assessed Valuation:	<u>\$ 1,569,704,865</u>

Source: Harrison County Appraisal District and the City.

General Obligation Debt Principal Outstanding (as of June 15, 2026):

Total Gross General Obligation Debt Principal Outstanding	\$ 26,377,000
Certificates of Obligation, Series 2026 (the "Certificates")	<u>33,365,000</u> *
Total Gross General Obligation Debt Outstanding	<u>\$ 59,742,000</u>
Less: Self-Supporting General Obligation Debt (See Table 7)	<u>\$ 32,427,000</u>
Total Net General Obligation Debt Outstanding:	<u><u>\$ 27,315,000</u></u>
Ratio of Net General Obligation Debt to 2025 Net Assessed Valuation	3.81%
2025 Net Assessed Valuation	\$ 1,569,704,865
Population: 1990-23,682; 2000-23,935; 2010-23,523; 2025	24,465

* Preliminary; subject to change.

PROPERTY TAX RATES AND COLLECTIONS

TABLE 2

Tax Year	Net Taxable Valuation	Tax Rate	Adjusted Tax Levy	% Collections ^(a)		Year Ended
				Current	Total	
2021	\$ 1,083,098,550	\$ 0.5672	\$ 6,121,684	96.94%	97.55%	12/31/2022
2022	1,247,220,079	0.5652	7,049,300	95.71%	96.14%	12/31/2023
2023	1,390,880,638	0.5652	7,861,257	94.56%	95.87%	12/31/2024
2024	1,440,127,935	0.5791	8,139,603	94.77%	95.34%	12/31/2025
2025	1,569,704,865	0.5815	7,502,848	89.23%	90.91%	12/31/2026

^(a) Excludes penalties and interest.

* Partial collections as of May 2026

Source: The City and Harrison County Appraisal District

TAX RATE DISTRIBUTION

TABLE 3

	2025	2024	2023	2022	2021
General Fund	\$ 0.4888	\$ 0.4905	\$ 0.4764	\$ 0.4764	\$ 0.4741
I & S Fund	0.0927	0.0886	0.0888	0.0888	0.0931
TOTAL	<u>\$ 0.5815</u>	<u>\$ 0.5791</u>	<u>\$ 0.5652</u>	<u>\$ 0.5652</u>	<u>\$ 0.5672</u>

Source: Texas Comptroller of Public Accounts and Harrison County Appraisal District

PRINCIPAL TAXPAYERS

TABLE 4

<u>Name of Taxpayer</u>	<u>Type of Property</u>	2025 Assessed Valuation	% of 2025 A.V.
Southwestern Electric Power Co.- SWEPCO	Electric Utility	\$ 24,542,860	1.56%
Union Pacific Railroad Co	Railroad	19,415,600	1.24%
Republic National of TX	Alcohol Distribution	17,711,100	1.13%
GVD Harvest Creek LLC	Real Estate	11,445,134	0.73%
Nextier Comp Solutions Inc	Tech	9,387,320	0.60%
Eastern Energy Services Inc	Oil & Gas	8,400,000	0.54%
American Cementing LLC	Oil & Gas	8,255,780	0.53%
Caddo Investement Proptery Limited Partnership	Real Estate	7,351,494	0.47%
Cyber Marshall Lodging LLC	Lodging	7,314,094	0.47%
KNJ Express Investments Marshall LLC	Hotel	7,045,316	0.45%
	Total	<u>\$ 120,868,698</u>	<u>7.70%</u>
2025 Net Taxable Assessed Valuation	\$	1,569,704,865	

<u>Name of Taxpayer</u>	<u>Type of Property</u>	2024 Assessed Valuation	% of 2024 A.V.
Southwestern Electric Power Co.- SWEPCO	Electric Utility	\$ 22,155,550	1.54%
Union Pacific Railroad Co	Railroad	18,117,260	1.26%
Republic National of TX	Alcohol Distribution	14,047,420	0.98%
GVD Harvest Creek LLC	Real Estate	13,614,014	0.95%
Lowe's Home Centers Inc #17	Retail Store	8,239,610	0.57%
American Cementing LLC	Oil & Gas	7,919,190	0.55%
Marshall Mall Investors	Shopping Mall	7,363,880	0.51%
Wal-Mart Stores Texas LP	Retail Store	7,097,840	0.49%
Wal-Mart Re Est Bus TR 01 09	Real Estate	6,814,970	0.47%
Nextier Completion Solution	Oil Field Services	6,389,310	0.44%
	Total	<u>\$ 111,759,044</u>	<u>7.76%</u>
2024 Net Taxable Assessed Valuation	\$	1,440,127,935	

<u>Name of Taxpayer</u>	<u>Type of Property</u>	2023 Assessed Valuation	% of 2023 A.V.
Southwestern Electric Power Co.- SWEPCO	Electric Utility	\$ 21,926,910	1.58%
Union Pacific Railroad Co	Railroad	16,459,450	1.18%
Republic National of TX	Alcohol Distribution	13,729,270	0.99%
Wal-Mart Real Estate Bus. Trust 01 0918	Real Estate	8,515,530	0.61%
Marshall Mall Investors	Shopping Mall	8,362,010	0.60%
Lowe's Home Centers Inc. #1762	Retail Store	7,516,820	0.54%
Wal-Mart Real Estate Bus. Trust 01 0918	Real Estate	6,853,940	0.49%
Ortgies Famly Investments	Financial	5,992,870	0.43%
Cole Richard N	Personal	5,660,660	0.41%
Cobridge Communications	Utility	5,649,970	0.41%
	Total	<u>\$ 100,667,430</u>	<u>7.24%</u>
2023 Net Taxable Assessed Valuation	\$	1,390,880,638	

SHORT-TERM OBLIGATIONS

TABLE 5

<u>Item Purchased</u>	<u>Principal Amount Outstanding</u>	<u>Final Payment Amount</u>	<u>Final Payment Date</u>	<u>Frequency</u>	<u>Source</u>
Pumper Truck	\$ 199,907	\$ 199,901	5/23/2027	yearly	Frost Bank

Source: The Issuer

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

TABLE 6

<u>Property Use Category</u>	<u>Total Tax Roll for Tax Years</u>				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Real Property					
Single-Family Residential	\$ 1,191,587,072	\$ 906,941,737	\$ 864,809,458	\$ 791,193,980	\$ 684,425,380
Multi-Family Residential	114,870,599	88,072,796	66,051,533	61,840,530	52,930,150
Vacant Lots/Tracts	18,632,350	20,182,220	20,202,000	21,564,410	22,867,250
Acreage (Land Only)	17,098,270	16,995,680	16,894,150	25,594,420	20,641,600
Farm/Ranch/Rural Improvements	23,552,010	20,788,650	19,333,200	-	-
Real, Commercial & Industrial	347,857,292	325,687,754	316,922,934	285,476,127	232,227,493
Real Minerals, Oil and Gas	2,624,280	2,799,980	8,488,370	6,920,320	5,066,380
Real & Tangible Personal Utilities	62,932,840	57,865,800	54,297,400	52,236,030	46,670,900
Personal, Commercial & Industrial	220,681,890	202,404,899	203,685,550	181,658,990	160,771,770
Tangible Personal, Mobile Homes	6,268,670	3,076,030	2,958,920	1,951,390	1,777,880
Real Property Inventory	314,410	476,530	15,462,010	15,491,030	13,934,850
Special Inventory	11,575,496	14,346,650	700,140	-	-
Total Exempt Property	755,005,901	478,694,450	495,679,230	412,778,830	313,990,030
Total Assessed Valuation	\$ 2,773,001,080	\$ 2,138,333,176	\$ 2,085,484,895	\$ 1,856,706,057	\$ 1,555,303,683
Less Exemptions:					
Homestead	\$140,340,204	\$ 125,972,349	\$ 115,485,520	\$ 104,822,975	\$93,349,484
Exempt Property	726,903,736	488,807,660	495,679,230	422,666,340	319,671,873
Homestead Local Over 65/Disabled	26,929,280	26,072,294	25,348,413	23,398,658	22,886,331
Veterans	28,392,616	20,005,091	17,009,367	14,393,755	11,606,076
Homestead Cap Loss	254,896,091	15,354,556	16,534,706	21,053,510	1,319,570
Minimum Value / Other	243,906	230,444	235,920	248,328	1,223,224
Abatements	-	-	-	-	-
Freeport	7,180,559	5,467,817	8,006,078	8,487,617	8,595,650
Pollution Control	114,100	123,470	244,360	-	-
Productivity Loss	18,269,601	16,140,810	16,008,540	12,464,310	11,491,780
Other	26,122	30,750	52,123	1,950,485	2,061,145
Total Exemptions	\$ 1,203,296,215	\$ 698,205,241	\$ 694,604,257	\$ 609,485,978	\$ 472,205,133
Net Taxable Valuation	\$ 1,569,704,865	\$ 1,440,127,935	\$ 1,390,880,638	\$ 1,247,220,079	\$ 1,083,098,550

Source: Harrison County Appraisal District and Texas Comptroller of Public Accounts

COMPUTATION OF SELF-SUPPORTING DEBT BY SOURCE ⁽¹⁾

TABLE 7

Certificates of Obligation, Series 2017		
Gross Balance Outstanding	\$	1,215,000
% of Self Supporting Hotel Occupancy Taxes		100.00%
Balance Supported by Hotel Occupancy Taxes	\$	1,215,000
General Obligation Refunding Bonds, Series 2019		
Gross Balance Outstanding	\$	441,000
% of Self Supporting Hotel Occupancy Taxes		100.00%
Balance Supported by Hotel Occupancy Taxes	\$	441,000
Tax Notes, Series 2020		
Gross Balance Outstanding	\$	265,000
% of Self Supporting		0.00%
Balance Self Supported	\$	-
Certificates of Obligation, Taxable Series 2023		
Gross Balance Outstanding	\$	1,886,000
% of Self Supporting Drainage Fees		100.00%
Balance Supported by Drainage Fees	\$	1,886,000
Certificates of Obligation, Series 2023A		
Gross Balance Outstanding	\$	12,645,000
% of Self Supporting Utility System		51.72%
Balance Supported by Utility System	\$	6,540,000
Certificates of Obligation, Series 2025		
Gross Balance Outstanding	\$	9,925,000
% of Self Supporting Utility System		23.63%
Balance Supported by Utility System	\$	2,345,000
Certificates of Obligation, Series 2026 (The Certificates)		
Gross Balance Outstanding	\$	33,365,000
% of Self Supporting Utility System		59.94%
Balance Supported by Utility System	\$	20,000,000
Combined Totals:		
Gross Balance Outstanding:	\$	59,742,000
Balance Supported by Utility System:	\$	28,885,000
% Self Supporting from Utility System:		48.35%
Balance Supported by Hotel Occupancy Taxes:	\$	1,656,000
% Self Supporting from Hotel Occupancy Taxes:		2.77%
Balance Supported by Drainage Fees	\$	1,886,000
% of Self Supporting Drainage Fees		3.16%

Source: The City.

⁽¹⁾ Includes the Certificates. Preliminary; subject to change.

Chapter 321, Texas Tax Code, provides for the maximum levy of a one percent sales tax which may be used by the City for any lawful purpose except that the City may not pledge any of the anticipated sales tax revenue to secure the payment of obligations or other indebtedness. The Texas Local Government Code now also provides certain cities and counties the option of assessing a maximum one-half percent (½%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the amount of the estimated sales tax revenues to be generated in the current year. Further, the Texas Tax Code provides certain cities the option of assessing a maximum one-half percent (½%) sales tax on retail sales of taxable items for economic development purposes and a separate maximum one-half percent (1/2%) sales tax on retail sales of taxable items for economic development purposes and/or community development purposes, in each case, if approved by a majority of the voters in a local option election. The total local sales tax cannot exceed 2%.

The City of Marshall now levies the maximum 2% sales tax. One-half percent of the sales tax levy is for the reduction of ad valorem taxes, another 3/8 percent is for economic development and 1/8 percent providing revenue for maintenance and repair of municipal streets. Net sales tax collections are shown below:

Calendar Year	General Fund 1.000%	Economic Develp. Corp. 0.375%	Street Maintenance 0.125%	Ad Valorem Tax Reduction 0.500%	Total Collected 2.000%
2022	\$ 11,712,433	4,392,162	1,464,054	5,856,217	23,424,866
2023	13,025,381	4,884,518	1,628,173	6,512,690	26,050,761
2024	13,079,324	4,904,746	1,634,915	6,539,662	26,158,648
2025	13,396,534	5,023,700	1,674,567	6,698,267	26,793,068
2026 ^(a)	5,658,741	2,122,028	707,343	2,829,371	11,317,482

^(a) Through May 28, 2026

Sources: Texas Comptroller of Public Accounts Website and the Issuer.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 9

Fisc Year 31-Dec	Existing Debt Service	The Certificates ⁽¹⁾			Combined Debt Service	Less: Self-Supported Debt Service ⁽¹⁾	Ad Valorem Tax Debt Service
		Principal	Interest	Total			
2026	\$ 2,349,046				\$ 2,349,046	\$ (1,021,202)	\$ 1,327,844
2027	2,494,065	\$ 370,000	\$ 1,779,467	\$ 2,149,467	4,643,532	(2,077,770)	2,565,762
2028	2,227,941	530,000	1,649,750	2,179,750	4,407,691	(2,086,566)	2,321,125
2029	2,226,174	555,000	1,623,250	2,178,250	4,404,424	(2,088,549)	2,315,875
2030	2,076,019	585,000	1,595,500	2,180,500	4,256,519	(1,932,644)	2,323,875
2031	2,075,260	610,000	1,566,250	2,176,250	4,251,510	(1,932,135)	2,319,375
2032	2,077,142	645,000	1,535,750	2,180,750	4,257,892	(1,940,017)	2,317,875
2033	1,858,806	680,000	1,503,500	2,183,500	4,042,306	(1,723,181)	2,319,125
2034	1,860,306	715,000	1,469,500	2,184,500	4,044,806	(1,721,931)	2,322,875
2035	1,859,056	745,000	1,433,750	2,178,750	4,037,806	(1,718,931)	2,318,875
2036	1,860,056	785,000	1,396,500	2,181,500	4,041,556	(1,724,181)	2,317,375
2037	1,860,506	820,000	1,357,250	2,177,250	4,037,756	(1,721,031)	2,316,725
2038	1,858,506	865,000	1,316,250	2,181,250	4,039,756	(1,721,281)	2,318,475
2039	1,858,500	905,000	1,273,000	2,178,000	4,036,500	(1,720,463)	2,316,038
2040	1,862,300	950,000	1,227,750	2,177,750	4,040,050	(1,723,413)	2,316,638
2041	1,857,606	1,000,000	1,180,250	2,180,250	4,037,856	(1,718,794)	2,319,063
2042	1,859,531	1,045,000	1,130,250	2,175,250	4,034,781	(1,716,769)	2,318,013
2043	1,857,569	1,100,000	1,078,000	2,178,000	4,035,569	(1,717,081)	2,318,488
2044	829,094	1,155,000	1,023,000	2,178,000	3,007,094	(1,180,706)	1,826,388
2045	826,494	1,210,000	965,250	2,175,250	3,001,744	(1,179,806)	1,821,938
2046	82,000	1,270,000	904,750	2,174,750	2,256,750	(1,007,250)	1,249,500
2047	82,000	1,340,000	841,250	2,181,250	2,263,250	(1,010,250)	1,253,000
2048	82,000	1,405,000	774,250	2,179,250	2,261,250	(1,011,750)	1,249,500
2049		1,475,000	704,000	2,179,000	2,179,000	(929,750)	1,249,250
2050		1,550,000	630,250	2,180,250	2,180,250	(928,250)	1,252,000
2051		1,625,000	552,750	2,177,750	2,177,750	(925,250)	1,252,500
2052		1,705,000	471,500	2,176,500	2,176,500	(925,750)	1,250,750
2053		1,795,000	386,250	2,181,250	2,181,250	(929,500)	1,251,750
2054		1,880,000	296,500	2,176,500	2,176,500	(926,250)	1,250,250
2055		1,975,000	202,500	2,177,500	2,177,500	(926,250)	1,251,250
2056		2,075,000	103,750	2,178,750	2,178,750	(929,250)	1,249,500
	<u>\$ 37,879,978</u>	<u>\$ 33,365,000</u>	<u>\$ 31,971,967</u>	<u>\$ 65,336,967</u>	<u>\$ 103,216,945</u>	<u>\$ (44,815,952)</u>	<u>\$ 58,400,993</u>

⁽¹⁾ See Table 7 herein - "Computation of Self-Supporting Debt By Source". Preliminary; subject to change. Interest calculated at an assumed rate for purposes of illustration only.

TAX ADEQUACY (Includes Self-Supporting Debt)

TABLE 10A

2025 Assessed Valuation	\$ 1,569,704,865
Maximum Annual Debt Service Requirements (Fiscal Year Ending 2027)	\$ 4,643,532
Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections	\$ 0.301859

Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

TAX ADEQUACY (Excludes Self-Supporting Debt)

TABLE 10B

2025 Assessed Valuation	\$ 1,569,704,865
Maximum Annual Debt Service Requirements (Fiscal Year Ending 2027)	\$ 2,565,762
Indicated Maximum Interest and Sinking Fund Tax Rate at 98% Collections	\$ 0.166791

Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

GENERAL OBLIGATION DEBT AUTHORIZED BUT UNISSUED

TABLE 11

None.

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

TABLE 12

Fiscal Year Ending 12/31	Outstanding Debt Principal	The Certificates ⁽¹⁾	Total	Bonds Unpaid at End of Year	Percent of Principal Retired (%)
2026	\$ 1,378,000		\$ 1,378,000	\$ 58,815,000	2.29%
2027	1,481,000	\$ 370,000	1,851,000	56,964,000	5.36%
2028	1,264,000	530,000	1,794,000	55,170,000	8.34%
2029	1,312,000	555,000	1,867,000	53,303,000	11.45%
2030	1,212,000	585,000	1,797,000	51,506,000	14.43%
2031	1,262,000	610,000	1,872,000	49,634,000	17.54%
2032	1,317,000	645,000	1,962,000	47,672,000	20.80%
2033	1,152,000	680,000	1,832,000	45,840,000	23.84%
2034	1,207,000	715,000	1,922,000	43,918,000	27.04%
2035	1,262,000	745,000	2,007,000	41,911,000	30.37%
2036	1,322,000	785,000	2,107,000	39,804,000	33.87%
2037	1,377,000	820,000	2,197,000	37,607,000	37.52%
2038	1,432,000	865,000	2,297,000	35,310,000	41.34%
2039	1,487,000	905,000	2,392,000	32,918,000	45.31%
2040	1,547,000	950,000	2,497,000	30,421,000	49.46%
2041	1,602,000	1,000,000	2,602,000	27,819,000	53.78%
2042	1,667,000	1,045,000	2,712,000	25,107,000	58.29%
2043	1,732,000	1,100,000	2,832,000	22,275,000	62.99%
2044	772,000	1,155,000	1,927,000	20,348,000	66.20%
2045	797,000	1,210,000	2,007,000	18,341,000	69.53%
2046	82,000	1,270,000	1,352,000	16,989,000	71.78%
2047	82,000	1,340,000	1,422,000	15,567,000	74.14%
2048	82,000	1,405,000	1,487,000	14,080,000	76.61%
2049		1,475,000	1,475,000	12,605,000	79.06%
2050		1,550,000	1,550,000	11,055,000	81.63%
2051		1,625,000	1,625,000	9,430,000	84.33%
2052		1,705,000	1,705,000	7,725,000	87.17%
2053		1,795,000	1,795,000	5,930,000	90.15%
2054		1,880,000	1,880,000	4,050,000	93.27%
2055		1,975,000	1,975,000	2,075,000	96.55%
2056		2,075,000	2,075,000		100.00%
	<u>\$ 26,828,000</u>	<u>\$ 33,365,000</u>	<u>\$ 60,193,000</u>		

⁽¹⁾ Preliminary; subject to change.

COMPUTATION OF SELF-SUPPORTING GENERAL OBLIGATION DEBT

TABLE 13

Utility System

Net Utility System Revenues, Fiscal Year Ended December 31, 2025	\$4,407,969
Less: 2025 Debt Service Revenue Bond Requirements	405,051
Balance Available for Other Purposes	<u>\$ 4,002,918</u>

Maximum Annual Utility-Supported General Obligation Debt Service (2036) \$ 1,642,181 *

Hotel/Motel Tax

Hotel Occupancy Tax Revenues, Fiscal Year ended December 31, 2025	\$1,003,801
Less: Tourist and Convention Development Expenses	515,189
Balance Available for Other Purposes	<u>\$ 488,612</u>

Maximum Annual Hotel Occupancy Tax-Supported General Obligation Debt Service (2029) \$ 367,618

Drainage Fee

Drainage Fee Revenues, Fiscal Year ended December 31, 2025	\$ 349,877
Less: Expenses payable from Drainage Fees:	483,930
Balance Available for Other Purposes	<u>-\$ 134,053</u>

Maximum Annual Drainage Fee Supported General Obligation Debt Service (2027) \$ 82,000

* Preliminary; subject to change.

OVERLAPPING DEBT DATA AND INFORMATION

TABLE 14

<u>Taxing Body</u>	<u>As of</u>	<u>Amount</u>	<u>% Overlapping</u>	<u>Amount Overlapping</u>
Harrison County	5/31/2026	-	15.33%	-
Marshall ISD	5/31/2026	106,135,000	48.32%	51,284,432
Total Gross Overlapping Debt				\$ 51,284,432
City of Marshall		\$ 59,742,000 ⁽¹⁾	100.00%	59,742,000
Total Direct and Overlapping Debt				<u>\$ 111,026,432</u>
Ratio of Direct and Overlapping Debt to 2025 Assessed Valuation				7.07%
Ratio of Direct and Overlapping Debt to 2025 Actual Value				4.00%
Per Capita Direct and Overlapping Debt				\$4,538.17

⁽¹⁾ Includes the Certificates. Preliminary, subject to change.

Source: Texas Municipal Reports prepared by Municipal Advisory Council of Texas

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES

TABLE 15

<u>Governmental Entity</u>		<u>Net Taxable Values</u>	<u>Tax Rate</u>
Harrison County	2025	\$ 10,354,801,328	\$ 0.34280
Marshall ISD	2025	3,076,185,094	0.95220

Source: Gregg County Appraisal District & Harrison Central Appraisal District.

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF
DIRECT AND OVERLAPPING GOVERNMENTAL ENTITIES**

TABLE 16

<u>Taxing Body</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Unissued</u>
Marshall, City of		\$ -	\$ -	\$ -
Harrison County		-	-	-
Marshall ISD		-	-	-

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES
AND ANALYSIS OF CHANGES IN FUND BALANCES**

TABLE 17

	Fiscal Year Ending December 31				
	2025⁽¹⁾	2024	2023	2022	2021
Fund Balance - Beginning of Year	\$ 15,686,290	\$ 13,137,590	\$ 11,031,532	\$ 8,528,096	\$ 6,608,201
Revenues:					
Ad Valorem Taxes	\$ 9,171,887	\$ 7,612,518	\$ 5,947,255	\$ 5,779,239	\$ 5,800,220
Sales Tax	10,092,991	9,900,971	9,841,357	8,961,261	8,120,201
Franchise Tax	886,732	833,007	1,052,661	815,415	888,137
Charges for Services	2,485,473	6,594,556	5,425,523	5,484,066	4,689,078
Permits	-	-	-	-	-
Fees	722,031	711,044	882,519	694,849	685,914
Municipal Court Fines	297,436	266,032	366,621	302,395	305,608
Sales Revenue	-	-	-	-	-
Interest	1,025,404	1,195,350	644,705	90,439	14,964
Intergovernmental	225,836	240,567	269,487	222,264	383,477
Donations	59,115	60,049	231,954	54,772	85,842
Miscellaneous	67,765	250,819	51,811	179,085	50,999
Total Revenues	\$ 25,034,670	\$ 27,664,913	\$ 24,713,893	\$ 22,583,785	\$ 21,024,440
Expenditures:					
Current					
General Government	\$ 1,137,533	\$ 838,149	\$ 957,281	\$ 857,728	\$ 525,924
Tourism and Cultural Arts	1,555,306	1,729,667	1,460,113	774,476	1,156,644
Finance	1,702,171	1,571,255	1,518,548	983,701	499,991
Public Safety	14,447,379	12,690,651	11,550,871	10,905,884	8,990,631
Public Works	1,327,170	4,670,533	4,376,359	4,073,351	3,973,885
Human Resources	-	-	-	-	-
Planning / Community and Economic Development	1,749,335	706,138	688,610	758,339	513,719
Non-Departmental	1,511,753	-	-	-	2,210,955
Tax Collection	228,284	96,245	146,173	105,077	101,513
Support Services	816,637	1,283,297	1,289,434	1,906,422	854,450
Community Facilities	-	-	-	-	-
Parks and Recreation	1,458,220	1,416,267	1,071,254	-	348,747
Debt Service	401,941	-	-	321,957	251,152
Capital Outlay	527,118	722,389	113,267	3,134,367	1,436,641
Total Expenditures	\$ 26,862,847	\$ 25,724,591	\$ 23,171,910	\$ 23,821,302	\$ 20,864,252
Other Sources (Uses)					
Excess (Deficit) of Revenues Over Expenditures	\$ (1,828,177)	\$ 1,940,322	\$ 1,541,983	\$ (1,237,517)	\$ 160,188
Other Financing Sources (Uses)					
Transfers in	\$ 3,303,851	\$ 2,111,831	\$ 1,955,094	\$ 2,584,589	\$ 1,912,747
Transfers out	-	(1,503,453)	(1,391,019)	(210,000)	(529,892)
Loan Proceeds	-	-	-	-	376,852
Proceeds From Capital Leases	1,436	-	-	1,366,364	-
Total	\$ 3,305,287	\$ 608,378	\$ 564,075	\$ 3,740,953	\$ 1,759,707
Net Change in Fund Balances	\$ 1,477,110	\$ 2,548,700	\$ 2,106,058	\$ 2,503,436	\$ 1,919,895
Period Prior Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance - End of Year	\$ 17,163,400	\$ 15,686,290	\$ 13,137,590	\$ 11,031,532	\$ 8,528,096

Source: The Issuer's Financial Statements.

⁽¹⁾ Unaudited; the City expects to receive its Audited Financial Statements for the Year Ended December 31, 2025 prior to June 30, 2026.

CURRENT WATER RATES**TABLE 18***(Effective January 1, 2026)*

	Inside City Limits	Outside City Limits
Base Charge for first 1,000 Gallons		
3/4" Meter	\$14.70	\$22.88
1" Meter	\$21.96	\$34.18
2" Meter	\$44.16	\$68.74
3" Meter	\$76.59	\$114.54
4" Meter	\$147.12	\$228.98
6" Meter	\$294.28	\$458.04
8" Meter	\$441.41	\$687.04
10" Meter	\$588.58	\$916.10
12" Meter	\$882.82	\$1,374.08
Rate per 1,000 gallons over first 1,000:	\$6.55	\$10.20

Source: Ordinance No. 0-25-27 adopted by the City on September 11, 2025.

PRINCIPAL WATER CUSTOMERS***TABLE 19**

Name of Customer	Average Monthly Consumption (000 Gals.)	Average Monthly Bill (Water Only)
Norit Americas, Inc	8,974,000	\$ 16,445.87
BICC General Cable (Prysmian)	3,857,000	19,892.92
ETBU	3,076,000	16,983.70
Wiley	1,489,000	8,185.03
Harrison County	1,101,000	6,092.69
Christus Health	1,025,000	5,566.69
Burris Rental Management	955,000	5,678.48
Bel Air Manor Apts	878,000	5,433.90
Snider Ind	822,000	8,367.73
Marshall Manor	594,000	3,144.66
	22,771,000	<u>\$ 95,791.67</u>

Source: City of Marshall

* As of 4/30/26

CURRENT SEWER RATES**TABLE 20***(Effective January 1, 2025)*Residential

Base Charge	\$ 18.16	
Plus per 1,000 gallons of water used:		\$ 7.30

Commercial

Base Charge	\$ 18.16	
Plus per 1,000 gallons of water used:		\$ 7.30

Outside City Limits

Base Charge	\$ 32.02	
Plus per 1,000 gallons of water used:		\$ 12.86

Source: Ordinance No. 0-25-27 adopted by the City on September 11, 2025.

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APPENDIX B

**GENERAL INFORMATION REGARDING
THE CITY OF MARSHALL AND HARRISON COUNTY, TEXAS**

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**GENERAL INFORMATION REGARDING THE CITY OF MARSHALL
AND HARRISON COUNTY, TEXAS**



General

The City of Marshall serves as the county seat of Harrison County and is an important commercial and industrial center in east Texas located on Interstate 20 approximately 135 miles east of Dallas. Founded in 1841, Marshall rapidly grew to be one of the largest cities in Texas as a center of operations for the Texas and Pacific Railroad.

Currently, the City's economy is primarily based on petroleum, lumber processing, varied manufacturing and tourism, with major employment in service, trade and manufacturing. Principal manufacturers within the City produce wooden cabinets, pottery, ceramics, activated carbon, bricks, lumber and wood chips.

The County is a far-east Texas county bordering the State of Louisiana, traversed by Interstate Highway 20, United States Highways 59 and 80; State Highways 43, 31, and 154 and 13 farm-to-market roads. The economy is based on manufacturing, mineral production and agriculture. Principal manufacturers of the County located outside the City include Texas Eastman, BICC Cable Company, Huntsman Corporation, Trinity Industries, Witco Polymers and Sabine Mining. Minerals produced in the County include oil, gas, lignite coal, clay and gravel.

POPULATION TRENDS

<u>Year</u>	<u>City of Marshall</u>	<u>Harrison County</u>
2025	24,467	71,956
2020 Census	23,392	68,839
2010 Census	23,523	65,621
2000 Census	23,935	62,110
1990 Census	23,682	57,483

Source: Bureau of the Census

Note: Population growth within the City and Harrison County has remained modest but positive in recent years. According to the U.S. Census Bureau, Harrison County's population increased from 68,839 in the 2020 Census to an estimated 71,956 as of July 1, 2025, while the City of Marshall's population increased from 23,392 to an estimated 24,467 during the same period. Based on recent growth trends, the County's population is estimated to be approximately 72,600 and the City's population approximately 24,700 in 2026.

EMPLOYMENT STATISTICS

The Texas Work Force Commission reports the following employment statistics for the County and the State of Texas.

	Harrison County		State of Texas	
	April 2026	April 2025	April 2026	April 2025
Total Civilian Labor Force	31,993	32,388	15,867,910	15,903,872
Total Employment	30,621	31,009	15,235,151	15,309,900
Total Unemployment	1,372	1,379	632,759	593,972

Source: Texas Work Force Commission, Austin, Texas

UNEMPLOYMENT RATES

	April 2026	April 2025
Harrison County	4.3%	4.3%
State of Texas	4.0	3.7
United States of America	4.0	3.9

Source: Texas Work Force Commission, Austin, Texas

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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Proposed Form of Opinion of Bond Counsel

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

**CITY OF MARSHALL, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION
SERIES 2026**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$33,365,000 ¹

AS BOND COUNSEL FOR THE CITY OF MARSHALL, TEXAS, (the "Issuer") in connection with the issuance of the Certificates of Obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates and mature on the dates, and are not subject to redemption, in accordance with the terms and conditions stated in the text of the Certificates and in the ordinance of the Issuer authorizing the issuance and sale of the Certificates (the "Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance and sale of the Certificates, including executed Certificate Number R-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by and payable from a pledge of the surplus revenues from the operation of the Issuer's waterworks and sewer system remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue obligations (now or hereafter outstanding) that are secured by a lien on all or any part of the net revenues of the Issuer's waterworks and sewer system, all as defined and provided in the Ordinance.

¹ Preliminary, subject to pricing.



IT IS FURTHER OUR OPINION that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Certificates (i) is excludable from the gross income of the owners thereof and (ii) the Certificates will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "*Code*"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates.

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Certificates 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 if the Issuer fails to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, 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 Certificates, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

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 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 Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer 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 Certificates as includable in gross income for federal income tax purposes.

Respectfully,

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APPENDIX D

AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2024

(Independent Auditor's Report, General Financial Statements, and Notes to the Financial Statements. These documents are not intended to be a complete statement of the issuer's financial condition; reference is made to the complete annual financial report for further information.)

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CITY OF MARSHALL, TEXAS

ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2024

CITY OF MARSHALL, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2024

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Marshall, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Texas, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City of Marshall, Texas' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Texas, as of December 31, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Marshall Economic Development Corporation or the Marshall Downtown Development Corporation, whose assets were \$25,919,015 and \$40,384, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Marshall Economic Development Corporation and the Marshall Downtown Development Corporation, are based solely on the reports of other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Marshall, Texas 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.

Emphasis of Matter - Change of Accounting Principle

As described in the notes to the financial statements, in fiscal year 2024 the City of Marshall, Texas adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 of Marshall, Texas' 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 GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Marshall, Texas' 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 of Marshall, Texas' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB information 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 of Marshall, Texas' basic financial statements. The combining nonmajor fund financial statements and schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 were derived from and relate 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 nonmajor fund financial statements and schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2025, on our consideration of the City of Marshall, Texas' 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 of Marshall, Texas' 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 of Marshall, Texas' internal control over financial reporting and compliance.

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

Waco, Texas
July 24, 2025

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**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Marshall, we offer readers of the City of Marshall's financial statements this narrative overview and analysis of the financial activities of the City of Marshall for the fiscal year ended December 31, 2024. We encourage readers to consider the information presented here in conjunction with the Independent Auditors' Report and the City's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Marshall exceeded its liabilities at the close of the most recent fiscal year by \$99,114,226 (net position). Of this amount, \$22,728,434 is unrestricted net position.
- As of the close of the current fiscal year, the City of Marshall's governmental funds reported combined ending fund balances of \$23,651,382. Approximately 64% of this total amount is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$15,184,557 or 59% of total General Fund expenditures.
- At the end of the current fiscal year the Water and Sewer Fund reported unrestricted net position of \$22,829,590, which was 302% of the fund's operating expenses of \$7,568,734.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The *statement of net position* presents information on all of the City of Marshall's 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 Marshall 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).

Both of the government-wide financial statements distinguish functions of the City of Marshall that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Marshall include general government, public safety, public works, finance, parks and recreation, library, non-departmental, tax collection, purchasing, code enforcement, inspections, and tourism and conventions. The business-type activities of the City of Marshall include Water and Sewer Fund and a Business Development Center Fund.

The government-wide financial statements include not only the City of Marshall itself (known as the *primary government*), but also a legally separate Marshall Economic Development Corporation and Marshall Downtown Development Corporation. Financial information for the *component units* is reported separately from the financial information presented for the primary government itself.

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

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

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

The City of Marshall maintains 23 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, Coronavirus Emergency Fund, and Capital Improvement Fund, which are considered to be major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Proprietary Funds – The City of Marshall maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Marshall uses enterprise funds to account for its Water and Sewer Fund and Business Development Center Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service fund to account for management of its vehicle fleet.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered to be a major fund of the City of Marshall. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Marshall's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Marshall, assets exceeded liabilities by \$99,114,226 at the close of the most recent fiscal year.

By far the largest portion of the City of Marshall's net position, reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure and water and wastewater system), less any related debt used to acquire those assets that is still outstanding. The City of Marshall uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Marshall'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.

Figure A-1
CITY OF MARSHALL'S NET POSITION

	Governmental Activities		Business Type Activities		Total	
	FY 2024	FY 2023	FY 2024	FY 2023	FY 2024	FY 2023
Assets						
Current and other assets	\$ 33,266,730	\$ 42,300,411	\$ 18,904,000	\$ 13,914,166	\$ 52,170,730	\$ 56,214,577
Capital assets	62,489,850	48,532,602	51,759,422	37,824,902	114,249,272	86,357,504
Total assets	<u>95,756,580</u>	<u>90,833,013</u>	<u>70,663,422</u>	<u>51,739,068</u>	<u>166,420,002</u>	<u>142,572,081</u>
Deferred Outflows of Resources	<u>4,707,623</u>	<u>7,269,399</u>	<u>816,761</u>	<u>1,371,357</u>	<u>5,524,384</u>	<u>8,640,756</u>
Liabilities						
Current liabilities	4,759,957	6,081,412	3,221,220	2,365,141	7,981,177	8,446,553
Noncurrent liabilities	45,374,505	47,841,603	17,816,908	4,729,357	63,191,413	52,570,960
Total Liabilities	<u>50,134,462</u>	<u>53,923,015</u>	<u>21,038,128</u>	<u>7,094,498</u>	<u>71,172,590</u>	<u>61,017,513</u>
Deferred Inflows of Resources	<u>1,354,978</u>	<u>593,346</u>	<u>302,592</u>	<u>76,564</u>	<u>1,657,570</u>	<u>669,910</u>
Net Position						
Net investment in capital assets	44,068,447	41,386,036	27,309,873	37,780,398	71,378,320	79,166,434
Restricted	5,007,472	5,308,209	-	858,074	5,007,472	6,166,283
Unrestricted	(101,156)	(3,108,194)	22,829,590	7,300,891	22,728,434	4,192,697
Total Net Position	<u>\$ 48,974,763</u>	<u>\$ 43,586,051</u>	<u>\$ 50,139,463</u>	<u>\$ 45,939,363</u>	<u>\$ 99,114,226</u>	<u>\$ 89,525,414</u>

An additional portion of the City of Marshall's net position (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$22,728,434) may be used to meet the government's ongoing obligations to citizens and creditors.

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

Governmental-type Activities – The City's program revenues increased when compared to the prior year by 11% or \$1,336,633. Operating Grants and Contributions and charges for services increased by \$697,316 and \$695,317, respectively.

Governmental activities increased the City of Marshall's net position by \$5,388,712 and are detailed on the next page.

**Figure A-2
CITY OF MARSHALL'S CHANGE IN NET POSITION**

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Revenues:						
Program Revenues:						
Charges for services	\$ 8,778,829	\$ 8,083,512	\$ 11,477,936	\$ 10,962,653	\$ 20,256,765	\$ 19,046,165
Operating grants and contributions	4,718,892	4,021,576	-	-	4,718,892	4,021,576
Capital grants and contributions	-	56,000	3,034,051	2,423,769	3,034,051	2,479,769
General Revenues:						
Taxes:						
Property taxes	9,001,467	7,395,990	-	-	9,001,467	7,395,990
Other taxes	11,557,563	11,711,202	-	-	11,557,563	11,711,202
Miscellaneous	267,738	56,117	48,786	3,660	316,524	59,777
Loss on sale of capital assets	14,871	(528,519)	(271,214)	(722,250)	(256,343)	(1,250,769)
Investment income	1,837,959	980,520	565,528	133,987	2,403,487	1,114,507
Total revenues	36,177,319	31,776,398	14,855,087	12,801,819	51,032,406	44,578,217
Expenses:						
General government	2,485,502	1,418,535	-	-	2,485,502	1,418,535
Parks and recreation	1,403,448	984,373	-	-	1,403,448	984,373
Finance	1,510,152	1,556,804	-	-	1,510,152	1,556,804
Public safety	13,588,515	13,313,842	-	-	13,588,515	13,313,842
Public works	9,322,555	8,344,046	-	-	9,322,555	8,344,046
Support services	1,523,527	1,515,084	-	-	1,523,527	1,515,084
Non-departmental	10,334	10,334	-	-	10,334	10,334
Tax collection	95,374	144,563	-	-	95,374	144,563
Tourism and cultural arts	2,517,214	2,367,899	-	-	2,517,214	2,367,899
Community and economic dev.	498,600	1,036,324	-	-	498,600	1,036,324
Interest on long-term debt	765,353	509,412	-	-	765,353	509,412
Water and sewer	-	-	7,723,020	7,867,254	7,723,020	7,867,254
Business development center	-	-	-	43,776	-	43,776
Total expenses	33,720,574	31,201,216	7,723,020	7,911,030	41,443,594	39,112,246
Change in net position before transfers	2,456,745	575,182	7,132,067	4,890,789	9,588,812	5,465,971
Transfers	2,931,967	1,712,425	(2,931,967)	(1,712,425)	-	-
Change in net position	5,388,712	2,287,607	4,200,100	3,178,364	9,588,812	5,465,971
Net position - beginning	43,586,051	41,298,444	45,939,363	42,760,999	89,525,414	84,059,443
Net position - ending	<u>\$ 48,974,763</u>	<u>\$ 43,586,051</u>	<u>\$ 50,139,463</u>	<u>\$ 45,939,363</u>	<u>\$ 99,114,226</u>	<u>\$ 89,525,414</u>

Business-type Activities – Revenues of the City's business-type activities were \$14,855,087 for the year ending December 31, 2024. Expenses for the City's business-type activities were \$7,723,020 for the year, resulting in net income of \$7,132,067.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds – The focus of the City of Marshall's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Marshall'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 Marshall's governmental funds reported combined ending fund balances of \$23,651,382. Approximately 64% of this total amount (\$15,148,529) constitutes unassigned, which is available for spending at the government's discretion. The remainder of fund balance is restricted or non-spendable to indicate that it is not available for new spending because it has already been committed. The portion of fund balance classified as nonspendable totals \$535,551. Restricted fund balance consists of the following: (1) promotion and tourism \$1,251,699, (2) public safety \$4,003,322, (3) debt service \$1,283,236, (4) library \$337,148, (5) capital projects \$489,407, (6) street maintenance \$567,202, and (7) public works \$35,288.

The General Fund is the chief operating fund of the City of Marshall. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$15,184,557, which represents the amount with no internal or external restrictions placed on its use. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 59% of total General Fund expenditures. Total fund balance represents 61% of total General Fund expenditures. The total fund balance of the City of Marshall's General Fund increased by \$2,548,700 during the current fiscal year.

Proprietary funds – The City of Marshall's proprietary funds provide the same type of information found in the governmentwide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer Fund at the end of the year was \$22,829,590. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Marshall's business-type activities.

General Fund Budgetary Highlights – During the year, expenditures were under amended budget estimates by \$1,006,376.

Water and Wastewater Activities – The primary function of the Utility Division (Water and Wastewater) is to provide the following:

- An adequate supply of safe, potable drinking water to the residents and business owners within the City.
- Maintain the distribution system within the City which provides the methods of delivering the potable drinking water.
- Maintain the sanitary collection system which includes 20+ lift stations which collects and delivers untreated wastewater to the wastewater treatment plant (WWTP).
- Properly operate the City's WWTP to insure compliance with existing state permits and any applicable federal rules and regulations.
- Utilize the latest equipment, treatment processes and piping technology to maximize the effectiveness of all water and wastewater systems.

In 2024, the following water treatment/wastewater treatment plant projects and upgrades were started and/or completed:

- East End LS project completed
- Repairs were made to the Primary Clarifier #1 at the WWTP
- West End LS project started
- Repaired 2 - 500HP Vertical Turbine Pumps at the Raw Water Pump Station along with piping repairs
- Upgraded chemical feed pumps at the water treatment facility
- Completed construction of the Wastewater Lab Building
- Upgraded the Grit Machine with a new conveyer unit at the WWTP
- Purchased a new pump for the Overflow Basin at the WWTP
- Repaired 1 influent submersible pump for the WWTP
- Installed 1 VFD in our High Service Pump Station
- Repaired/upgraded the Fair Street LS with new guiderails, bases, and discharge piping
- Started the Raw Water Masterplan with HALFF
- Sediment removal of the 2 – 3 million gallon clear wells by US Underwater
- New pumps purchased for the Arena, George Gregg, and Rebel Lane lift stations
- Repaired the Influent Bar Screen for the WWTP

In 2024, the following water/main projects and upgrades were started and/or completed:

- Replaced 8" water main in East Ave/Calloway St. area
- Initial design/planning of 2" water main replacement program began with construction to occur in 2024.
- Replaced 24 hydrants
- Repaired 87 Curb Stop Valves
- Replaced 22,072 feet of City Main
- 333 Service Washes
- 113 Water Leaks Repaired
- Water Meter Replacement/Change Out Project to Kamstrup Digital Read Meters – City-Wide

Drainage Division Activities – The City's drainage crew, started in October 2017, was able to address several storm drain repairs and improve drainage issues on several ditches and creeks throughout the City in an ongoing effort to improve overall stormwater management.

Specific drainage projects include:

- Kicked off a City-wide Drainage Master Plan
- Completed multiple miles of drainage ditch/swale cleaning and reshaping

CAPITAL ASSETS

The City of Marshall's investment in capital assets for its governmental and business type activities as of December 31, 2024, is \$114,249,272 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, infrastructure, and water and wastewater systems. Street improvements are a primary focus of the Public Works Department.

**CITY OF MARSHALL'S CAPITAL ASSETS AT YEAR-END
(Net of accumulated depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Land	\$ 1,164,764	\$ 1,164,764	\$ 218,051	\$ 267,032	\$ 1,382,815	\$ 1,431,796
Buildings	16,269,614	16,333,059	282,299	486,580	16,551,913	16,819,639
Improvements	8,248,890	1,683,360	-	-	8,248,890	1,683,360
Machinery and equipment	8,364,725	3,194,608	1,747,606	1,864,932	10,112,331	5,059,540
Right-to-use - vehicles	2,946,716	-	-	-	2,946,716	5,059,541
Infrastructure	24,879,921	25,541,591	-	-	24,879,921	25,541,591
Water and wastewater system	-	-	38,022,413	35,146,859	38,022,413	35,146,859
Construction in progress	615,220	615,220	11,489,053	59,499	12,104,273	674,719
Total	\$ 62,489,850	\$ 48,532,602	\$ 51,759,422	\$ 37,824,902	\$ 114,249,272	\$ 86,357,504

Additional information on the County's capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

Long-term Debt – At the end of the current fiscal year, the City of Marshall had total bonded debt outstanding of \$33,995,402. Of this amount, \$16,825,476 is backed by the levy and collection of ad valorem taxes in the City as provided by law and from surplus revenues in the City's Hotel Occupancy Tax Fund. The remainder of the City of Marshall's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds and tax notes).

**CITY OF MARSHALL'S OUTSTANDING LONG-TERM DEBT
AS OF DECEMBER 31, 2024**

	Governmental		Business-type		Total	
	Activities		Activities			
	2024	2023	2024	2023	2024	2023
Certificates of obligations	\$ 14,570,000	\$ 15,105,000	\$ 1,968,000	\$ 2,050,000	\$ 16,538,000	\$ 17,155,000
General obligation refunding bonds	1,819,000	2,318,000	-	-	1,819,000	2,318,000
Tax and promissory notes	1,041,000	1,422,000	14,160,926	-	15,201,926	1,422,000
Premium on bond issuance	436,476	470,746	-	-	436,476	470,746
Notes payable	150,741	226,111	-	-	150,741	226,111
Lease payable	2,970,480	-	-	-	2,970,480	-
Compensated absences	2,059,263	2,323,449	265,982	248,478	2,325,245	2,571,927
Financed purchases	<u>834,096</u>	<u>1,126,451</u>	<u>-</u>	<u>-</u>	<u>834,096</u>	<u>1,126,451</u>
Total long-term debt	<u>\$ 23,881,056</u>	<u>\$ 22,991,757</u>	<u>\$ 16,394,908</u>	<u>\$ 2,298,478</u>	<u>\$ 40,275,964</u>	<u>\$ 25,290,235</u>

The City Charter of the City of Marshall, Texas, and the statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 population, limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation. The City operates under a Home Rule Charter, which also imposes a limit of \$1.35. The budgeted property tax rate was \$.54216 per \$100 valuation with a tax margin of \$.80784 per \$100 valuation based upon the maximum ad valorem tax rate noted above. Revenues up to \$8,540,935, per year could be raised before reaching the maximum allowable tax base on the current year's appraised net taxable value of \$1,057,255,807.

Additional information on the City's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Factors

- Median home value (owner occupied) \$140,712 ESRI Forecast
- Average home value (owner occupied) \$224,409, Zillow
- Median household income \$55,880, ESRI Forecast
- Average household income \$74,286, ESRI Forecast
- Annual unemployment rate for Harrison County is 4.75%, 2025 LMI Average YTD
- FY 2025 (Tax Year 2025) tax rate is \$0.569079 per \$100 valuation.
- The City benefits from its strategic location, which is approximately 23 miles from Longview and 36 miles from Shreveport at the intersection of U.S. Hwy 59 and 1-20.

Next Year's Budgets and Rates – The 2025 City of Marshall Annual Budget reflected an approximate 5.42% increase in revenues (\$2,516,158) over the 2024 budget. We will closely monitor economic indicators, revenues, and expenditures in 2025 to assure that the City of Marshall maintains a balanced budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Marshall's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Marshall, 40 I S. Alamo Marshall, Texas, 75670.

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BASIC FINANCIAL STATEMENTS

CITY OF MARSHALL, TEXAS

STATEMENT OF NET POSITION

DECEMBER 31, 2024

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 20,691,155	\$ 16,640,053	\$ 37,331,208
Receivables, net	7,478,878	966,176	8,445,054
Internal balance	2,052,424	(2,052,424)	-
Due from other governments	2,508,722	-	2,508,722
Prepaid expenses	501,919	14,714	516,633
Inventory	33,632	59,442	93,074
Restricted assets:			
Cash and cash equivalents	-	3,276,039	3,276,039
Capital assets:			
Non-depreciable	1,779,984	11,707,104	13,487,088
Depreciable, net	60,709,866	40,052,318	100,762,184
Total assets	<u>95,756,580</u>	<u>70,663,422</u>	<u>166,420,002</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions - TMRS	2,900,757	771,088	3,671,845
Deferred outflows related to pensions - FRRF	1,565,892	-	1,565,892
Deferred outflows related to OPEB - retiree health plan	118,724	31,560	150,284
Deferred outflows related to OPEB - SDBF	122,250	14,113	136,363
Total deferred outflows of resources	<u>4,707,623</u>	<u>816,761</u>	<u>5,524,384</u>
LIABILITIES			
Accounts payable	2,618,598	1,015,462	3,634,060
Accrued interest payable	187,253	-	187,253
Accrued liabilities	850,437	92,353	942,790
Unearned revenue	472,999	1,093,060	1,566,059
Due to other governments	630,670	-	630,670
Payable from restricted assets:			
Customer deposits	-	1,020,345	1,020,345
Noncurrent liabilities:			
Due in one year:			
Bonds, loans, and leases payable	2,655,703	82,000	2,737,703
Compensated absences	720,742	93,094	813,836
Total OPEB liability - retiree health plan	26,318	4,151	30,469
Total OPEB liability - SDBF	29,318	3,385	32,703
Due in more than one year:			
Bonds, loans, and leases payable	19,166,090	16,046,926	35,213,016
Compensated absences	1,338,521	172,888	1,511,409
Net pension liability - TMRS	4,674,053	1,242,470	5,916,523
Net pension liability - FRRF	15,703,828	-	15,703,828
Total OPEB liability - retiree health plan	311,101	85,543	396,644
Total OPEB liability - SDBF	748,831	86,451	835,282
Total liabilities	<u>50,134,462</u>	<u>21,038,128</u>	<u>71,172,590</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions - TMRS	927,801	246,630	1,174,431
Deferred inflows related to pensions - FRRF	100,657	-	100,657
Deferred inflows related to OPEB - retiree health plan	121,470	32,289	153,759
Deferred inflows related to OPEB - SDBF	205,050	23,673	228,723
Total deferred inflows of resources	<u>1,354,978</u>	<u>302,592</u>	<u>1,657,570</u>
NET POSITION			
Net investment in capital assets	44,068,447	27,309,873	71,378,320
Restricted for:			
Debt service	1,723,796	-	1,723,796
Capital projects	489,407	-	489,407
Promotion and tourism	1,251,699	-	1,251,699
Public safety	602,932	-	602,932
Public works	35,288	-	35,288
Street maintenance	567,202	-	567,202
Library	337,148	-	337,148
Unrestricted	(101,156)	22,829,590	22,728,434
Total net position	<u>\$ 48,974,763</u>	<u>\$ 50,139,463</u>	<u>\$ 99,114,226</u>

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

CITY OF MARSHALL, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2024

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,485,502	\$ 33,240	\$ 486,299	\$ -
Finance	1,510,152	40,468	87,336	-
Tourism and cultural arts	2,517,214	1,834,574	77,692	-
Public safety	13,588,515	2,722,899	3,848,685	-
Public works	9,322,555	3,883,857	1,631	-
Community and economic development	498,600	263,791	162,475	-
Non-departmental	10,334	-	-	-
Tax collection	95,374	-	-	-
Support services	1,523,527	-	54,774	-
Parks and recreation	1,403,448	-	-	-
Interest on long-term debt	765,353	-	-	-
Total governmental activities	33,720,574	8,778,829	4,718,892	-
Business-type activities:				
Water and sewer	7,723,020	11,477,936	-	3,034,051
Business development center	-	-	-	-
Total business-type activities	7,723,020	11,477,936	-	3,034,051
Total primary government	\$ 41,443,594	\$ 20,256,765	\$ 4,718,892	\$ 3,034,051
Component units:				
Marshall Economic Develop. Corp.	2,109,264	17,000	-	-
Marshall Downtown Develop. Corp.	10,958	-	5,000	-
Total component units	\$ 2,120,222	\$ 17,000	\$ 5,000	\$ -

General revenues:

- Taxes:
 - Property
 - Sales
 - Franchise
 - Investment earnings
 - Gain (loss) on sale of capital assets
 - Miscellaneous
- Transfers
- Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position			Discretely Presented	
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Marshall Economic Dev. Corp.	Marshall Downtown Dev. Corp.
\$ (1,965,963)	\$ -	\$ (1,965,963)	\$ -	\$ -
(1,382,348)	-	(1,382,348)	-	-
(604,948)	-	(604,948)	-	-
(7,016,931)	-	(7,016,931)	-	-
(5,437,067)	-	(5,437,067)	-	-
(72,334)	-	(72,334)	-	-
(10,334)	-	(10,334)	-	-
(95,374)	-	(95,374)	-	-
(1,468,753)	-	(1,468,753)	-	-
(1,403,448)	-	(1,403,448)	-	-
(765,353)	-	(765,353)	-	-
<u>(20,222,853)</u>	<u>-</u>	<u>(20,222,853)</u>	<u>-</u>	<u>-</u>
-	6,788,967	6,788,967	-	-
-	-	-	-	-
<u>-</u>	<u>6,788,967</u>	<u>6,788,967</u>	<u>-</u>	<u>-</u>
<u>\$ (20,222,853)</u>	<u>\$ 6,788,967</u>	<u>\$ (13,433,886)</u>	<u>-</u>	<u>-</u>
			(2,092,264)	-
			-	(5,958)
			<u>\$ (2,092,264)</u>	<u>\$ (5,958)</u>
\$ 9,001,467	\$ -	\$ 9,001,467	\$ -	\$ -
10,724,556	-	10,724,556	2,470,754	-
833,007	-	833,007	-	-
1,837,959	565,528	2,403,487	489,494	1,042
14,871	(271,214)	(256,343)	-	-
267,738	48,786	316,524	-	-
2,931,967	(2,931,967)	-	-	-
<u>25,611,565</u>	<u>(2,588,867)</u>	<u>23,022,698</u>	<u>2,960,248</u>	<u>1,042</u>
5,388,712	4,200,100	9,588,812	867,984	(4,916)
<u>43,586,051</u>	<u>45,939,363</u>	<u>89,525,414</u>	<u>25,039,699</u>	<u>45,300</u>
<u>\$ 48,974,763</u>	<u>\$ 50,139,463</u>	<u>\$ 99,114,226</u>	<u>\$ 25,907,683</u>	<u>\$ 40,384</u>

CITY OF MARSHALL, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

DECEMBER 31, 2024

	<u>General</u>	<u>Debt Service Fund</u>	<u>Coronavirus Emergency Fund</u>
ASSETS			
Cash and cash equivalents	\$ 10,156,393	\$ 1,162,618	\$ 659,124
Receivables (net of allowances for uncollectibles):			
Current taxes	3,995,070	721,554	-
Delinquent taxes	653,304	114,510	-
Accounts	1,792,456	-	-
Other	4,741	-	-
Due from other funds	2,300,738	-	-
Due from other governments	2,290,561	-	-
Prepaid items	501,733	-	-
Inventory	-	-	-
Total assets	<u>21,694,996</u>	<u>1,998,682</u>	<u>659,124</u>
LIABILITIES			
Accounts payable	390,827	-	252,943
Accrued liabilities	847,092	-	-
Due to other funds	-	87,633	-
Due to other governments	630,670	-	-
Unearned revenue	34,603	-	438,396
Total liabilities	<u>1,903,192</u>	<u>87,633</u>	<u>691,339</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	3,496,798	627,813	-
Unavailable revenue - court fines	375,550	-	-
Unavailable revenue - ambulance	233,166	-	-
Total deferred inflows of resources	<u>4,105,514</u>	<u>627,813</u>	<u>-</u>
FUND BALANCES (DEFICITS)			
Nonspendable:			
Prepaid items	501,733	-	-
Inventory	-	-	-
Restricted for:			
Promotion and tourism	-	-	-
Public safety	-	-	-
Public works	-	-	-
Street maintenance	-	-	-
Debt service	-	1,283,236	-
Library	-	-	-
Capital projects	-	-	-
Unassigned	15,184,557	-	(32,215)
Total fund balances	<u>15,686,290</u>	<u>1,283,236</u>	<u>(32,215)</u>
Total liabilities, deferred inflows of resources	<u>\$ 21,694,996</u>	<u>\$ 1,998,682</u>	<u>\$ 659,124</u>

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

Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 5,241,966	\$ 3,124,378	\$ 20,344,479
-	169,472	4,886,096
-	-	767,814
-	27,771	1,820,227
-	-	4,741
-	-	2,300,738
-	218,161	2,508,722
-	186	501,919
-	33,632	33,632
<u>5,241,966</u>	<u>3,573,600</u>	<u>33,168,368</u>
1,841,576	95,893	2,581,239
-	3,345	850,437
-	160,681	248,314
-	-	630,670
-	-	472,999
<u>1,841,576</u>	<u>259,919</u>	<u>4,783,659</u>
-	-	4,124,611
-	-	375,550
-	-	233,166
<u>-</u>	<u>-</u>	<u>4,733,327</u>
-	186	501,919
-	33,632	33,632
-	1,251,699	1,251,699
3,400,390	602,932	4,003,322
-	35,288	35,288
-	567,202	567,202
-	-	1,283,236
-	337,148	337,148
-	489,407	489,407
-	(3,813)	15,148,529
<u>3,400,390</u>	<u>3,313,681</u>	<u>23,651,382</u>
<u>\$ 5,241,966</u>	<u>\$ 3,573,600</u>	<u>\$ 33,168,368</u>

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CITY OF MARSHALL, TEXAS

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

DECEMBER 31, 2024

Total fund balances - governmental funds balance sheet	\$ 23,651,382
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	59,432,585
Certain receivables will not be collected soon enough to pay for the current period's expenditures and are, therefore, reported as deferred inflows of resources in the funds:	
Property taxes	4,124,611
Court fines and fees	375,550
Ambulance billing	233,166
Internal service funds are used by management to charge the cost of certain activities, such as equipment replacement and stores inventory to individual funds. The assets and liabilities of the Internal Service Funds are net of amount allocated to business-type activities, capital assets and long-term liabilities. The net effect of this consolidation is to increase net position.	396,102
Long-term liabilities and related balance sheet items are not due and payable in the current period and therefore are not reported as liabilities in the funds.	
Bonds payable	(17,430,000)
Notes payable	(150,742)
Financed purchases payable	(834,096)
Accrued interest payable	(187,253)
Premium on bonds	(436,475)
Compensated absences	(2,059,263)
Net pension liability	(20,377,881)
Total OPEB liability	(1,115,568)
Differences between expected and actual experiences, assumption changes, and net differences between projected and actual earnings and contributions subsequent to the measurement date for the pension and OPEB plans are recognized as deferred outflows and inflows of resources in the statement of net position.	
Deferred outflows of resources related to pension	4,466,649
Deferred outflows of resources related to OPEB	240,974
Deferred inflows of resources related to pension	(1,028,458)
Deferred inflows of resources related to OPEB	<u>(326,520)</u>
Net position of governmental activities	<u>\$ 48,974,763</u>

CITY OF MARSHALL, TEXAS

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

FOR THE YEAR ENDED DECEMBER 31, 2024

	General	Debt Service Fund	Coronavirus Emergency Fund
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property taxes	\$ 7,612,518	\$ 1,292,656	\$ -
Sales taxes	9,900,971	-	-
Franchise taxes	833,007	-	-
Motel occupancy taxes	-	-	-
Charges for services	6,594,556	-	-
Permits and fees	711,044	-	-
Fines and forfeitures	266,032	-	-
Investment income	1,195,350	11,327	-
Intergovernmental	240,567	-	3,668,296
Donations	60,049	-	-
Miscellaneous	250,819	-	-
Total revenues	<u>27,664,913</u>	<u>1,303,983</u>	<u>3,668,296</u>
EXPENDITURES			
Current:			
General government	838,149	-	-
Finance	1,571,255	-	-
Public safety	12,690,651	-	49,939
Public works	4,670,533	-	3,034,051
Tax collection	96,245	-	-
Parks and recreation	1,416,267	-	-
Community and economic development	706,138	-	-
Support services	1,283,297	-	-
Tourism and cultural arts	1,729,667	-	74,608
Debt service:			
Principal	-	1,415,000	-
Interest and fiscal charges	-	707,273	-
Capital outlay	722,389	-	526,621
Total expenditures	<u>25,724,591</u>	<u>2,122,273</u>	<u>3,685,219</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,940,322</u>	<u>(818,290)</u>	<u>(16,923)</u>
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	-	-	-
Transfers in	2,111,831	851,457	-
Transfers out	<u>(1,503,453)</u>	<u>-</u>	<u>(15,292)</u>
Total other financing sources and uses	<u>608,378</u>	<u>851,457</u>	<u>(15,292)</u>
NET CHANGE IN FUND BALANCES	2,548,700	33,167	(32,215)
FUND BALANCES, BEGINNING	<u>13,137,590</u>	<u>1,250,069</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 15,686,290</u>	<u>\$ 1,283,236</u>	<u>\$ (32,215)</u>

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

Capital Improvement Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 32,779	\$ 8,937,953
-	823,585	10,724,556
-	-	833,007
-	1,079,813	1,079,813
-	173,801	6,768,357
-	-	711,044
-	226,706	492,738
526,516	104,482	1,837,675
-	513,777	4,422,640
-	56,577	116,626
-	16,919	267,738
<u>526,516</u>	<u>3,028,439</u>	<u>36,192,147</u>
-	3,210	841,359
-	650	1,571,905
-	95,122	12,835,712
-	1,600	7,706,184
-	-	96,245
-	-	1,416,267
-	250,813	956,951
-	88,660	1,371,957
-	585,824	2,390,099
-	-	1,415,000
-	-	707,273
<u>10,410,781</u>	<u>1,909,120</u>	<u>13,568,911</u>
<u>10,410,781</u>	<u>2,934,999</u>	<u>44,877,863</u>
<u>(9,884,265)</u>	<u>93,440</u>	<u>(8,685,716)</u>
-	14,871	14,871
-	130,529	3,093,817
-	(678,282)	(2,197,027)
-	(532,882)	911,661
(9,884,265)	(439,442)	(7,774,055)
<u>13,284,655</u>	<u>3,753,123</u>	<u>31,425,437</u>
\$ 3,400,390	\$ 3,313,681	\$ 23,651,382

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CITY OF MARSHALL, 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 DECEMBER 31, 2024

Net change in fund balances - total governmental funds	\$ (7,774,055)
Amounts reported for governmental activities in the Statement of Activities are	
The net revenue/(expense) of certain activities of internal service funds are reported with governmental activities. This is the change in net position of the internal service funds.	107,982
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. This is the amount of capital outlay recorded in the current period net of capital asset disposals.	13,977,243
Depreciation on capital assets is reported in the Statement of Activities but does not require the use of current financial resources. Therefore, depreciation is not reported as expenditures in the governmental funds.	(2,914,295)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Repayment of principal of long-term debt	1,782,725
Amortization of:	
Premium on bond issuance	34,270
Interest is accrued in the government-wide financial statements but not at the fund level. This represents the change in the accrual during the period.	(92,350)
Current year changes in certain long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences liability	264,186
Total OPEB liability	1,170
Net pension liability	31,819
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>(29,983)</u>
Change in net position of governmental activities	<u>\$ 5,388,712</u>

CITY OF MARSHALL, TEXAS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

DECEMBER 31, 2024

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Business Development Center	Total	Fleet Maintenance Fund
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 16,640,053	\$ -	\$ 16,640,053	\$ 346,676
Restricted - cash and cash equivalents	3,276,039	-	3,276,039	-
Receivables, net	966,176	-	966,176	-
Prepaid items	14,714	-	14,714	-
Inventory	59,442	-	59,442	-
Total current assets	<u>20,956,424</u>	<u>-</u>	<u>20,956,424</u>	<u>346,676</u>
Capital assets:				
Land	218,051	-	218,051	-
Construction in progress	11,489,053	-	11,489,053	-
Buildings	1,233,899	-	1,233,899	-
Machinery and equipment	5,570,760	51,831	5,622,591	4,074,581
Water and wastewater system	81,117,386	-	81,117,386	-
Less accumulated depreciation	<u>(47,869,727)</u>	<u>(51,831)</u>	<u>(47,921,558)</u>	<u>(1,017,316)</u>
Net capital assets	<u>51,759,422</u>	<u>-</u>	<u>51,759,422</u>	<u>3,057,265</u>
Total assets	<u>72,715,846</u>	<u>-</u>	<u>72,715,846</u>	<u>3,403,941</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related	771,088	-	771,088	-
OPEB related - retiree health plan	31,560	-	31,560	-
OPEB related - SDBF	14,113	-	14,113	-
Total deferred outflows of resources	<u>816,761</u>	<u>-</u>	<u>816,761</u>	<u>-</u>

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

CITY OF MARSHALL, TEXAS

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 (Continued)

DECEMBER 31, 2024

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Business Development Center	Total	Fleet Maintenance Fund
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 1,015,462	\$ -	\$ 1,015,462	\$ 37,359
Accrued liabilities	92,353	-	92,353	-
Due to other funds	2,052,424	-	2,052,424	-
Unearned revenue	1,093,060	-	1,093,060	-
Bonds and leases payable	82,000	-	82,000	827,866
Compensated absences	93,094	-	93,094	-
Total OPEB liability - retiree health plan	4,151	-	4,151	-
Total OPEB liability - SDBF	<u>3,385</u>	<u>-</u>	<u>3,385</u>	<u>-</u>
Total current liabilities	<u>4,435,929</u>	<u>-</u>	<u>4,435,929</u>	<u>865,225</u>
Current liabilities payable from restricted assets:				
Customer deposits	<u>1,020,345</u>	<u>-</u>	<u>1,020,345</u>	<u>-</u>
Total current liabilities payable from restricted assets	<u>1,020,345</u>	<u>-</u>	<u>1,020,345</u>	<u>-</u>
Noncurrent liabilities:				
Bonds and leases payable	16,046,926	-	16,046,926	2,142,614
Compensated absences	172,888	-	172,888	-
Total OPEB liability - retiree health plan	85,543	-	85,543	-
Total OPEB liability - SDBF	86,451	-	86,451	-
Net pension liability	<u>1,242,470</u>	<u>-</u>	<u>1,242,470</u>	<u>-</u>
Total noncurrent liabilities	<u>17,634,278</u>	<u>-</u>	<u>17,634,278</u>	<u>2,142,614</u>
Total liabilities	<u>23,090,552</u>	<u>-</u>	<u>23,090,552</u>	<u>3,007,839</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related	246,630	-	246,630	-
OPEB related - retiree health plan	32,289	-	32,289	-
OPEB related - SDBF	<u>23,673</u>	<u>-</u>	<u>23,673</u>	<u>-</u>
Total deferred inflows of resources	<u>302,592</u>	<u>-</u>	<u>302,592</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	27,309,873	-	27,309,873	86,785
Unrestricted	<u>22,829,590</u>	<u>-</u>	<u>22,829,590</u>	<u>309,317</u>
Total net position	<u>\$ 50,139,463</u>	<u>\$ -</u>	<u>\$ 50,139,463</u>	<u>\$ 396,102</u>

CITY OF MARSHALL, TEXAS

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

FOR THE YEAR ENDED DECEMBER 31, 2024

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Business Development Center	Total	Fleet Maintenance Fund
OPERATING REVENUES				
Charges for services	\$ 11,477,936	\$ -	\$ 11,477,936	\$ -
Miscellaneous	48,786	-	48,786	27,338
Total operating revenues	<u>11,526,722</u>	<u>-</u>	<u>11,526,722</u>	<u>27,338</u>
OPERATING EXPENSES				
Administrative	334,626	-	334,626	-
Water production	1,834,838	-	1,834,838	-
Water distribution/collection	1,490,947	-	1,490,947	-
Wastewater treatment	1,121,995	-	1,121,995	-
Water billing	619,577	-	619,577	-
Engineering	262,702	-	262,702	-
Non-departmental	191,628	-	191,628	-
Materials and supplies	89,061	-	89,061	1,312,659
Depreciation and amortization	1,623,360	-	1,623,360	549,135
Total operating expenses	<u>7,568,734</u>	<u>-</u>	<u>7,568,734</u>	<u>1,861,794</u>
OPERATING INCOME (LOSS)	<u>3,957,988</u>	<u>-</u>	<u>3,957,988</u>	<u>(1,834,456)</u>
NONOPERATING REVENUES (EXPENSES)				
Loss on disposal of property	-	(271,214)	(271,214)	-
Investment income	565,528	-	565,528	284
Interest expense and fees	(154,286)	-	(154,286)	(93,023)
Total nonoperating revenues (expenses)	<u>411,242</u>	<u>(271,214)</u>	<u>140,028</u>	<u>(92,739)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>4,369,230</u>	<u>(271,214)</u>	<u>4,098,016</u>	<u>(1,927,195)</u>
Capital contributions	3,034,051	-	3,034,051	-
Transfers in	1,360	-	1,360	2,035,177
Transfers out	(2,933,327)	-	(2,933,327)	-
Total capital contributions and transfers	<u>102,084</u>	<u>-</u>	<u>102,084</u>	<u>2,035,177</u>
CHANGE IN NET POSITION	4,471,314	(271,214)	4,200,100	107,982
TOTAL NET POSITION, BEGINNING	<u>45,668,149</u>	<u>271,214</u>	<u>45,939,363</u>	<u>288,120</u>
TOTAL NET POSITION, ENDING	<u>\$ 50,139,463</u>	<u>\$ -</u>	<u>\$ 50,139,463</u>	<u>\$ 396,102</u>

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

CITY OF MARSHALL, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2024

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Business Development Center	Total	Fleet Maintenance Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 13,509,286	\$ -	\$ 13,509,286	\$ 30,044
Cash paid to employees	17,111	-	17,111	-
Cash paid to suppliers for goods and services	(5,222,418)	-	(5,222,418)	(1,275,300)
Net cash provided by operating activities	<u>8,303,979</u>	<u>-</u>	<u>8,303,979</u>	<u>(1,245,256)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Issuance of debt	14,160,926	-	14,160,926	3,449,814
Principal paid on debt	(82,000)	-	(82,000)	(479,334)
Interest paid on bonds and other debt	(154,286)	-	(154,286)	(93,023)
Net cash provided by capital and related financing activities	<u>1,129,597</u>	<u>-</u>	<u>1,129,597</u>	<u>(565,978)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>565,528</u>	<u>-</u>	<u>565,528</u>	<u>284</u>
Net cash provided by investing activities	<u>565,528</u>	<u>-</u>	<u>565,528</u>	<u>284</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer in	1,360	-	1,360	2,035,177
Transfer out	(2,933,327)	-	(2,933,327)	-
Net cash provided (used) by noncapital financing activities	<u>(2,931,967)</u>	<u>-</u>	<u>(2,931,967)</u>	<u>2,035,177</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,067,137	-	7,067,137	224,227
CASH AND CASH EQUIVALENTS, BEGINNING	<u>12,848,955</u>	<u>-</u>	<u>12,848,955</u>	<u>122,449</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 19,916,092</u>	<u>\$ -</u>	<u>\$ 19,916,092</u>	<u>\$ 346,676</u>

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

CITY OF MARSHALL, TEXAS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2024
(Continued)

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Business Development Center	Total	Fleet Maintenance Fund
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating gain (loss)	\$ 3,957,988	\$ -	\$ 3,957,988	\$ (1,834,456)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	1,623,360	-	1,623,360	549,135
(Increase) decrease in assets:				
Accounts receivable	(46,021)	-	(46,021)	2,706
Prepaid items	70,900	-	70,900	-
Deferred outflows	541,131	-	541,131	-
Increase (decrease) in liabilities:				
Accounts payable	843,846	-	843,846	37,359
Accrued liabilities	36,072	-	36,072	-
Due to other funds	2,052,424	-	2,052,424	-
Unearned revenue	(54,837)	-	(54,837)	-
Customer deposits	30,998	-	30,998	-
Net pension liability	(770,796)	-	(770,796)	-
Total OPEB liability	(12,055)	-	(12,055)	-
Compensated absences	17,504	-	17,504	-
Deferred inflows	13,465	-	13,465	-
Total adjustments	<u>4,345,991</u>	<u>-</u>	<u>4,345,991</u>	<u>589,200</u>
Net cash provided by operating activities	<u>\$ 8,303,979</u>	<u>\$ -</u>	<u>\$ 8,303,979</u>	<u>\$ (1,245,256)</u>

CITY OF MARSHALL, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2024

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Marshall, Texas ("City") was chartered pursuant to an election in 1909 (as amended). The City operates under a commission form of government and provides the following services as authorized by its charter, public safety (police and fire), highway and streets, water and sewer, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting practices generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Other more significant accounting and reporting policies and practices used by the City are described below.

A. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and are appropriately presented as funds of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

Based on these criteria, the financial information of the following entities has been discretely presented within the financial statements.

Discretely Presented Component Units

Marshall Economic Development Corporation (MEDCO) was incorporated under the Development Corporation Act of 1979, as amended, Article 5190.6, Tex. Rev. Civ. Stat. Ann., as amended as a non-profit industrial development corporation. The purpose of the corporation is to promote and develop industrial and manufacturing enterprises in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City. The City appoints its five (5) member board of directors and all its policies for program administration must be submitted to the City for approval. Marshall Economic Development Corporation is subject to audit by the City or its representatives and may not issue any debt without City approval. Its revenue is derived from a \$.00375 City sales tax. A separate audit for the year ended December 31, 2024, was performed and may be obtained by contacting MEDCO.

Marshall Higher Education Financing Corporation (HEFCO) was incorporated as a non-profit organization to provide an instrumentality to exercise the powers granted to a higher education authority under Section 53.33 of the Texas Education Code, as authorized by Section 53.35(b) of the Texas Education Code. The Board of Directors are appointed by and subject to removal by the governing body of the City of Marshall and consists of seven (7) persons. HEFCO is authorized by the City of Marshall to carry on functions of a higher education authority for the purpose of financing educational institutions in Harrison County. HEFCO had no assets at year-end and no activity for the year. Since HEFCO had no assets or activity for 2024, it was not included in the financial statements.

The Marshall Downtown Development Corporation (MDDC) was established by resolution of the City Commission of Marshall, Texas, on March 13, 2003, to act as a non-profit corporation for the benefit of the City of Marshall, Texas, specifically to promote and assist in the development, growth, and economic wellbeing of the downtown area. On June 3, 2004, MDDC filed amendments to Articles of Incorporation with the Secretary of State changing the status of the Corporation to a Local Government Corporation under applicable provisions of the Texas Transportation Code. The Board of Directors are appointed by and subject to removal by the governing body of the City of Marshall and consists of not more than seven (7) persons. A separate audit for the year ended December 31, 2024, was performed and may be obtained by contacting MDDC.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

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

C. Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The City reports the following major governmental funds:

The **General Fund** is the main operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of financial resources for the payment of general long-term debt principal, interest, and related costs. The fund balance of the debt service fund is reserved to signify the amounts that are restricted exclusively for debt service.

Coronavirus Emergency Fund: The Coronavirus Emergency Fund is used to account for the resources received from the federal government to be used to respond to the COVID-19 pandemic and its effects on the economy.

The **Capital Improvement Fund** accounts for proceeds from the City's Certificates of Obligation and the expenditures for related capital improvement projects.

Additionally, the City reports the following governmental fund types:

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are restricted to expenditures for specified purposes.

Capital Projects Funds: Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital assets (other than those financed by proprietary funds).

Permanent Fund: The Permanent Fund accounts for assets held by the City pursuant to a trust agreement. The Permanent Fund of the City is the Library Fund.

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer and Business Development Center. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its fleet management program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements, except for the Equipment Replacement Fund. The Equipment Replacement Funds are split between governmental and business-type activities. The City has presented the following enterprise funds:

Water and Sewer Fund: Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations, and maintenance of the water and sewer system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Business Development Center: This fund is used to account for the activities related to services and assistance provided to business in the community.

All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements, fiduciary fund financial statements, and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred, regardless of the timing of related cash flows. General revenues in the government-wide statement consist of taxes and fees. Program revenues consist of charges for service, contributions, and grant revenues. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers delinquent property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income, and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

E. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and investments – Statement of Cash Flows

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash of all funds, including restricted cash, but excluding the Payroll cash accounts, are pooled into one common pooled account in order to maximize investment opportunities. The City pools temporary investments into pooled accounts in a public funds investment pool with TexPool. Also, the City pools investments into other authorized investments. Each fund whose monies are deposited in the pooled cash and investment account has an equity therein, and interest has an equity therein, and interest earned on the investment of these monies is allocated based on relative equity at month end. The pooled cash and temporary investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities and certificates of deposit that are owned by a specific fund and that are purchased with a maturity of ninety days or less, are also considered to be "cash equivalents."

The carrying amounts of investments (which are fair value) are based on quoted market values at December 31, 2024. The market values of temporary investments are based on values provided by TexPool at December 31, 2024.

2. Inventories and prepaid items

The inventories of the Governmental and Proprietary Funds consist of supplies and are valued at cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in both the government-wide and fund financial statements. Prepaid items are accounted for using the consumption method.

In Governmental Funds, reported inventories and prepaid items do not represent available spendable resources and are, therefore, equally offset by a non-spendable fund balance account.

3. *Restricted assets*

These assets consist of cash and investments restricted for water and sewer revenue bond debt service, customer meter deposits, and water and sewer capital projects.

4. *Interfund receivables and payables – transactions between funds*

Short-term amounts owed between funds are classified as "Due To/From Other Funds".

Legally authorized transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

5. *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. *Reclassifications*

Certain prior year numbers have been reclassified to conform to the current year presentation. There were no changes to net position or fund balances as previously reported.

7. *Ad Valorem Tax*

Taxes are levied on October 1 and are due on January 1. All unpaid taxes levied on October 1 become delinquent July 1 of the following year. Property taxes are recorded when levied as Taxes Receivable in the General Fund with an offset to Unavailable Revenue - Property Taxes. Revenue is recognized as taxes are collected, except that delinquent tax collections for the first sixty days of the subsequent year are considered susceptible to accrual and recognized in the current year. Taxes levied on October 1 which are collected between October 1 and December 31 are recognized as revenue. Debt Service requirements are satisfied by allocating tax receipts between the General Fund and the Debt Service Fund.

8. *Capital Assets*

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$2,500 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Assets	Years
Buildings	20-50
Water and sewer system	25-50
Infrastructure	20-40
Machinery and equipment	5-12
Improvements	10-25

9. *Deferred Inflows and Outflows of Resources*

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

- Pension and OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Changes in actuarial assumptions and other inputs included in determining the pension and OPEB liability – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Differences between expected and actual economic experience for the City's pension and OPEB plan – These effects on the pension and OPEB liability are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).
- Difference in projected and actual earnings on pension and OPEB assets – This difference is deferred and amortized over a closed five-year period.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net assets that applies to a future period(s) and, therefore, will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item that arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

In addition, the City has deferred inflows of resources that are required to be reported on the Statements of Net Position under the full accrual basis of accounting. Deferred inflows of resources reported in the Statements of Net Position are as follows:

- Differences between expected and actual economic experience for the City's pension and OPEB plans – These effects on the total pension liability are deferred and amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).
- Changes in actuarial assumptions and other inputs included in determining the OPEB liability – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

10. *Compensated Absences*

A total of 10 to 15 days vacation and 15 days sick leave per year may be accumulated by each employee. A maximum of 30 days vacation and 90 days sick leave may be accumulated. (Civil Service employees may accumulate an unlimited amount of sick leave.) The City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria the City has accrued a liability for paid absences, which have been earned but not taken by City employees. The City budgets an amount estimated to be paid to terminated employees each year. As a result, none of the liability is anticipated to be liquidated with expendable available financial resources. However, accrued compensated absences are reported on the accrual basis of accounting in the applicable governmental or business-type activity columns of the government-wide statements, and in the enterprise activities of the fund financial statements.

11. *Net Position*

Net position represents the residual of assets plus deferred outflows less liabilities and deferred inflows. Net position invested in capital assets, net of related debt 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 its 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.

12. *Defined Benefit Pension Plan*

The fiduciary net position of the Texas Municipal Retirement System (TMRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TMRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13. *Other Postemployment Benefits*

TMRS Supplemental Death Benefits Fund

The City participates in the Texas Municipal Retirement System Supplemental Death Benefit Fund (TMRS SDBF), which is an optional single employer defined benefit life insurance plan that is administered by TMRS. It provides death benefits to active and, if elected, retired employees of participating employers. Contribution rates are determined annually for each participating municipality as a percentage of that City's covered payroll. The death benefit for retirees is considered an other postemployment benefit (OPEB). The OPEB program is an unfunded trust because the SDBF trust covers both actives and retirees and is not segregated. The Total OPEB Liability of the plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the Total OPEB Liability, deferred inflows and outflows of resources, and OPEB expense. Benefit payments are recognized when due and payable in accordance with the benefit terms.

Retiree Insurance Plan

The City, through its substantive commitment to provide other post-employment benefits (OPEB) provides retiree medical coverage to eligible employees. To be eligible, a City employee retiring at age 62 or over must have at least 5 years of service with the City. City employees retiring before age 62 must have at least 20 years of service with the City. Employees with hire dates prior to 2005 and retirement dates after 2007 are eligible to participate in the plan. Retirees are required to pay the premium cost for both single and dependent coverage. The City also subsidizes certain retirees and dependents as a result of prior commitments. The plan qualifies as a single-employer defined benefit plan and is accounted for in the City's Insurance Fund and in the fund where the retiree last worked. A separate financial statement is not issued for the plan.

14. 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 ordinance of the City Council. 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:** Amounts in the assigned fund balance classification are intended to be used for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- **Unassigned:** 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.

15. Change in Accounting Principle

During fiscal year 2024, the City adopted GASB Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

II. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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 and implement an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (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, (9) and 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, (10) and 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 substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

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

1. Custodial Credit Risks For 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. The City's policy regarding types of deposits allowed and collateral requirements is:

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect the City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Of the total bank balances, \$250,000 was covered by Federal Depository Insurance for all accounts. The remainder of the accounts were covered by a Federal Home Loan of Dallas letter of credit.

2. Custodial Credit Risk for Investments - This is the risk that, in the event of the failure of the counter party, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City's investment policy for custodial credit risk is:

The laws of the State and prudent treasury management require that all purchased securities be held in safekeeping by either the City, a third-party financial institution, in an insured account with a designated broker/dealer, or the City's designated depository. All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. The third-party custodian shall be required to issue safekeeping receipts to the City listing each specific security, rate, description, maturity, cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the City or pledged to the City.

All securities pledged to the City for certificates of deposit or demand deposits shall be held by an independent third-party bank domiciled in Texas. The safekeeping bank may be within the same holding company as the bank from which the securities are pledged.

Collateralization

Collateralization shall be required on two types of investments:

- a) certificates of deposit over the FDIC insurance coverage of \$250,000 and
- b) repurchase agreements.

At December 31, 2024, all of the securities are in the City's name and held by the City or its agent.

At December 31, 2024, MEDCO was not exposed to custodial credit risk. MEDCO only had investments in TexPool, a state investment pool, which is not subject to custodial credit risk.

3. Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment. According to the City's policy, investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flows of the City and conforming to all applicable state and City statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity.

4. Credit Risk and Concentration Risk - The City's main goal of their investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with policy. The City's investment policy states that diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

Investment Types	Maximum Portfolio Concentration
Obligations of the United States or its agencies and instrumentalities	100%
Direct obligations of this state or its agencies and instrumentalities	50%
Fully insured or collateralized certificates of deposit	100%
Fully collateralized repurchase agreements	100%
Money market funds	50%
Public funds investment pools	100%

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest more than 25% of the portfolio for a period greater than one (1) year. The Investment Officer may not invest any portion for a period greater than three (3) years.

5. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end and during the year, the City was not exposed to foreign currency risk.

The City's investments as of December 31, 2024 are:

Investment Type	Rating	Market Value	WAM
Public Funds Investment Pool:			
TexPool	AAAm (S&P)	\$ 31,962,249	46
Total		<u>\$ 31,962,249</u>	

MEDCO's investments as of December 31, 2024 are:

Investment Type	Rating	Market Value	WAM
Public Funds Investment Pool:			
TexPool	AAAm (S&P)	\$ 2,990,424	46
Total		<u>\$ 2,990,424</u>	

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

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

The City categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or it's equivalent) as a practical expedient are not classified in the fair value hierarchy.

III. RECEIVABLES

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

	General	Debt Service Fund	Water and Sewer	Nonmajor Governmental	Total
Receivables:					
Taxes	\$ 4,893,025	\$ 880,067	\$ -	\$ 169,472	\$ 5,942,564
Accounts	4,199,337	-	987,541	27,771	5,214,649
Other	<u>4,741</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,741</u>
Gross	<u>9,097,103</u>	<u>880,067</u>	<u>987,541</u>	<u>197,243</u>	<u>11,161,954</u>
Receivables less:					
Allowance for uncollectibles	<u>(2,651,532)</u>	<u>(44,003)</u>	<u>(21,365)</u>	<u>-</u>	<u>(2,716,900)</u>
Net total receivables	<u>\$ 6,445,571</u>	<u>\$ 836,064</u>	<u>\$ 966,176</u>	<u>\$ 197,243</u>	<u>\$ 8,445,054</u>

IV. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2024, was as follows:

Primary Government

	Beginning Balance	Additions	Deletions/ Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,164,764	\$ -	\$ -	\$ 1,164,764
Construction in progress	615,220	-	-	615,220
Total assets not being depreciated	<u>1,779,984</u>	<u>-</u>	<u>-</u>	<u>1,779,984</u>
Capital assets, being depreciated:				
Buildings	27,113,321	950,399	-	28,063,720
Machinery and equipment	19,547,543	5,974,759	-	25,522,302
Right-to-use - vehicles	-	3,449,814	-	3,449,814
Improvements	4,247,432	6,683,137	-	10,930,569
Infrastructure	73,810,004	434,577	-	74,244,581
Total capital assets being depreciated	<u>124,718,300</u>	<u>17,492,686</u>	<u>-</u>	<u>142,210,986</u>
Less accumulated depreciation:				
Buildings	(10,780,262)	(470,533)	(543,311)	(11,794,106)
Machinery and equipment	(16,352,935)	(1,179,146)	374,504	(17,157,577)
Right-to-use - vehicles	-	(503,098)	-	(503,098)
Improvements	(2,564,072)	(119,129)	1,522	(2,681,679)
Infrastructure	(48,268,413)	(1,237,561)	141,314	(49,364,660)
Total accumulated depreciation	<u>(77,965,682)</u>	<u>(3,509,467)</u>	<u>(25,971)</u>	<u>(81,501,120)</u>
Total capital assets being depreciated, net	<u>46,752,618</u>	<u>13,983,219</u>	<u>(25,971)</u>	<u>60,709,866</u>
Governmental activities capital assets, net	<u>\$ 48,532,602</u>	<u>\$ 13,983,219</u>	<u>\$ (25,971)</u>	<u>\$ 62,489,850</u>
	Beginning Balance	Additions	Deletions/ Adjustments	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 267,032	\$ -	\$ (48,981)	\$ 218,051
Construction in progress	59,499	11,429,554	-	11,489,053
Total assets not being depreciated	<u>326,531</u>	<u>11,429,554</u>	<u>(48,981)</u>	<u>11,707,104</u>
Capital assets, being depreciated:				
Buildings	1,952,824	-	(718,925)	1,233,899
Machinery and equipment	6,066,402	211,611	(655,422)	5,622,591
Water and wastewater system	76,863,601	3,793,402	460,383	81,117,386
Total capital assets being depreciated	<u>84,882,827</u>	<u>4,005,013</u>	<u>(913,964)</u>	<u>87,973,876</u>
Less accumulated depreciation:				
Buildings	(1,466,244)	(17,927)	532,571	(951,600)
Machinery and equipment	(4,201,470)	(301,683)	628,168	(3,874,985)
Water and wastewater system	(41,716,742)	(1,303,750)	(74,481)	(43,094,973)
Total accumulated depreciation	<u>(47,384,456)</u>	<u>(1,623,360)</u>	<u>1,086,258</u>	<u>(47,921,558)</u>
Total capital assets being depreciated, net	<u>37,498,371</u>	<u>2,381,653</u>	<u>172,294</u>	<u>40,052,318</u>
Business-type activities capital assets, net	<u>\$ 37,824,902</u>	<u>\$ 13,811,207</u>	<u>\$ 123,313</u>	<u>\$ 51,759,422</u>

Discretely Presented Component Units

	Beginning Balance	Additions	Deletions/ Adjustments	Ending Balance
Marshall Economic Development Corporation:				
Capital assets, not being depreciated:				
Land	\$ 5,265,563	\$ 50,000	\$ -	\$ 5,315,563
Construction in progress	2,505,215	-	-	2,505,215
Total assets not being depreciated	<u>7,770,778</u>	<u>50,000</u>	<u>-</u>	<u>7,820,778</u>
Capital assets, being depreciated:				
Building	10,347,337	-	-	10,347,337
Improvements	1,387,363	-	-	1,387,363
Machinery, tools, and equipment	136,896	12,455	-	149,351
Total capital assets being depreciated	<u>11,871,596</u>	<u>12,455</u>	<u>-</u>	<u>11,884,051</u>
Less accumulated depreciation:				
Building	(2,387,216)	(258,683)	-	(2,645,899)
Improvements	(356,619)	(48,886)	-	(405,505)
Machinery, tools, and equipment	(59,000)	(14,786)	-	(73,786)
Total accumulated depreciation	<u>(2,802,835)</u>	<u>(322,355)</u>	<u>-</u>	<u>(3,125,190)</u>
Total capital assets being depreciated, net	<u>9,068,761</u>	<u>(309,900)</u>	<u>-</u>	<u>8,758,861</u>

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

Governmental activities:	
General government	\$ 172,803
Tourism and convention development	237,806
Support services	265,138
Public safety	904,348
Public works	1,913,371
Community and economic development	1,991
Non-departmental	14,010
Total depreciation expense - governmental activities	<u>\$ 3,509,467</u>
Business-type activities:	
Water and sewer	\$ 1,623,360
Total depreciation expense - business-type activities	<u>\$ 1,623,360</u>

V. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2024, is as follows:

Due to/from Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental	\$ 160,681
General Fund	Debt Service	87,633
General Fund	Water & sewer	<u>2,052,424</u>
	Total	<u>\$ 2,300,738</u>

Interfund balances for all the funds are created by short-term deficiencies in cash position in the individual fund. It is anticipated that the balances will be repaid in one year or less.

Similar transactions such as this also exist between the primary government and the City’s discretely presented component unit. The City is required to contribute to MEDCO, \$.00375 of the \$.0825 sales tax levied on taxable sales. Monthly, the City receives sales tax remittances from the State of Texas for taxes collected by the State on behalf of the City. Because of the time allowed by the State for merchants to file Sales Tax Returns, a lag exists between when the tax is earned by the City and when it is received. At December 31, 2024, the amount due to MEDCO from the City for its portion of sales tax revenue was \$402,915.

Interfund Transfers

A summary of interfund transfers by fund type is as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 150
General	Internal service fund	1,501,943
Water & sewer	Internal service fund	533,234
Nonmajor governmental	Debt service fund	231,193
Water & sewer	Debt service fund	620,264
General	Water & sewer	1,360
Nonmajor governmental	General	316,710
Nonmajor governmental	Nonmajor governmental	130,379
Coronavirus emergency	General	15,292
Water & sewer	General	1,779,829
Total		<u>\$ 5,130,354</u>

Interfund transfers are primarily made by the City for the following reasons:

- Budgeted transfers to the General Fund from other funds for operating and administrative allocations.
- Transfers from the General Fund to the Internal Service Funds to cover equipment replacement expenditures.
- Transfer to the Capital Improvement Fund to cover furniture and fixtures at the new Animal Adoption Center.
- Transfers to the Debt Service Fund to pay for self-supporting debt service expenditures.

VI. LONG-TERM DEBT

New Debt Issued

In February 2024, the City issued Promissory Note, Series 2024 in the amount of \$14,160,926. This note has an interest rate of 4.98% and will mature in February 2045. This note will be used to fund the purchase of water meters and related equipment and is secured by the City’s utility system revenue.

General Obligation Debt

Bonded indebtedness of the City is accounted for in the Statement of Net Position in governmental activities. Payments on the bonds are made by the Debt Service Fund and the Motel Occupancy Tax Fund.

On March 10, 2016, the City passed an ordinance authorizing the issuance of \$3,845,000 General Obligation Refunding Bonds, Series 2016. The proceeds of issuance are to be used for the purpose of refunding \$3,895,000 of the 2018 through 2027 maturities of the City's currently outstanding General Obligation Bonds, Series 2007. The City refunded the General Obligations Bonds, Series 2007 in order to realize interest cost savings. The bonds were issued on April 15, 2016, with interest payable June 15 and December 15 of each year commencing June 15, 2016, until maturity or prior redemption. The City reserves the right, at its option, to redeem the bonds maturing on and after June 15, 2026, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption, at any time beginning June 15, 2025.

The proceeds from the refunded existing bond maturities and interest thereon were placed with an escrow agent. The escrowed funds, together with investment earnings thereon, will be sufficient to discharge the Refunding Bonds. Under the escrow agreement, the Escrow Fund is irrevocably pledged to the payment of principal and interest on the Refunding Bonds. On June 15, 2017, there was a full call on all of the General Obligation Bonds, Series 2007.

On June 22, 2017, the City passed an ordinance authorizing the issuance of \$2,000,000 Combination Tax and Revenue Certificates of Obligation, Series 2017. The proceeds of the issuance are to be used as additional funding to complete the renovation of Memorial City Hall, as well as covering the cost of issuing the certificates of obligations. The bonds were issued on July 13, 2017, with interest payable December 15, 2017, and on each June 15 and December 15 thereafter to the date of the final maturity hereof or to the date of redemption prior to maturity. The cost of issuance of the bonds was \$42,500, which has been added to the cost of construction of Memorial City Hall.

On August 8, 2019, the City approved an ordinance authorizing the issuance and sale of \$1,033,000 General Obligation Refunding Bonds, Series 2019, (Bonds) with an interest rate of 2.34%. The proceeds of issuance are to be used for the purpose of redeeming the Combination Tax and Limited Surplus Revenue Certificates of Obligation Series 2010A and to realize a net present value savings of approximately \$10,274. The Bonds constitutes a direct obligation of the City and are payable from an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law. The Bonds are expected to be self-supported by hotel/motel taxes. The Bonds are payable over 10 years with annual principal payments on June 15 of each year beginning June 15, 2020, and semiannual interest payments beginning December 15, 2019 and each June 15 and December 15 thereafter until maturity or prior redemption.

On August 8, 2019, the City approved an ordinance authorizing the issuance and sale of City of Marshall, Texas, Limited Tax Note, Series 2019, (Note) for \$853,000, with an interest rate of 2.33% for 7 years. The Note will constitute a direct obligation of the City, payable both as to principal and interest from the pledge of ad valorem taxes levied and collected. The purpose of the Note is to fund the remaining amount required to complete Memorial City Hall renovations and payment of costs of issuance. The Note is payable over 7 years with annual principal payments beginning August 15, 2020, and semiannual interest payments beginning February 15, 2020, and on each August 15 and February 15 thereafter to the date of maturity or redemption prior to maturity.

On August 13, 2020, the City approved an ordinance authorizing the issuance and sale of City of Marshall, Texas, Limited Tax Note, Series 2020, for \$1,795,000 with an interest rate of 1.160%. The Note will constitute a direct obligation to the City, payable both as principal and interest from the pledge of ad valorem taxes levied and collected. The purpose of the note is to fund the constructing, improving, and expansion of public works, including streets and roads, fencing and parking improvements at Airport Park, repairs and improvements for fire stations and police stations, repairs and improvements at Marshall City Arena, Marshall Convention Center, and City Library, upgrading the City's data center and information technology system, and payment of costs of issuance. The Note is payable over 7 years, with annual principal payments beginning June 1, 2022, with semiannual interest payments beginning June 1, 2022, and on each December 1 and June 1 thereafter to the date of maturity.

A summary of changes in long-term debt for the year ended December 31, 2024 is as follows:

Bonded Indebtedness	Interest Rates to Maturity	Amounts Original Issued	Amounts Outstanding Beginning	Issued Current Year	Refunded/Retired Current Year	Amounts Outstanding Ending	Interest Current Year	Due Within One Year
Governmental activities:								
Bonds, notes and leases:								
CO Series 2017	2.173%	\$ 2,000,000	\$ 1,570,000	\$ -	\$ 80,000	\$ 1,490,000	\$ 33,247	\$ 85,000
GO Refunding Series 2016	2-4%	3,845,000	1,670,000	-	395,000	1,275,000	54,950	405,000
GO Refunding Series 2019	2.34%	1,033,000	648,000	-	104,000	544,000	13,947	103,000
Limited Tax Note, Series 2019	2.33%	853,000	382,000	-	125,000	257,000	8,900	127,000
Limited Tax Note, Series 2020	1.16%	1,795,000	1,040,000	-	256,000	784,000	10,579	258,000
CO Series 2023A	4-5%	13,535,000	13,535,000	-	455,000	13,080,000	575,328	435,000
Premium on bonds		588,491	470,746	-	34,270	436,476	-	-
Lease	4%	3,449,814	-	3,449,814	479,334	2,970,480	-	827,866
Notes payable	1.95-2%	1,066,852	226,111	-	75,370	150,741	4,648	75,370
Financed purchases	4%	1,978,661	1,126,451	-	292,355	834,096	44,838	339,467
Total bonds, notes and leases		<u>30,144,818</u>	<u>20,668,308</u>	<u>3,449,814</u>	<u>2,296,329</u>	<u>21,821,793</u>	<u>746,437</u>	<u>2,655,703</u>
Compensated absences		-	2,323,449	-	264,186	2,059,263	-	720,742
Total governmental activities		<u>\$ 30,144,818</u>	<u>\$ 22,991,757</u>	<u>\$ 3,449,814</u>	<u>\$ 2,560,515</u>	<u>\$ 23,881,056</u>	<u>\$ 746,437</u>	<u>\$ 3,376,445</u>
Business-type activities:								
Bonds, notes and leases:								
CO Series 2023 (TWDB FIF)	N/A	\$ 2,050,000	\$ 2,050,000	\$ -	\$ 82,000	\$ 1,968,000	\$ -	\$ 82,000
Promissory Note, Series 2024	4.98%	14,160,926	-	14,160,926	-	14,160,926	-	-
Total bonds, notes and leases		<u>16,210,926</u>	<u>2,050,000</u>	<u>14,160,926</u>	<u>82,000</u>	<u>16,128,926</u>	<u>-</u>	<u>82,000</u>
Compensated absences		-	248,478	17,504	-	265,982	-	93,094
Total business-type activities		<u>\$ 16,210,926</u>	<u>\$ 2,298,478</u>	<u>\$ 14,178,430</u>	<u>\$ 82,000</u>	<u>\$ 16,394,908</u>	<u>\$ -</u>	<u>\$ 175,094</u>

Increases and decreases to compensated absences are presented as a net change.

Debt service requirements are as follows:

General Obligation Bonds:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total Requirements
2025	\$ 508,000	\$ 54,425	\$ 562,425
2026	425,000	36,620	461,620
2027	589,000	17,535	606,535
2028	147,000	5,230	152,230
2029	150,000	1,755	151,755
Total	<u>\$ 1,819,000</u>	<u>\$ 115,565</u>	<u>\$ 1,934,565</u>

Certificates of Obligation, Revenue Bonds, and Limited Tax Note - Governmental Activities

Certificates of Obligation, Revenue Bonds, and Limited Tax Note:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total Requirements
2025	\$ 905,000	\$ 640,553	\$ 1,545,553
2026	1,036,000	609,847	1,645,847
2027	935,000	576,888	1,511,888
2028	700,000	547,168	1,247,168
2029	730,000	517,626	1,247,626
2030-2034	3,705,000	2,266,929	5,971,929
2035-2039	3,875,000	1,444,213	5,319,213
2040-2043	3,725,000	598,438	4,323,438
Total	<u>\$ 15,611,000</u>	<u>\$ 7,201,662</u>	<u>\$ 22,812,662</u>

Certificates of Obligation and Promissory Note – Business-Type Activities

Certificates of Obligation and Promissory Note:

Year Ending December 31,	Business-Type Activities		
	Principal	Interest	Total Requirements
2025	\$ 82,000	\$ 679,748	\$ 761,748
2026	82,000	705,214	787,214
2027	490,000	705,214	1,195,214
2028	530,000	684,896	1,214,896
2029	573,000	662,585	1,235,585
2030-2034	3,396,569	2,909,013	6,305,582
2035-2039	4,234,749	2,084,562	6,319,311
2040-2044	5,286,810	1,032,501	6,319,311
2045-2048	1,453,798	56,065	1,509,863
Total	<u>\$ 16,128,926</u>	<u>\$ 9,519,798</u>	<u>\$ 25,648,724</u>

Financed Purchases - Governmental Activities

The City has entered into various financing agreements for the purchase of equipment. The terms of these agreements are summarized below:

Purpose	Interest Rate	Initial Year of Agreement	Amount of Initial Liability	Interest Current Year	Amounts Outstanding At Year End
Right to use:					
Vehicles	3.98%	2022	\$ 564,481	\$ 13,466	\$ 229,935
Fire Truck	3.98%	2022	727,951	28,914	555,362
Backhoe	3.99%	2022	130,887	2,458	48,799
Totals			<u>\$ 1,423,319</u>	<u>\$ 44,838</u>	<u>\$ 834,096</u>

Debt service requirements to maturity on the leases are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total Requirements
2025	\$ 339,467	\$ 33,201	\$ 372,668
2026	302,238	19,686	321,924
2027	192,391	7,657	200,048
Total	<u>\$ 834,096</u>	<u>\$ 60,544</u>	<u>\$ 894,640</u>

Lease Payable - Governmental Activities

During 2024, the City entered into a lease agreement for the use of fleet vehicles. The vehicles are used primarily for the public safety and public works functions and have an imputed interest rate of 4% annually. Payments are due monthly for each vehicle over the 48 month life of the lease.

Debt service requirements to maturity are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total Requirements
2025	\$ 827,866	\$ 103,751	\$ 931,617
2026	861,594	70,023	931,617
2027	896,697	34,920	931,617
2028	384,323	3,852	388,175
Total	<u>\$ 2,970,480</u>	<u>\$ 212,546</u>	<u>\$ 3,183,026</u>

Notes Payable - Governmental Activities

On November 15, 2016, the City entered into a loan agreement with Panola National Bank in the amount of \$690,000 for the purchase of a fire truck. In 2016, the City spent \$626,757 of the loan proceeds. The rest of the loan proceeds (\$61,439) was spent in 2017 for add-ons to the fire trucks. Five principal payments of \$115,000 plus interest are due annually beginning January 20, 2018 and one payment of \$117,243 is due on January 20, 2024. The interest rate on the loan is fixed at 1.950%. Interest paid on this loan in 2024 was \$2,243.

On January 5, 2022, the City entered into a loan agreement with VeraBank in the amount of \$376,852 for the purchase of police vehicles. Payments are due annually in 5 payments of \$80,014 (includes principal and interest) beginning on January 5, 2022, and on the same day each year thereafter. The interest rate on the loan is 2.00%.

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total Requirements
2025	\$ 75,370	\$ 4,648	\$ 80,018
2026	75,371	4,648	80,019
Total	<u>\$ 150,741</u>	<u>\$ 9,296</u>	<u>\$ 160,037</u>

Notes Payable – Discretely Presented Component Units

On October 8, 2009, MEDCO executed a note with Texas Bank and Trust in the amount of \$1,000,000 to purchase land, building, and improvements. Payments are due quarterly at \$33,173 (includes principal and interest) for the next nine years at a fixed interest rate of 5.83%. On June 3, 2014, the balance of the loan was \$616,270 plus interest of \$8,662 for a total of \$624,932 that was rolled into a new loan with Texas Bank and Trust as explained below.

On May 22, 2014, MEDCO entered into a loan agreement for \$6,540,000 with Texas Bank and Trust. The interest rate of the loan is 3.25% and the payment terms are: accrued interest shall be payable monthly starting June 1, 2014 and continuing each month until and including December 31, 2014. Principal and interest shall be payable in monthly installments of \$46,100 including interest, starting February 1, 2015, and continuing each month until the entire principal balance is due on January 1, 2025. The entire unpaid interest and principal shall be due and payable in full with a balloon payment on January 1, 2025, the scheduled maturity date. The purposes of the loan are to provide funds to pay for a project relating to a Performance Agreement and lease between MEDCO and Rio Ammunition, Inc. to the extent of \$5,900,000 and to the extent of \$624,932 the loan represents a refinance and renewal of an existing loan. MEDCO pledges and grants a security interest and a first lien on pledged revenues (sales tax). The principal balance of this loan was retired as of December 31, 2024.

On December 31, 2014, MEDCO entered into a loan agreement for \$967,965 with Bancorp South Bank. The interest rate of the loan is 3.950% and the payment terms are: principal and interest shall be payable in monthly installments of \$9,814 including interest, starting February 10, 2015, and continuing each month for 120 months. The purpose of the loan is to provide additional funding for the construction of Rio Ammunition, Inc. This loan is secured by real estate. The principal balance of this loan was retired as of December 31, 2024.

Changes in Long-term Debt - Discretely Presented Component Unit

	Amounts Outstanding Beginning	Issued Current Year	Retired Current Year	Amounts Outstanding Ending	Due Within One Year
Component unit activities:					
Other liabilities:					
Notes payable	\$ 3,098,500	\$ -	\$ 3,098,500	\$ -	\$ -
Total other liabilities	<u>3,098,500</u>	<u>-</u>	<u>3,098,500</u>	<u>-</u>	<u>-</u>
Total component unit activities					
long-term liabilities	<u>\$ 3,098,500</u>	<u>\$ -</u>	<u>\$ 3,098,500</u>	<u>\$ -</u>	<u>\$ -</u>

VII. DEFINED BENEFIT PENSION PLANS

1. Texas Municipal Retirement System

Plan Description.

The City of Marshall participates as one of 909 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmrs.com. All eligible employees of the City are required to participate in TMRS.

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years to any age, or 5 years at age 60 and above
Updated service credit	100% repeating, transfers
Annuity increase to retirees	50% of CPI, repeating

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

Inactive employees or beneficiaries currently receiving benefits	211
Inactive employees entitled to but not yet receiving benefits	128
Active employees	<u>182</u>
Total	<u><u>521</u></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 contributions 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 of Marshall were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rate for the City of Marshall were 15.65% and 16.50% in calendar years 2023 and 2024, respectively. The City's contributions to TMRS for the year ended December 31, 2024, were \$1,757,132 and were equal to the required contributions.

Net Pension Liability. The City's Net Pension Liability (NPL) was measured as of December 31, 2023, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

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	2.35% per year
Investment Rate of Return	6.75%

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35%	6.70%
Core Fixed Income	6%	4.70%
Non-Core Fixed Income	20%	8.00%
Other Public and Private	12%	8.00%
Real Estate	12%	7.60%
Hedge Funds	5%	6.40%
Private Equity	10%	11.60%
Total	100%	

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.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2023	\$ 67,024,307	\$ 56,791,466	\$ 10,232,841
Changes for the year:			
Service cost	1,624,557	-	1,624,557
Interest	4,433,140	-	4,433,140
Change of benefit terms	-	-	-
Difference between expected and actual experience	(1,182,187)	-	(1,182,187)
Changes in assumptions	(498,465)		(498,465)
Contributions - employer	-	1,505,286	(1,505,286)
Contributions - employee	-	673,292	(673,292)
Net investment income	-	6,556,893	(6,556,893)
Benefit payments, including refunds of employee contributions	(4,320,861)	(4,320,861)	-
Administrative expense	-	(41,816)	41,816
Other changes	-	(292)	292
Net changes	<u>56,184</u>	<u>4,372,502</u>	<u>(4,316,318)</u>
Balance at 12/31/2024	<u>\$ 67,080,491</u>	<u>\$ 61,163,968</u>	<u>\$ 5,916,523</u>

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%)	Current Single Disco Rate Assumption (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 14,152,862	\$ 5,916,523	\$(918,369)

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 Participating City. That report may be obtained at tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended December 31, 2024, the City recognized pension expense of \$868,318. As of December 31, 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
Differences between expected and actual economic experience	\$ 294,614	\$ 826,107
Changes in actuarial assumptions	-	348,324
Difference between projected and actual investment earnings	1,620,099	-
Contributions subsequent to the measurement date	<u>1,757,132</u>	<u>-</u>
Total	<u>\$ 3,671,845</u>	<u>\$ 1,174,431</u>

\$1,757,132 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability for the year ending December 31, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ended December 31,	
2025	\$ 139,445
2026	75,259
2027	1,070,270
2028	<u>(544,692)</u>
Total	<u>\$ 740,282</u>

2. Firefighter Relief and Retirement Fund (FRRF)

Plan Description. The City contributes to the retirement plan for firefighters in the Marshall Fire Department known as the Marshall Firemen’s Relief and Retirement Fund (“the Fund” or “FRRF”). The Fund is a single employer, contributory, defined benefit plan. The benefit provisions of the Fund are authorized by the Texas Local Fire Fighters’ Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions. The plan is administered by the Board of Trustees of the Marshall Firemen’s Relief and Retirement Fund. The Fund is not considered a part of the City’s reporting entity because the City does not have a fiduciary responsibility for the Fund’s assets, nor can the City impose its will on the Fund. Also, the Fund is not fiscally dependent on the City since the Board of Trustees can determine employee contribution rates without approval by the City. The Fund issues a stand-alone report pursuant to GASB Statement No. 67, which may be obtained by writing the Marshall Firemen’s Relief and Retirement Fund at P.O. Box 9759, Longview, Texas. See that report for all information about the plan fiduciary net position.

Benefits Provided. Firefighters in the Marshall Fire Department are covered by the Marshall Firemen’s Relief and Retirement Fund, which provides service retirement, death, disability and termination benefits. These benefits fully vest after 20 years of credited service. Members may retire at attainment of age 53 and completion of 20 years of service (age 50 and 10 years of service for members hired on or before December 31, 2018). The Fund provides a monthly normal retirement benefit, payable in a joint and two-thirds to surviving spouse form of annuity, equal to 3.125% of the member’s highest 36-month average salary, multiplied by years of credited service as of date of termination with a maximum of 20 years, plus, a longevity benefit equal to \$65 for each year of service in excess of 20 years. A retiring member eligible for normal service retirement with certain minimum combinations of years of service and age has the option to elect the Retroactive Deferred Retirement Option Provision (RETRO DROP) which will provide a lump sum benefit and a reduced monthly benefit.

Members Covered by the Fund. In the December 31, 2023, actuarial valuation, the following numbers of members were covered by the Fund:

Active employees	43
Terminated with deferred benefits	15
Retirees and beneficiaries in pay	<u>39</u>
Total	<u>97</u>

Funding Policy. The contribution provisions of the Fund are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the city.

While the contribution requirements are not actuarially determined, state law requires that each Fund of benefits adopted by the Fund must be approved by an eligible actuary. The actuary certifies that the contribution commitment by the members and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the Fund’s normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the unfunded actuarial accrued liability (UAAL). The number of years needed to amortize the Fund’s UAAL is determined using an open, level percentage of payroll method.

The funding policy of the Fund requires contributions by the members at the rate elected by the members according to the Act. The City's contribution rate is determined annually by the City. The City contribution rate increased from 21.80% to 22.40% of member payroll, and the active firefighters contribution rate remained 16% of plan compensation.

Net Pension Liability. The City of Marshall's net pension liability was measured as December 31, 2023, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date.

Total pension liability	\$ 24,604,956
Plan fiduciary net position	<u>8,901,128</u>
City's net pension liability	<u>\$ 15,703,828</u>
Plan fiduciary net position as a percentage of the total pension liability	36.2%

Actuarial Assumptions. The total pension liability in the December 31, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Total payroll growth	3.75% per annum
Investment rate of return	7.25% per annum

PubS-2010 (public safety) below median income mortality tables for employees and for retirees, projected for mortality improvement generationally using the projection scale MP-2020.

The expected long-term rate of return by asset class is as follows:

Equity	6%
Fixed Income	4%
Cash	0%

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. The long-term expected rate of return on pension plan investments of 7.25% was applied to all periods of projected benefit payments as the discount rate to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the City of Marshall, calculated using the discount rate of 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
Firefighters' Fund Net Pension Liability	\$ 18,929,504	\$ 15,703,828	\$ 13,036,019

Plan Fiduciary Net Position. The plan fiduciary net position reported above is the same as reported by the Fund. Detailed information about the plan fiduciary net position is available in the Fund's separately issued audited financial statements, which are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Investments are reported at fair value, the price that would be recognized to sell an asset in an orderly transaction between market participants at the measurement date.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2022	\$ 23,799,145	\$ 8,017,137	\$ 15,782,008
Changes for the year:			
Service cost	537,098	-	537,098
Interest	1,712,056	-	1,712,056
Experience	-	-	-
Contributions - employer	-	701,079	(701,079)
Contributions - employee	-	500,719	(500,719)
Net investment income	-	1,182,886	(1,182,886)
Benefit payments	(1,443,343)	(1,443,343)	-
Administrative expense	-	(57,350)	57,350
Benefit terms	-	-	-
Assumption changes	-	-	-
Net changes	<u>805,811</u>	<u>883,991</u>	<u>(78,180)</u>
Balance at 12/31/2023	<u>\$ 24,604,956</u>	<u>\$ 8,901,128</u>	<u>\$ 15,703,828</u>

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions. For the year ended December 31, 2024, the City's GASB 68 pension expense was \$1,497,132. At December 31, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 100,657
Changes in actuarial assumptions	127,322	-
Difference between projected and actual investment earnings	606,544	-
Contributions subsequent to the measurement date	<u>832,026</u>	<u>-</u>
Total	<u>\$ 1,565,892</u>	<u>\$ 100,657</u>

\$832,026 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2025. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ended December 31,	
2025	\$ 261,753
2026	221,947
2027	272,005
2028	<u>(122,496)</u>
Total	<u>\$ 633,209</u>

VIII. OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATIONS

Post-retirement Health Benefits

Plan Description and Funding Policy. City Policy allows the City to provide health and dental insurance for all active employees and qualified retirees with Blue Cross/Blue Shield of Texas. The current rate for active employees is \$722 and retirees is \$822 per month. Employees who have retired, completed 20 years of service, and have reached age 60 and wish to continue on the City's health plan must pay the difference between the retiree blended rate and the amount the City currently pays for active employee coverage. The current rate for these retirees is \$822 per month, which is intended to be the blended rate that does not create an implicit subsidy. Retiree medical and dental coverage ends at age 65. Retirees pay for any dependent coverage and for dental coverage. Employees hired after August 1, 2005 will not be eligible to remain on the health plan upon retirement.

At December 31, 2023, the following employees were covered by the benefit terms:

Active members	30
Retirees	<u>1</u>
Total	<u>31</u>

Total OPEB Liability. The City's total OPEB liability of \$427,113 was measured as of December 31, 2024 and was determined by a simplified actuarial valuation as of December 31, 2023.

Actuarial Assumptions. The City's annual other post employment benefit cost is calculated based on an actuarial valuation. The actuarial method utilized was the projected unit credit method. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations reflect a long-term perspective and actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point. Projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

The City had an actuarial valuation performed on December 31, 2023. The City has elected to have a full valuation performed every two years. The allocation of the total liability was based upon straight years of service ratio and was amortized over a 20-year period, using a 4.08% discount rate. The participation percentage is the assumed rate of future eligible retirees who elect to continue health coverage at retirement. It is assumed 50% of future retirees elect the benefit. Medical inflation was taken at 6.0% for pre-Medicare grading down to 3.7% is the ultimate. Post Medicare benefits were not considered since the plan provides for no post-Medicare coverage or subsidy.

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

Actuarial Valuation Date	12/31/2023
Discount Rate	4.08% per annum
Salary Increases	3.50% for annum
Mortality	The rates are based upon the Pub-2010 mortality table with generational scale MP-2021.
Health care cost trend rates	6.70% pre-medicare medical and RX benefits decreasing to an ultimate rate of 3.70%

Discount Rate. The discount rate of 4.08% is based upon the yield of 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The other financial assumptions for long-term inflation, payroll growth, and salary scale were taken from the TMRS actuary study. The per capita claims costs and how these costs are expected to escalate in the future were set by HUB International who develops the funding rates.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2023	\$ 456,676
Changes for the year:	
Service cost	9,067
Interest	14,691
Changes of assumptions	(22,852)
Benefit payments	<u>(30,469)</u>
Net changes	<u>(29,563)</u>
Balance at 12/31/2024	<u>\$ 427,113</u>

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (4.08%) in measuring the total OPEB liability.

	<u>1% Decrease in Discount Rate (3.08%)</u>	<u>Discount Rate (4.08%)</u>	<u>1% Increase in Discount Rate (5.08%)</u>
City's total OPEB liability	\$ 455,035	\$ 427,113	\$ 400,051

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate Assumption</u>	<u>1% Increase</u>
City's total OPEB liability	\$ 388,013	\$ 427,113	\$ 471,266

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended December 31, 2024, the City recognized a OPEB expense of \$43,466. At December 31, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 128,766	\$ 93,638
Changes in actuarial assumptions	<u>21,518</u>	<u>60,121</u>
Total	<u>\$ 150,284</u>	<u>\$ 153,759</u>

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

<u>For the Year Ended December 31,</u>	
2025	\$ 19,708
2026	19,706
2027	3,004
2028	(17,722)
2029	(17,639)
Thereafter	<u>(10,532)</u>
Total	<u>\$ (3,475)</u>

IX. DEFINED OTHER POSTEMPLOYMENT BENEFIT PLANS

TMRS Supplemental Death Benefits Fund

Plan Description. The City also participates in a single employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The 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.

TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmrs.com.

Benefits Provided. Payments from this fund are similar to group term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an "other postemployment benefit" (OPEB) and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the TMRS Pension Trust Fund.

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

Inactive employees or beneficiaries currently receiving benefits	160
Inactive employees entitled to but not yet receiving benefits	27
Active employees	<u>182</u>
Total	<u><u>369</u></u>

Contributions. The member cities contribute 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. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree life insurance during employees' entire careers.

As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

For the calendar years 2023 and 2024, the total SDBF contributions rate for the City was 0.57% and 0.56%, respectively, while the retiree portion of the SDBF contribution was 0.34% and 0.33%. The City's retiree-only portion of contributions for the years ended December 31, 2022 and 2023, were \$27,162 and \$32,703, respectively. Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Actuarial Assumptions. The City's total OPEB liability was measured as of December 31, 2024, and was determined by an actuarial valuation as of December 31, 2023.

Actuarial Assumptions:

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

Inflation	2.50%
Overall	3.60% to 11.85% including inflation
Discount rate	3.77%
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables with rates 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.

The actuarial cost method being used is known as the Entry Age Normal Method. This method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation through their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf.

The normal cost is calculated using an entry age based on benefit service with the City. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated.

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

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.77%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (2.77%)	Discount Rate (3.77%)	1% Increase in Discount Rate (4.77%)
Total OPEB Liability	\$ 1,017,628	\$ 867,985	\$ 749,111

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources Related to OPEBs. At December 31, 2024, the City reported a liability of \$867,985 for its Total OPEB Liability. The Total OPEB Liability was determined by an actuarial valuation as of December 31, 2022. For the year ended December 31, 2024, the City recognized OPEB expense of \$24,743. There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at 12/31/2022	\$ 809,200
Changes for the year:	
Service cost	25,970
Interest	32,636
Difference between expected and actual experience	(8,924)
Changes of assumptions and other inputs	41,806
Benefit payments	<u>(32,703)</u>
Net changes	<u>58,785</u>
Balance at 12/31/2023	<u>\$ 867,985</u>

At December 31, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 71	\$ 20,648
Changes in actuarial assumptions	76,659	208,075
Contributions subsequent to the measurement date	<u>59,633</u>	<u>-</u>
Totals	<u>\$ 136,363</u>	<u>\$ 228,723</u>

\$59,633 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB Liability for the year ending December 31, 2025. Other amounts of the reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>For the Year</u> <u>Ended December 31,</u>	
2025	\$	(45,608)
2026		(71,015)
2027		(39,597)
2028		<u>4,227</u>
Total	\$	<u>(151,993)</u>

X. RISK MANAGEMENT

The City places all of its property, liability and workers' compensation coverage with Texas Municipal League, a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to Texas Municipal League for its general insurance coverage. The risk pool is self-sustaining through member premiums and reinsures through commercial companies. The limits of liability and deductibles are:

	<u>Limit</u>		<u>Deductible</u>
General Liability	\$ 2,000,000	Each Occurrence	10,000
	4,000,000	Annual Aggregate	
Auto Liability	1,000,000	Each Occurrence	5,000
Law Enforcement Liability	2,000,000	Each Occurrence	5,000
	4,000,000	Annual Aggregate	
Errors and Omissions Liability	1,000,000	Each Wrongful Act	10,000
	2,000,000	Annual Aggregate	
Real & Personal Property	88,685,518		1,000
Mobile Equipment	2,681,749		500
Boiler & Machinery	5,531,392		5,000
Supplemental Sewage Backup	25,000	Each Structure	
	50,000	Each Occurrence	500
Cyber Liability and Data Breach Response:			
Information Security and Privacy Liability and Website Media Content Liability	1,000,000	Aggregate Limit	-
All Damages, Expenses, Loss and Costs	100,000	Aggregate Limit	-
Notified Individuals	10,000	Aggregate Limit	-
Breach Response: Professional Services	50,000	Aggregate Limit	-

XI. SOLID WASTE COLLECTION CONTRACT

The City has contracted for solid waste collection with a third party. The contract began January 1, 2019, and terminates December 31, 2025, with no extension. Under the terms of the agreement the City bills customers and collects payments and retains a percentage of the charges. Payments during 2024 for sanitation services were \$3,326,422.

XII. NORTHEAST TEXAS MUNICIPAL WATER DISTRICT RAW WATER PURCHASE CONTRACT

The City entered into an agreement with Northeast Texas Municipal Water District on February 1, 2006. The District shall sell and deliver water from Lake of The Pines in amounts up to and including 9,000 acre-feet per annum to the City. Payments made to the District are based on schedules, quantities, and rates detailed in the contract. The term of the agreement is for fifty years. At the expiration of the agreement, it may be renewed and extended up to an additional period of fifty years. In accordance with the termination event provisions of the agreement, the parties may terminate it within three months after acquiring knowledge of such events with written notice specifying the date on which supplying raw water under the agreement is to terminate, which shall be at least six months from the date of the written notice.

XIII. CONTINGENT LIABILITIES

Contingencies

The City is exposed to various claims and litigation. The outcome of events are not presently determinable and the amount of the City’s potential liability cannot be reasonably estimated at this time.

Federal and State Programs

Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made, in compliance with program guidelines, to the granting agency. These programs are governed by various statutory rules and regulations of grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, the City has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of fund monies may be required. As it pertains to other matters of compliance, in the opinion of the City’s administration, there are no significant contingent liabilities relating to matters of compliance and accordingly, no provision has been made in the accompanying financial statements for such contingencies.

XIV. COMMITMENTS

The City has entered into various contracts for improvements and extensions to the sewer system, water supply and treatment facilities. Funds for these contracts will be provided by various bond issues.

XV. SIGNIFICANT FORTHCOMING STANDARDS

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

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. This Statement also addresses certain application issues. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

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

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