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HTS Continuing Disclosure Services
A Division of Hilltop Securities.

(See "Continuing Disclosure of Information" herein)

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS – Tax Exemption" herein.

THE CITY WILL NOT DESIGNATE THE TAX-EXEMPT CERTIFICATES AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



CITY of LEVELLAND

\$5,565,000*
CITY OF LEVELLAND, TEXAS
(Hockley County)
TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2025

Dated Date: February 15, 2025

Due: August 15, as shown on page 2

PAYMENT TERMS. . . Interest on the \$5,565,000* City of Levelland Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2025 (the "Certificates"), will accrue from the Date of Delivery (defined below), and will be payable February 15 and August 15 of each year, commencing February 15, 2026, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association, Dallas, Texas (see "THE CERTIFICATES - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE. . . The Certificates are issued pursuant to the Texas Constitution and the general laws of the State of Texas (the "State"), particularly, Chapter 271, Subchapter C, Texas Local Government Code, as amended, and the City's Home Rule Charter, and are direct obligations of the City, payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, and from a limited pledge of \$1,000 of the net revenues of the City's waterworks and sewer system, as provided in the ordinance to be adopted authorizing the Certificates (the "Ordinance").

PURPOSE. . . Proceeds from the sale of the Certificates will be used for (i) the construction of public works, to wit: constructing, acquiring, purchasing, renovating, enlarging, equipping, and improving water system properties and facilities, water meter additions and replacements, and (ii) the payment of the costs associated with the issuance of the Certificates.

CUSIP PREFIX: 527300
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY. . . The Certificates are offered for delivery when, as and if issued and received by the underwriter named below (the "Underwriter") of the Certificates and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Bond Counsel, Dallas, Texas, (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

DELIVERY. . . It is expected that the Certificates will be available for delivery through DTC on March 20, 2025 ("Date of Delivery").

RAYMOND JAMES

* Preliminary, subject to change.

MATURITY SCHEDULE*

15-Aug Year	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
2026	\$ 155,000			
2027	275,000			
2028	290,000			
2029	305,000			
2030	320,000			
2031	335,000			
2032	350,000			
2033	370,000			
2034	390,000			
2035	410,000			
2036	430,000			
2037	450,000			
2038	470,000			
2039	495,000			
2040	520,000			

(Interest to accrue from the Date of Delivery)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by American Bankers Association on behalf of the FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Financial Advisor nor the Underwriter take any responsibility for the accuracy of such numbers.

OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 20__, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption”).

MANDATORY SINKING FUND REDEMPTION . . . In the event any of the Certificates are structured as “term” Certificates, such term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance, which provisions will be included in the final Official Statement.

* Preliminary, subject to change.

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

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

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

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the representation, promise, or guarantee of the Financial Advisor or the Underwriter. 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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 OR UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM 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. SEE "FORARD-LOOKING STATEMENTS DISCLAIMER" HEREIN.

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

NONE OF THE CITY, ITS FINANCIAL ADVISOR OR THE UNDERWRITER MAKE ANY REPRESENTATION AS TO THE ACCURACY, COMPLETENESS, OR ADEQUACY OF THE INFORMATION SUPPLIED BY THE DEPOSITORY TRUST COMPANY ("DTC") FOR USE IN THIS OFFICIAL STATEMENT.

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

OFFICIAL STATEMENT SUMMARY

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

- THE CITY**..... The City of Levelland, Texas (the “City”), is a political subdivision and municipal corporation of the State, located in Hockley County, Texas. The City covers approximately 10 square miles (see “INTRODUCTION - Description of the City”).
- THE CERTIFICATES** The \$5,565,000* City of Levelland, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2025 are issued as serial certificates maturing on August 15 in each of the years 2026* through 2040* (see “THE CERTIFICATES - Description of the Certificates”).
- PAYMENT OF INTEREST** Interest on the Certificates accrues from the Date of Delivery, and is payable commencing February 15, 2026, and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE CERTIFICATES - Description of the Certificates”).
- AUTHORITY FOR ISSUANCE** The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended, the City’s Home Rule Charter, and the ordinance authorizing the issuance of the Certificates to be adopted by the City Council of the City (the “Ordinance”) (see “THE CERTIFICATES - Authority for Issuance of the Certificates”).
- SECURITY FOR THE CERTIFICATES** The Certificates constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, and from a limited pledge of \$1,000 of the net revenues of the City’s waterworks and sewer system, as provided in the Ordinance authorizing the Certificates (see “THE CERTIFICATES - Security and Source of Payment”).
- REDEMPTION** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 20___, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20___, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES - Optional Redemption”).
- In the event any of the Certificates are structured as “term” Certificates, such term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance, which provisions will be included in the final Official Statement.
- TAX MATTERS** In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS” herein.
- USE OF PROCEEDS** Proceeds from the sale of the Certificates will be used for (i) the construction of public works, to wit: constructing, acquiring, purchasing, renovating, enlarging, equipping, and improving water system properties and facilities, water meter additions and replacements, and (ii) the payment of the costs associated with the issuance of the Certificates.
- RATINGS** The Certificates and the presently outstanding tax supported debt of the City are rated “A+” by S&P Global Ratings, a division of S&P Global Inc. (“S&P”), without regard to credit enhancement (see “OTHER INFORMATION - Ratings”).
- BOOK-ENTRY-ONLY SYSTEM** The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES - Book-Entry-Only System”).

* Preliminary, subject to change.

PAYMENT RECORD The City has never defaulted in payment of its general obligation tax debt since 1936 when all of the City's then outstanding bonds were refunded at par with a reduction in interest rate.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Tax Supported Debt	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections to Tax Levy
2021	13,504	\$ 665,932,919	49,314	\$ 6,815,000	505	1.02%	94.80%
2022	13,504	668,549,104	49,507	5,500,000	407	0.82%	96.35%
2023	14,500	759,961,532	52,411	23,485,000	1,620	3.09%	94.58%
2024	12,632	846,321,640	66,998	22,125,000	1,752	2.61%	90.53% ⁽³⁾
2025	14,500	892,200,645	61,531	26,280,000 ⁽⁴⁾	1,812 ⁽⁴⁾	2.95% ⁽⁴⁾	N/A

- (1) Source: City officials.
- (2) As reported by the Hockley County Appraisal District; subject to change during the ensuing year. Includes non-taxable value in excess of the frozen value of homesteads of persons 65 years of age or older and disabled persons.
- (3) Unaudited collections.
- (4) Projected. Includes the Certificates. Preliminary, subject to change.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2024 ⁽¹⁾	2023	2022	2021	2020
Beginning Balance	\$ 5,723,928	\$ 4,555,309	\$ 4,607,356	\$ 4,372,532	\$ 4,266,974
Total Revenue	10,194,466	9,252,978	8,571,590	8,570,282	7,417,123
Total Expenditures	9,830,597	8,686,346	9,075,077	8,847,469	7,649,956
Other Financing Sources (Uses)	1,060,211	601,987	451,440	512,011	338,391
Net Funds Available	1,424,080	1,168,619	(52,047)	234,824	105,558
Ending Balance	<u>\$ 7,148,008</u>	<u>\$ 5,723,928</u>	<u>\$ 4,555,309</u>	<u>\$ 4,607,356</u>	<u>\$ 4,372,532</u>

(1) Unaudited.

For additional information regarding the City, please contact:

James Fisher City of Levelland City Manager P.O. Box 1010 Levelland, TX 79336 (806) 894-0113	or	Jason L. Hughes Hilltop Securities Inc. Senior Managing Director 717 N. Harwood St., Ste. 3400 Dallas, Texas 75201 (214) 953-8707
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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Breann Buxkemper Mayor	6 Years	May, 2027	Credit Union
Bill Powell Councilmember	6 Months	May, 2026	South Plains Community Action
Max Ledesma Councilmember	9 Years	May, 2025	Retired
Jaime McCabe Councilmember	6 Months	May, 2026	Real Estate Agent
Michael Stueart Mayor Pro Tem, Councilmember	3 Years	May, 2025	Real Estate Agent

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>	<u>Total Government Service</u>
James Fisher	City Manager	1 year	35 years
Jose Cavazos	Asst. City Manager	21 years	21 years
Andrea Corley	City Secretary	5 years	6 years
Cynthia Sanchez	Director of Finance	1 year	7 years

CONSULTANTS AND ADVISORS

Certified Public Accountants Bolinger, Segars, Gilbert & Moss, L.L.P.
 Certified Public Accountants
 Lubbock, Texas

Bond Counsel Norton Rose Fulbright US LLP
 Dallas, Texas

Financial Advisor.....Hilltop Securities Inc.
 Dallas, Texas

PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$5,565,000*
CITY OF LEVELLAND, TEXAS
TAX AND WATERWORKS AND SEWER SYSTEM (LIMITED PLEDGE) REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2025

INTRODUCTION

This Preliminary Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$5,565,000* City of Levelland, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2025 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined herein) except as otherwise indicated herein.

There follows in this Preliminary Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities Inc., Dallas, Texas.

DESCRIPTION OF THE CITY. . . The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1926, and first adopted its Home Rule Charter in 1948. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and four Councilmembers. The Mayor serves a three year term of office. The Councilmembers serve a two year term of office in the four election districts. Two Councilmembers' terms expire in even-numbered years and the other two Councilmembers' terms expire in odd-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2020 Census population for the City was 12,652. The City covers approximately 10 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES. . . The Certificates are dated February 15, 2025 (the "Dated Date"). The Certificates mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Certificates will accrue from the Date of Delivery (expected to be March 20, 2025), will be computed on the basis of a 360-day year of twelve 30-day months and will be payable on February 15 and August 15 of each year, commencing February 15, 2026, until maturity or prior redemption. The definitive Certificates will be issued only in fully-registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See THE CERTIFICATES - "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE. . . The Certificates are issued pursuant to the City's Home Rule Charter, the Constitution and general laws of the State, including particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended and an ordinance to be adopted by the City Council authorizing the issuance of the Certificates (the "Ordinance").

SECURITY AND SOURCE OF PAYMENT. . . All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Certificates. The Certificates are additionally payable from and secured by a limited pledge of \$1,000 of the net revenues of the City's waterworks and sewer system, as provided in the Ordinance.

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 each \$100 of taxable assessed valuation for all City purposes. Article VI, Section I of the Home Rule Charter of the City limits its tax rate to \$2.00 per \$100 Taxable Assessed Valuation for all City purposes. While State law does not provide for any allocation of the City's tax between debt service and operations, administratively, the Attorney General of the State will permit allocation of approximately two-thirds of the maximum tax rate for all general obligation debt service, as calculated at the time of issuance based on a 90% collection rate.

* Preliminary, subject to change.

OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 20___, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20___, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION . . . In the event any of the Certificates are structured as “term” Certificates, such term Certificates will be subject to mandatory sinking fund redemption in accordance with the applicable provisions of the Ordinance, which provisions will be included in the final Official Statement.

NOTICE OF REDEMPTION. . . Not less than 30 days prior to a redemption date for the Certificates, the City will cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Certificate to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. Any notice of redemption so mailed will be conclusively presumed to have been duly given irrespective of whether received by the owner of the Certificate. If such notice of redemption is given and if due provision for such payment is made and all other conditions to redemption are satisfied, all as provided above and as further described in the following paragraph, the Certificates or portions thereof which are to be so redeemed thereby automatically will be treated as redeemed prior to their scheduled maturities, and they will not bear interest after the date fixed for redemption, and they will not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of 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 has 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 may state that said redemption will, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled or sufficient moneys are not received, such notice will be of no force and effect, the City 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 relating to the Certificates, 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 City 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 within a maturity to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or 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 “THE CERTIFICATES - Book-Entry-Only System” herein.)

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 the Paying Agent/Registrar or other authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Government Securities (defined below) which have been certified by an independent accounting firm or other qualified third party to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money, together with any deposited therewith, to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The City has additionally reserved the right in the Ordinance, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City money in excess of the amount required for such defeasance. The Ordinance provides that “Government Securities” means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations, the principal of and interest on which are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its

equivalent, (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, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, or (d) any other than authorized securities or obligations under applicable State law that may be used to defease obligations such as the Certificates.

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

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. 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 call the Certificates that have been defeased to maturity for redemption or take any other action amending the terms of the Certificates that have been defeased to maturity are extinguished; provided, however, the City has 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.

AMENDMENTS. . . The City may amend the Ordinance without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; except that, without consent of the registered owners of all of the Certificates outstanding, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of and interest on the Certificates, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, or (3) reduce the aggregate principal amount of Certificates required to be held by Certificateholders for consent to any such amendment, addition, or rescission.

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

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

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be issued for each maturity of the Certificates in the aggregate principal amount of each such maturity and will be deposited with DTC.

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

Purchases of Certificates under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of Certificates ("Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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 interest in the Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system described herein 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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices, as applicable, shall be sent to DTC. If less than all of the Certificates eligible for redemption 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 the Certificates, unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date (hereinafter defined). The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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

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

TRANSFER, EXCHANGE AND REGISTRATION. . . In the event the Book-Entry-Only System should be discontinued, the Certificates will be printed and delivered to the registered owners thereof, and thereafter such printed obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. 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 in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

RECORD DATE FOR INTEREST PAYMENT. . . The Record Date for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of an 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.

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

CERTIFICATEHOLDERS' REMEDIES. . . The Ordinance does not establish specific events of default with respect to the Certificates. If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, if there is no other available remedy at law to compel performance of the Certificates or Ordinance and the City's obligations are not uncertain or disputed. 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 bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and

unambiguous language.” Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the covenants in the Certificates or in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. In Tooke, the Court noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities under certain circumstances.” The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services to cities.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“Wasson I”), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests LTD. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) (“Wasson II”, and together with *Wasson I* “Wasson”), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State’s immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

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

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions 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 CERTIFICATE PROCEEDS. . . Proceeds from the sale of the Certificates are expected to be expended as follows:

SOURCES OF FUNDS	
Par Amount	
Reoffering Premium	
TOTAL SOURCES	<u>\$ -</u>
 USES OF FUNDS	
Deposit to Project Construction Fund	
Underwriters' Discount	
Costs of Issuance	
TOTAL USES	<u>\$ -</u>

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review 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 Hockley County 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.

Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,000,000 (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal district office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. After the 2024 tax year, through December 31, 2026 (unless extended by the State Legislature), the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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 PROPERTY TAXATION – 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.

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 sixty-five (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. Cities, counties and school districts that adopted an optional homestead exemption described in (1), above, for the 2022 tax year are prohibited from repealing or reducing the exemption through December 31, 2027. 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.

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

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

FREEPORT AND GOODS-IN-TRANSIT 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 taxing 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.

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY 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 of the State (the “Governor”) to be a disaster area following a disaster and it 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, 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.

TAX INCREMENT REINVESTMENT ZONES. . . A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones (“TIRZ”) within its boundaries and other overlapping taxing units may agree to contribute taxed levied against the “Incremental Value” in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, generally located within the TIRZ. At the time of the creation of the TIRZ, a “base value” for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the “Incremental Value” and during the existence of the TIRZ, all or a portion of the taxes levied against the Incremental Value in the TIRZ are restricted to paying only planned 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 “AD VALOREM PROPERTY TAXATION – City Application of Tax Code” herein.

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, and situated in a county with a population of one 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 million for the 2025 tax 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 PROPERTY TAXATION – 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. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

CITY’S RIGHTS IN THE EVENT OF TAX DELINQUENCIES. . . Taxes levied by the City are a personal obligation of the owner of the property. 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.

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.

“foregone revenue amount” means the greater of zero or the amount expressed in dollars calculated according to the following formula: the voter-approval tax rate in the applicable preceding tax year less the unused increment rate for that preceding tax year, less the actual tax rate, then multiplied by the taxing unit’s current total value in the applicable preceding tax year.

“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) “preceding total value” means a taxing unit’s current total value in the applicable preceding tax year.

“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 greater of (i) zero; or (ii) the sum of the forgone revenue amount for each of the tax years 2022 through 2024 divided by the current total value.

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

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

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

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

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has 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 property owners 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 the great of (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-supported debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 of Taxable Assessed Valuation. Article VI, Section I of the Home Rule Charter of the City limits its tax rate to \$2.00 per \$100 Taxable Assessed Valuation for all City purposes. While State law does not provide for any allocation of the City's tax between debt service and operations, administratively, the Attorney General of the State will permit allocation of approximately two-thirds of the maximum tax rate for all general obligation debt service, as calculated at the time of issuance based on a 90% collection rate.

2025 LEGISLATIVE SESSION . . . The 89th Regular Legislative Session convened on January 14, 2025 and will conclude on June 2, 2025. The Governor of Texas may call additional special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters, elections, and other matters which could adversely affect the City and also affect the marketability or market value of the Certificates. The City can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions. While the enactment of future legislation in Texas could adversely affect the financial condition or operations of the City, the City does not anticipate that the security for payment of the Certificates, specifically, the City's obligation to levy an ad valorem annual ad valorem tax, within the limitations prescribed by law, would be adversely affected by any such legislation.

CITY APPLICATION OF TAX CODE . . . The City does not grant an exemption to the market value of the residence homestead of persons 65 years of age or older or the disabled.

The City has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

The City has adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which the City Council adopted on November 19, 2007.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax non-business personal property; and the Hockley County Tax Assessor collects taxes for the City.

The City does not permit split payments of taxes, and discounts for early payment are not allowed, although permitted on a local option basis by State law.

The City does tax freeport property.

The City does tax goods-in-transit.

The City does collect the additional one-eighth cent sales tax for reduction of ad valorem taxes.

See Table 1 for a listing of the amounts of the exemptions described above.

TAX ABATEMENT POLICY . . . The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. Generally, projects are eligible for a tax abatement of up to 100% for a period of ten years. The value of property subject to abatement is shown in Table 1.

TAX INCREMENT FINANCING ZONES . . . In 2006 the City developed TIF #1 to encourage single family residential development in the City. City council authorized \$400,000 in a loan from the General Fund to jump start the development of the public infrastructure improvements for the family residential developments in TIF Zone #1. The tax increment financing from TIF Zone #1 has repaid the loan. TIF Zone #1 has assisted in the development of million dollars of new ad valorem tax value for the City, Hockley County, South Plains College, and the High Plains Water District from the subdivision lots and from the new houses that have been built so far.

In 2009 the City established TIF Zone #2 to encourage commercial development in the City. City Council authorized the issuance of the 2009 Certificates of Obligation in the amount of \$4,300,000 that were utilized along with an EDA Grant of \$3,300,000 plus other funding from the Levelland Economic Development Corporation (LEDC) for public infrastructure improvements and for railroad improvements. Almost all of the improvements were for the new Industrial Rail Park. The primary improvements to get the Rail Park operational were completed in 2011. LEDC is working with the new and potential new owners of lots in the Rail Park.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2024/25 Market Valuation Established by Hockley County Appraisal District (excluding totally exempt property)		\$ 928,212,837
Less Exemptions/Reductions at 100% Market Value:		
Disabled Veterans Exemptions	\$ 8,532,841	
Community Housing Development Organizations	1,828,346	
Productivity Loss	1,988,653	
Circuit Breaker Cap	5,112,121	
10% Homestead Cap	<u>18,550,231</u>	<u>36,012,192</u>
Taxable Assessed Value		\$ 892,200,645
Debt Payable from Ad Valorem Taxes (as of 12/31/24)		\$ 22,125,000
The Certificates ⁽¹⁾		<u>5,565,000</u>
General Obligation Debt		\$ 27,690,000
Interest and Sinking Fund (as of 11/30/24)		\$ 114,969
Ratio Tax Supported Debt to Taxable Assessed Valuation		3.10%

2025 Estimated Population - 14,500
Per Capita Taxable Assessed Valuation - \$61,531
Per Capita Funded Debt - \$1,910

(1) Preliminary, subject to change.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2025		2024		2023	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 560,836,187	60.42%	\$ 502,570,633	57.79%	\$ 445,120,153	55.92%
Real, Residential, Multi-Family	13,718,530	1.48%	13,689,009	1.57%	12,000,760	1.51%
Real, Vacant Lots/Tracts	4,010,128	0.43%	2,637,882	0.30%	2,763,284	0.35%
Acreage	2,197,748	0.24%	2,087,512	0.24%	2,116,075	0.27%
Farm and Ranch Improvements	1,041,723	0.11%	826,080	0.09%	809,317	0.10%
Real, Commercial and Industrial	120,961,271	13.03%	118,778,625	13.66%	113,678,075	14.28%
Real, Minerals, Oil and Gas	64,045,660	6.90%	67,019,580	7.71%	71,691,590	9.01%
Real and Tangible Personal, Utilities	21,293,580	2.29%	18,054,880	2.08%	17,588,760	2.21%
Tangible Personal, Commercial and Industrial	131,557,380	14.17%	135,760,310	15.61%	126,492,840	15.89%
Tangible Personal, Mobile Homes	3,909,300	0.42%	3,959,990	0.46%	2,144,290	0.27%
Real, Inventory	27,370	0.00%	26,700	0.00%	34,460	0.00%
Special, Inventory	4,613,960	0.50%	4,275,580	0.49%	1,534,120	0.19%
Total Appraised Value Before Exemptions	\$ 928,212,837	100.00%	\$ 869,686,781	100.00%	\$ 795,973,724	100.00%
Less: Total Exemptions	<u>(36,012,192)</u>		<u>(23,365,141)</u>		<u>(36,012,192)</u>	
Taxable Assessed Value	<u>\$ 892,200,645</u>		<u>\$ 846,321,640</u>		<u>\$ 759,961,532</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2022		2021	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 398,225,258	58.96%	\$ 384,389,891	57.17%
Real, Residential, Multi-Family	11,567,800	1.71%	11,248,310	1.67%
Real, Vacant Lots/Tracts	2,601,800	0.39%	2,528,300	0.38%
Acreage	2,166,445	0.32%	2,340,157	0.35%
Farm and Ranch Improvements	809,207	0.12%	724,275	0.11%
Real, Commercial and Industrial	109,250,546	16.18%	101,403,813	15.08%
Real, Minerals, Oil and Gas	41,107,810	6.09%	47,440,840	7.06%
Real and Tangible Personal, Utilities	14,944,520	2.21%	16,634,440	2.47%
Tangible Personal, Commercial and Industrial	89,949,840	13.32%	101,069,520	15.03%
Tangible Personal, Mobile Homes	2,297,160	0.34%	2,283,360	0.34%
Real, Inventory	34,460	0.01%	38,210	0.01%
Special, Inventory	2,451,760	0.36%	2,314,990	0.34%
Total Appraised Value Before Exemptions	\$ 675,406,606	100.00%	\$ 672,416,106	100.00%
Less: Total Exemptions	<u>(6,857,502)</u>		<u>(6,483,187)</u>	
Taxable Assessed Value	<u>\$ 668,549,104</u>		<u>\$ 665,932,919</u>	

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

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TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 30-Sep	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding At End Of Year	G.O. Tax Debt to Taxable Assessed Valuation	General Obligation Tax Debt Per Capita
2021	13,504	\$ 665,932,919	\$ 49,314	\$ 6,815,000	1.02%	\$ 505
2022	13,504	668,549,104	49,507	5,500,000	0.82%	407
2023	14,500	759,961,532	52,411	23,485,000	3.09%	1,620
2024	12,632	846,321,640	66,998	22,125,000	2.61%	1,752
2025	14,500	892,200,645	61,531	26,280,000 ⁽³⁾	2.95% ⁽³⁾	1,812 ⁽³⁾

(1) Source: City officials.

(2) As reported by the Hockley County Appraisal District on the City's annual State Property Tax Reports; subject to change during the ensuing year.

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

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 30-Sep	Tax Rate	General Fund	Interest & Sinking Fund	Tax Levy	Percent Current Collections	Percent Total Collections
2021	\$ 0.6450	\$ 0.5765	\$ 0.0685	\$ 4,295,267	89.76%	94.80%
2022	0.6250	0.5590	0.0660	4,096,358	90.90%	96.35%
2023	0.5212	0.4851	0.0361	4,027,895	91.83%	94.58%
2024	0.5420	0.5058	0.0363	4,468,203	88.72% ⁽¹⁾	90.53% ⁽¹⁾
2025	0.5350	0.4987	0.0363	4,634,069	In process of collection	

(1) Unaudited collections.

TABLE 5 - TEN LARGEST TAXPAYERS⁽¹⁾

Name of Taxpayer	Nature of Property	2024/25 Taxable Assessed Valuation	% of Taxable Assessed Valuation
Pipeline Plastics LLC	Manufacturing	\$ 25,913,520	2.90%
Chi Operating Inc.	Oil & Gas	15,955,040	1.79%
Southern Cotton Oil	Oil & Gas	15,953,400	1.79%
Great Western Drilling Co.	Oil & Gas	14,854,110	1.66%
Penny Newman Grain Co.	Grain Elevator/Mill	11,403,400	1.28%
Southwestern Public Service Co.	Electric Utility/Power Plant	10,062,490	1.13%
Atmos Energy/Westex Div.	Natural Gas Utility	9,450,630	1.06%
Occidental Petroleum Corporation	Oil & Gas	9,305,410	1.04%
Post-Montgomery	Oil & Gas	8,178,154	0.92%
Energy Solutions LLC	Nuclear Services	7,285,020	0.82%
		<u>\$ 128,361,174</u>	<u>14.39%</u>

(1) The 2024-25 Ten Largest Taxpayers in the City currently account for approximately 14.39% of the City's tax base, with the majority of such property comprised of oil and gas and related business activities, thereby creating a concentration risk for the City. Adverse developments in economic conditions, especially in the oil and gas industries, could adversely impact the businesses that own such properties in the City and the tax values in the City, resulting in less local tax revenue. Economic and market forces, such as a downturn in the economy, or legislative changes impacting property taxation, for example, can also affect assessed values, particularly as these forces might trigger an increase in foreclosures or in delinquent tax payments or in the number of requests submitted to the assessment appeals board for a reduction in assessed value of taxable property in the City.

GENERAL OBLIGATION DEBT LIMITATION. . . No general obligation debt limitation is imposed on the City under current State law or the City’s Home Rule Charter (however, see “THE CERTIFICATES - Tax Rate Limitation”).

TABLE 6 - TAX ADEQUACY⁽¹⁾

2025 Principal and Interest Requirements.....	\$	2,434,877
\$ 0.28730 Tax Rate at 95% Collection Produces.....	\$	2,435,128
Average Annual Principal and Interest Requirements, 2025-2042.....	\$	2,281,186
\$ 0.26920 Tax Rate at 95% Collection Produces.....	\$	2,281,714
Maximum Annual Principal and Interest Requirements, 2028.....	\$	2,723,374
\$ 0.32140 Tax Rate at 95% Collection Produces.....	\$	2,724,156

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

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2024/25	2024/25	Total	Estimated	City's	Authorized
	Taxable Assessed Value	Tax Rate	Tax Debt	% Applicable	Overlapping Tax Debt As of 12/31/2024	But Unissued Debt As of 12/31/2024
City of Levelland	\$ 892,200,645	\$ 0.53500	\$ 27,690,000 ⁽¹⁾	100.00%	\$ 27,690,000 ⁽¹⁾	\$ -
Hockley Co	3,527,419,544	0.48146	-	25.38%	-	-
Levelland ISD	1,599,713,062	0.97420	36,374,972	54.52%	<u>19,831,635</u>	-
Total Direct and Overlapping Tax Debt					\$ 47,521,635	
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation					5.33%	
Per Capita Direct and Overlapping Tax Debt					\$ 3,277.35	

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

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DEBT INFORMATION

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service ⁽¹⁾			The Certificates ⁽²⁾			Total Tax Supported Debt	% of Principal
	Principal	Interest	Total	Principal	Interest	Total		
2025	\$ 1,410,000	\$ 1,024,877	\$ 2,434,877	\$ -	\$ -	\$ -	\$ 2,434,877	
2026	1,195,000	980,167	2,175,167	155,000	391,869	546,869	2,722,036	
2027	1,240,000	936,962	2,176,962	275,000	270,500	545,500	2,722,462	
2028	1,285,000	891,624	2,176,624	290,000	256,750	546,750	2,723,374	
2029	1,325,000	844,092	2,169,092	305,000	242,250	547,250	2,716,342	27.01%
2030	1,085,000	795,699	1,880,699	320,000	227,000	547,000	2,427,699	
2031	1,130,000	746,841	1,876,841	335,000	211,000	546,000	2,422,841	
2032	1,185,000	695,597	1,880,597	350,000	194,250	544,250	2,424,847	
2033	1,240,000	641,535	1,881,535	370,000	176,750	546,750	2,428,285	
2034	990,000	588,920	1,578,920	390,000	158,250	548,250	2,127,170	53.72%
2035	1,040,000	538,133	1,578,133	410,000	138,750	548,750	2,126,883	
2036	1,095,000	484,261	1,579,261	430,000	118,250	548,250	2,127,511	
2037	1,150,000	426,992	1,576,992	450,000	96,750	546,750	2,123,742	
2038	1,215,000	366,272	1,581,272	470,000	74,250	544,250	2,125,522	
2039	1,280,000	301,513	1,581,513	495,000	50,750	545,750	2,127,263	82.74%
2040	1,345,000	232,649	1,577,649	520,000	26,000	546,000	2,123,649	
2041	1,420,000	159,615	1,579,615	-	-	-	1,579,615	
2042	1,495,000	82,225	1,577,225	-	-	-	1,577,225	100.00%
	<u>\$ 22,125,000</u>	<u>\$ 10,737,971</u>	<u>\$ 32,862,971</u>	<u>\$ 5,565,000</u>	<u>\$ 2,633,369</u>	<u>\$ 8,198,369</u>	<u>\$ 41,061,340</u>	

(1) "Outstanding Debt" does not include lease/purchase obligations.

(2) Average life of the Certificates: 9.464 years. Interest calculated at an average rate for purposes of illustration. Preliminary, subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION⁽¹⁾

Principal and Interest Requirements, 9/30/25		\$ 2,434,877
Interest and Sinking Fund, 9/30/24 ⁽²⁾	\$ 287,491	
Transfer from Levelland CDC	303,756	
Transfer from Levelland EDC	150,000	
Budgeted Interfund Transfers	1,709,627	
Budgeted Delinquent Taxes	7,500	
Budgeted Penalty Interest	3,000	
Budgeted Interest	750	
Budgeted Interest and Sinking Fund Levy	<u>279,358</u>	<u>\$ 2,741,482</u>
Estimated Fund Balance, 9/30/25		<u>\$ 306,606</u>

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

(2) Unaudited.

TABLE 10 – OTHER OBLIGATIONS

Lease Obligations

The assets acquired through lease obligations are as follows:

<u>Cash and Capital Assets</u>	<u>Governmental Activities</u>
Machinery and Equipment	\$ 733,075
Less: Accumulated Depreciation	<u>(244,025)</u>
Totals	<u>\$ 489,050</u>

Commitments under lease obligation agreements for machinery and equipment provide for minimum future lease payments as of September 30, 2024, are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 73,866	\$ 10,552	\$ 84,418
2026	76,374	8,044	84,418
2027	78,966	5,452	84,418
2028	<u>81,647</u>	<u>2,722</u>	<u>84,369</u>
	<u>\$ 236,987</u>	<u>\$ 16,218</u>	<u>\$ 253,205</u>

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

As of December 31, 2024, the City does not have any authorized but unissued bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT. . . The City does not anticipate the issuance of additional general obligation debt in the next 12 months.

PENSION FUND

Plan Description – The City participates as one of 919 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 Provide – TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

Currently the City has adopted the following provisions related to the pension plan:

	<u>December 31, 2022</u>
Employee deposit rate	6.0%
Matching ration (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% Repeating
Annuity increase (to Retirees)	Transfers 70% of CPI

Employees Covered by Benefit Terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	66
Inactive Employees Entitled to but not Yet Receiving Benefits	51
Active Employees	<u>94</u>
Total Plan Employees	<u>211</u>

Contributions - The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 6% of their annual gross earnings during the fiscal year. The required contribution rates for the City were 9.04% and 8.97% in calendar years 2022 and 2023, respectively. The City’s contributions to TMRS for the year ended September 30, 2023, were \$479,321, and were equal to the required contributions.

Net Pension Asset/Liability

The City’s Net Pension Asset/Liability (NPAL) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the NPAL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

Inflation	2.5% per year
Overall Payroll Growth	2.75% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Amortization Period	23 years

Salary increases are 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 is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled.

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	35.00%	7.70%
Core Fixed Income	6.00%	4.90%
Non-Core Fixed Income	20.00%	8.70%
Other Public and Private Markets	12.00%	8.10%
Real Estate	12.00%	5.80%
Hedge Funds	5.00%	6.90%
Private Equity	10.00%	11.80%

Discount Rate

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

Changes in Net Pension Asset (Liability)

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Pension</u>	<u>Net Pension Asset (Liability)</u>
Balance 12/31/2022	\$ 31,683,089	\$ 34,235,531	\$ (2,552,442)
Service Cost	767,592	-	767,592
Interest (on the Total Pension Liability)	2,074,206	-	2,074,206
Difference Between Expected and Actual Expenses	426,126	-	426,126
Contributions - Employer	-	470,376	(470,376)
Contributions - Employee	-	312,518	(312,518)
Net Investment Income	-	-2,456,929	2,456,929
Benefit Payments	(1,550,918)	(1,550,918)	-
Administrative Expense	-	(21,272)	21,272
Other	2,978	25,383	(22,405)
Balance 12/31/2023	<u>\$ 33,403,073</u>	<u>\$ 31,014,689</u>	<u>\$ 2,388,384</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension asset/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%) and 1-percentage-point higher (7.75%) than the current rate:

<u>1% Decrease</u>	<u>Current Rate Assumption</u>	<u>1% Increase</u>
\$ 6,897,478	\$ 2,388,384	\$ (1,317,030)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at www.tnrs.com.

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

For the year ended September 30, 2023, the City recognized pension income of \$678,997 and calculated as shown below:

Total Service Cost	\$ 767,592
Interest on the Total Pension Liability	2,074,206
Employee Contributions (Reduction of Expense)	(312,518)
Projected Earnings on Plan Investments (Reduction of Expense)	(2,273,048)
Administrative Expense	21,272
Other Changes in Fiduciary Net Position	(25,383)
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	(161,263)
Recognition of Current Year Outflow (Inflow) of Resources-Assets	588,139
Total Pension Expense (Income)	<u>\$ 678,997</u>

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Deferred Outflows / (Inflows) of Resources - Pension Plan</u>	<u>Plan Year</u>	<u>Amount</u>	<u>Remaining Amortization Period</u>
Employer Contribution Deferrals	2021	\$ 334,126	1.000
Differences Between Projected and Actual Investment Earnings	2019	(445,060)	1.000
Differences Between Projected and Actual Investment Earnings	2020	(97,887)	2.000
Differences Between Projected and Actual Investment Earnings	2021	(1,144,441)	3.000
Differences Between Projected and Actual Investment Earnings	2022	3,783,983	4.000
Differences Between Expected and Actual Economic Experience	2019	(75,984)	0.790
Differences Between Expected and Actual Economic Experience	2020	(255,247)	1.740
Differences Between Expected and Actual Economic Experience	2021	168,915	2.820
Differences Between Expected and Actual Economic Experience	2022	327,940	2.340
Difference in Assumptions	2019	4,040	0.790
Total Deferred Outflows / (Inflows) of Resources		<u>\$ 2,600,385</u>	

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Plan Year</u>	<u>Amortization of Deferred Outflows</u>
2024	\$ 344,087
2025	565,105
2026	711,816
2027	979,377
	<u>\$ 2,600,385</u>

SUPPLEMENTAL DEATH BENEFITS FUND

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan.

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees’ entire careers.

Benefits Provided

The plan provides a \$7,500 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the SDBF. The OPEB benefit is a fixed \$7,500 lump-sum benefit and no future increases are assumed in the benefit amount.

The SDBF fund does not meet the requirements of a trust under Paragraph 4b of GASB No. 75, as the assets of the SDBF can be used to pay active SDBF benefits which are not part of the OPEB plan. The contributions for retiree SDBF coverage are assigned to the OPEB plan under GASB 75 and are used to determine the benefit payments shown in the changes in the total OPEB liability.

Benefit terms are established under the TMRS Act. Participation in the retiree SDBF is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year. The City’s contribution rate for the retiree SDBF program is calculated annually on an actuarial basis and is equal to the cost of providing a one-year death benefit equal to \$7,500.

Employees Covered by Benefit Terms:

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	42
Inactive Employees Entitled to but not Yet Receiving Benefits	18
Active Employees	<u>94</u>
Total Plan Employees	<u>154</u>

Total OPEB Liability

The City’s total OPEB liability of \$251,885 was measured as of December 31, 2022 and was determined by an actuarial valuation as of that date.

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Actuarial Assumptions

The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of Economic/Demographic Gains and Losses Assumptions	Straight-Line Amortization over Expected Working Life
Inflation	2.50%
Salary Increases	3.5% to 11.5% including inflation
Discount Rate	4.05%
Retirees' Share of Benefit-Related Costs	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates - Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forwards for males and a 3 year set-forward for females. In addition, a 3.5% and 3.0% 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 TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASBS No. 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 4.05% based on the 20-Year Bond GO Index published by bondbuyer.com is used as the measurement date of December 31, 2022.

Annuity Purchase Rates:

Annuity purchase rates are used to determine the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027, the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

Experience Studies:

Actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) until 2027 are based on a mortality study performed in 2013. TMRS uses the experience studies as a basis for determining assumptions, except where required to be treated different by GASB 75.

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Changes in the Total OPEB Liability

Balance as of December 31, 2021	\$	353,050
Changes for the year:		
Service Cost		18,116
Interest on Total OPEB Liability		6,614
Difference Between Expected and Actual Experiences		4,523
Changes in Assumptions and Other Inputs		(124,962)
Other		238
Benefit Payments		(5,694)
Balance as of December 31, 2022	<u>\$</u>	<u>251,885</u>

Changes of assumptions or other inputs reflect a change in the discount rate from year to year.

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

Sensitivity Analysis

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 4.05%, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.05%) or 1 percentage point higher (5.05%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	<u>1% Decrease in Discount Rate (3.05%)</u>	<u>Discount Rate (4.05%)</u>	<u>1% Increase in Discount Rate (5.05%)</u>
Total OPEB Liability	<u>\$ 300,156</u>	<u>\$ 251,885</u>	<u>\$ 213,913</u>

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

For the year ended September 30, 2023, the City recognized OPEB expense of \$13,690. At September 30, 2023, 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>
Difference Between Expected and Actual Experiences	\$ -	\$ 11,956
Changes in Assumptions and Other Inputs	-	60,163
Contributions Made Subsequent to Measurement Date	4,399	-
	<u>\$ 4,399</u>	<u>\$ 72,119</u>

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

	<u>OPEB Expense Amount</u>
2023	\$ (9,196)
2024	(9,797)
2025	(13,893)
2026	(17,832)
2027	(17,001)
Thereafter	-
	<u>\$ (67,720)</u>

FINANCIAL INFORMATION

TABLE 12 - CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2024 ⁽¹⁾	2023	2022	2021	2020
<u>General Revenues:</u>					
Taxes:					
Ad Valorem Tax	\$ 4,555,501	\$ 4,368,879	\$ 4,286,846	\$ 4,403,195	\$ 4,400,887
Franchise Tax	969,532	1,183,149	1,084,701	855,716	902,849
Motel and Occupancy Tax	172,330	125,076	213,815	139,176	87,163
Sales Tax	3,033,177	3,532,908	3,072,484	2,779,946	2,400,939
Charges for Services	396,345	391,083	540,661	409,519	333,556
Operating Grants and Contributions	1,062,911	1,335,921	978,178	1,500,094	1,008,954
Capital Grants and Contributions	1,006,682	779,875	918,713	1,766,828	250,000
Royalties	99,355	78,058	73,066	56,013	45,664
Investment Earnings	1,911,132	438,446	83,486	45,051	75,702
Gain/(Loss) on Disposition of Assets	-	20,000	45,744	35,174	49,498
Other General Revenues	968,577	1,301,304	921,030	107,820	112,871
Transfer-Internal Activities	510,686	450,000	443,161	382,340	596,379
Total Revenues and Transfers	<u>\$ 14,686,228</u>	<u>\$ 14,004,699</u>	<u>\$ 12,661,885</u>	<u>\$ 12,480,872</u>	<u>\$ 10,264,462</u>
<u>Expenditures:</u>					
General Government	\$ 1,499,945	\$ 1,427,851	\$ 1,147,687	\$ 1,502,677	\$ 1,505,224
Public Safety	4,902,636	5,105,447	4,457,818	4,143,471	4,952,245
Highways and Streets	1,622,415	736,984	69,180	692,154	1,005,473
Recreation and Parks	951,206	885,433	642,822	717,744	692,410
Economic Development	201,903	236,082	749,854	177,043	159,317
Cemetery	329,361	322,277	250,725	306,220	294,954
Depreciation	1,776,417	1,724,677	1,627,497	1,390,300	1,580,327
Interest and Fiscal Charges	2,047,431	108,147	148,006	176,464	224,575
Total Expenses	<u>\$ 13,331,314</u>	<u>\$ 10,546,898</u>	<u>\$ 9,093,589</u>	<u>\$ 9,106,073</u>	<u>\$ 10,414,525</u>
Change in Net Position	1,354,914	3,457,801	3,568,296	3,374,799	(150,063)
Beginning Net Position	32,700,289	29,242,488	25,674,192	22,299,393	22,449,456
Prior Period Adjustments	-	-	-	-	-
Transfer Net Position	-	-	-	-	-
Ending Net Position	<u>\$ 34,055,203</u>	<u>\$ 32,700,289</u>	<u>\$ 29,242,488</u>	<u>\$ 25,674,192</u>	<u>\$ 22,299,393</u>

(1) Unaudited.

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TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

REVENUES	Fiscal Years Ended September 30,				
	2024 ⁽¹⁾	2023	2022	2021	2020
Ad Valorem and Motel Taxes	\$ 4,555,501	\$ 3,287,583	\$ 3,339,240	\$ 3,509,372	\$ 3,464,319
Franchise Fees	969,532	1,183,149	1,084,701	855,716	902,849
Sales Tax	3,033,177	3,532,908	3,072,484	2,779,946	2,400,939
Licenses and Permits	38,983	20,019	25,127	12,096	1,932
Fines and Fees	126,989	186,477	212,121	177,822	181,445
Royalties	99,355	65,320	56,706	45,535	37,773
Interest	528,357	180,618	30,296	27,191	50,310
Local	510,686	511,240	602,291	1,134,759	331,814
Gifts and Requests	8,430	2,331	3,530	7,143	1,256
Miscellaneous	323,456	283,333	145,094	20,702	44,486
Total Revenues	\$ 10,194,466	\$ 9,252,978	\$ 8,571,590	\$ 8,570,282	\$ 7,417,123
EXPENDITURES					
Current:					
General Government	\$ 1,499,945	\$ 1,270,848	\$ 1,282,110	\$ 1,231,374	\$ 1,248,788
Public Safety	4,902,636	5,503,980	5,182,868	4,940,633	4,922,462
Highways and Streets	1,622,415	714,961	1,473,645	1,126,733	646,997
Culture and Recreation	951,206	1,067,778	1,008,386	1,419,948	702,930
Debt Service	854,395	128,779	128,068	128,781	128,779
Total Expenditures	\$ 9,830,597	\$ 8,686,346	\$ 9,075,077	\$ 8,847,469	\$ 7,649,956
Excess (Deficiency) of					
Revenues (Under) Expenditures	\$ 363,869	\$ 566,632	\$ (503,487)	\$ (277,187)	\$ (232,833)
Other Financing Sources (Uses)					
Sale of Assets	\$ -	\$ 20,000	\$ 54,601	\$ 35,174	\$ 49,498
Operating Transfers In	1,060,211	581,987	396,839	476,837	85,673
Operating Transfers Out	-	-	-	-	-
Proceeds from Debt Issue	-	-	-	-	203,220
Total Other Financing Sources (Uses)	\$ 1,060,211	\$ 601,987	\$ 451,440	\$ 512,011	\$ 338,391
Excess of Revenues and Other Financing Sources Over					
(under) expenditures and Other Financing Uses	\$ 1,424,080	\$ 1,168,619	\$ (52,047)	\$ 234,824	\$ 105,558
Fund Balances, Beginning of Year	\$ 5,723,928	\$ 4,555,309	\$ 4,607,356	\$ 4,372,532	\$ 4,266,974
Transfer Fund Balance to Proprietary Fund	-	-	-	-	-
Fund Balances, End of Year	\$ 7,148,008	\$ 5,723,928	\$ 4,555,309	\$ 4,607,356	\$ 4,372,532

(1) Unaudited.

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TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On January, 1992, the voters of the City approved the imposition of an additional sales and use tax of three-eighths of one percent (3/8 of 1%) for economic development and an additional one-eighth of one percent (1/8 of 1%) for property tax reduction. Collection for the additional tax went into effect on July, 1992. The sales tax for economic development is collected solely for the benefit of the Levelland Economic Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation.

Fiscal Year Ended 30-Sep	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2020	\$ 2,662,943	60.71%	\$ 0.4129	\$ 196.86
2021	2,743,710	63.88%	0.4120	203.18
2022	3,117,978	76.12%	0.4664	230.89
2023	3,419,595	84.90%	0.4500	235.83
2024	3,345,732 ⁽³⁾	74.88%	0.3953	264.86

(1) Includes the sales tax for reduction of property tax; does not include the sales tax for economic development.

(2) Based on population estimates of City officials.

(3) Unaudited.

FINANCIAL POLICIES

Basis of Accounting . . . The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability incurred, if measurable, except for unmatured interest on general long-term debt.

Proprietary Fund revenues and expenses are recognized on the full accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the accounting period in which they are incurred.

General Fund Balances . . . It is the City's unwritten policy is to maintain surplus and unencumbered funds equal to three months of expenditures combined in the General Fund and other funds of the City. This allows the City to avoid interim borrowing pending tax receipts.

Use of Bond Proceeds, Grants, etc . . . The City policy is to use bond proceeds, grants, revenue sharing or other non-recurring revenues for capital expenditures only. Except for specific grant programs that target operations, such as some law enforcement grants, such revenues are never to be used to fund City operations.

Budgetary Procedures . . . Budgetary Procedures . . . The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. The legal level of control is at the function level. All budget appropriations lapse at year end.

The budget is presented on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

Amounts over budget are covered by unassigned general fund balance.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law, including particularly Texas Government Code, as amended, Chapter 2256 (the "PFIA"), in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

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

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

INVESTMENT POLICIES . . . Under State law, the City is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The City must adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the City’s investments 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.” The City is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

TABLE 14 - CURRENT INVESTMENTS⁽¹⁾

As of September 30, 2024, the City’s investable general funds were invested in the following categories:

Description	Market Value	% of Portfolio
Investment Pools	\$ 35,960,712	100.00%
Total	<u>\$ 35,960,712</u>	<u>100.00%</u>

(1) Unaudited.

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TAX MATTERS

TAX EXEMPTION. . . The delivery of the Certificates is subject to the opinion of Bond Counsel to the effect that interest on the Certificates for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. A form of Bond Counsel’s opinions is reproduced as APPENDIX C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinion, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Certificates. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the City as the “taxpayer,” and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust (“FASIT”), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer’s applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Certificates. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Certificates.

Existing law may change to reduce or eliminate the benefit to certificate holders of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN CERTIFICATES . . . The initial public offering price of certain Certificates (the “Discount Certificates”) may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Certificates described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The purchase price of certain Certificates (the "Premium Certificates") paid by an owner may be greater than the amount payable on such Certificates at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Certificate over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Certificate in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity (or, in some cases with respect to a callable Certificate, the yield based on a call date that results in the lowest yield on the Certificate).

Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

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. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS. . . The City will provide certain updated financial information and operating data to the MSRB annually. The City shall provide annually to the MSRB (1) within six months after the end of each fiscal year ending in and after 2024, financial information and operating data with respect to the City of the general type of information contained in Tables 1 through 6 and 8 through 14 in the Official Statement, and (2) within twelve months after the end of each fiscal year ending in and after 2024, audited financial statements of the City. Any financial statements so provided shall be prepared in accordance with the accounting principles described in described in Appendix B to the Official Statement, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation. If audited financial statements are not available within 12 months after the end of any fiscal year, the City will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available.

Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation. The 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 or filed with the United States Securities and Exchange Commission (the "SEC") as permitted by the SEC Rule 15c2-12.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information in the numbered tables above by March 31 in each year and audited financial statements (or unaudited financial statements if audited financial statements are not yet available) by September 30, 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; and (14) appointment of a successor or additional trustee or paying agent/registrars or the change of name of a trustee or paying agent/registrars, 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. 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 (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule. Additionally, the City intends the words used in clauses (15) and (16) of the preceding paragraph to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885.

AVAILABILITY OF INFORMATION. . . In connection with its continuing disclosure agreement 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 certain specified 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 of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the respective outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized Bond Counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS. . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule, except as follows. The City filed their annual financial statements late for the fiscal year ended 2023. A notice of late filing was made explaining the late filing was due to the audited financial statements not being available by the March 31, 2024 deadline.

OTHER INFORMATION

RATINGS

The Certificates and the presently outstanding tax supported debt of the City are rated "A+" by S&P, without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating, or either of them, may have an adverse effect on the market price of the Certificates.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

WEATHER EVENTS

The City is located in the panhandle region of Texas. Land located in this area is susceptible to high winds, tornadoes, fires and arid conditions. If a future weather event significantly damages all or part of the properties comprising the tax base within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenue and/or necessitate an increase in the City tax rate. Under certain conditions, Texas law allows a city to increase property tax rates without voter approval upon the occurrence of certain disasters such as a tornado, flooding or extreme drought and upon gubernatorial or presidential declaration of disaster. There can be no assurance that a casualty loss to taxable property within the City will be covered by insurance (or that property owners will carry flood or the appropriate, applicable other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds or that insurance proceeds will be used to rebuild or repay any damaged improvements within the City or be sufficient for such purposes. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the City could be adversely affected.

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 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.

CYBERSECURITY

The City's operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. While the City continually assesses and monitors its cybersecurity risks, the City has been (and may be in the future) subject to cyber-attacks from time to time. In response to such assessments and monitoring, the City takes actions it deems appropriate in response to cybersecurity risks, including, but not limited to, implementing cybersecurity training programs, obtaining technology improvements to mitigate cybersecurity risks, and taking other similar measures. To date, the City has not been the victim of any cyber-attack that has had a material adverse effect on its operations or financial condition. However, no assurance can be given that the City will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the City's control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated by criminal activities of individuals or organizations. Any such occurrence could materially and adversely affect the City's operations and/or financial condition.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments and investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. 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, 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 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 market value. No review by the City 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.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Certificate and to the effect that the Certificates are valid and legally binding obligations of the City, except to the extent that enforcement of the rights and remedies of the registered owners of the Certificates may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the City. Though it may represent the Financial Advisor and the Underwriter 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 connection with the issuance of the Certificates. 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 therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions, "THE CERTIFICATES" (exclusive of the subcaptions "Tax Rate Limitation" "Book-Entry-Only System," "Certificateholders' Remedies" and "Sources and Uses of Certificate Proceeds"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (exclusive of the subcaption "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Certificates for Sale," "Legal Matters" (exclusive of the last two sentences of the first paragraph thereof) and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER INFORMATION" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and such information conforms to the Ordinance. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. The legal opinions will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, 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 judgments of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

FINANCIAL ADVISOR

Hilltop Securities Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Hilltop Securities Inc. will not submit a bid for the Certificates, either independently or as a member of a syndicate organized to submit a bid for the Certificates. Hilltop Securities Inc. in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City, at an underwriting discount of \$_____. The Underwriter will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Underwriter.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

The Ordinance authorizing the issuance of the Certificates will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Underwriter.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION . . . The City of Levelland is a mineral-producing and agricultural area, the county seat of Hockley County and principal commercial center located 25 miles west of Lubbock at the intersection of U.S. Highway 385 and State Highway 114. Levelland functions as both a self-sustained community with its own employment base and as a bedroom community to the Lubbock metropolitan area. The 2020 U.S. Census population was 12,652.

THE COUNTY . . . Hockley County is a northwest Texas county traversed by U.S. Highways 62/82, 84 and 385, State Highway 114 and ten farm-to-market roads. The economy is based on agriculture and mineral production. The Texas Almanac designates cotton, sorghum, cattle and peanuts as principal sources of agricultural income. The county is one of the state’s leading producers of cotton. The principal manufactured products are petroleum products and just outside of the City is an operating ethanol plant.

EDUCATION . . . Public education in Levelland is provided by the Levelland Independent School District. There is one early childhood center, two elementary schools (grades 1-3), one intermediate school (grades 4-5), one middle school (grades 6-8), and one high school (grades 9-12). There were approximately 2,500 students enrolled in the District in the 2024/25 school year.

MAJOR EMPLOYERS

The City’s principal employers are listed as the following:

Company	Product Line
South Plains College	Education
Walmart Supercenter	Supermarkets and other Grocery Stores
Covenant Hospital Levelland	Medical
United Supermarket	Supermarkets and other Grocery Stores
South Plains Community Action Association	Social advocacy
Levelland Independent School District	Education
Allied Oilfield	Support Activities for Oil and Gas Operations
Gravity Oilfield Services	Support Activities for Oil and Gas Operations
Levelland Nursing & Rehab	Nursing Care Facilities
Rink's Lease Service	Oil and Gas Pipeline Construction
Lynwood Nursing & Rehab	Nursing Care Facilities
Standard Energy Service	Support Activities for Oil and Gas Operations

EMPLOYMENT RATES

	Annual Averages				
	2024 ⁽¹⁾	2023	2022	2021	2020
Hockley County					
Civilian Labor Force	10,892	10,768	10,803	10,732	10,637
Total Employment	10,470	10,377	10,404	10,099	9,790
Total Unemployment	422	391	399	633	847
Percent Unemployment	3.9%	3.6%	3.7%	5.9%	8.0%
State of Texas					
Civilian Labor Force	15,311,608	15,067,153	14,672,312	14,292,315	13,941,490
Total Employment	14,765,350	14,472,524	14,093,906	13,486,624	12,872,070
Total Unemployment	546,258	594,629	578,406	805,691	1,069,420
Percent Unemployment	3.6%	3.9%	3.9%	5.6%	7.7%

Source: Texas Workforce Commission

(1) Average as of November 2024.

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APPENDIX B

EXCERPTS FROM THE
CITY OF LEVELLAND, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2023

The information contained in this Appendix consists of excerpts from the City of Levelland, Texas Annual Financial Report for the Year Ended September 30, 2023, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

To the Mayor and City Council
City of Levelland, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Levelland, Texas, as of and for the fiscal year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Levelland, Texas's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Levelland, Texas, as of September 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Levelland, Texas (the City) and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in the plan's net pension liability and related ratios, schedule of contributions for the retirement plan, schedule of changes in the total OPEB liability and related ratios, and budgetary comparison information on pages 39 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements 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 November 13, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 of the City's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

November 13, 2024

CITY OF LEVELLAND, TEXAS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 9,439,303	\$ 27,107,378	\$ 36,546,681	\$ 4,280,919
Receivables (Net of Allowances)	1,168,715	936,276	2,104,991	38,856
Intergovernmental Receivables	223,436		223,436	132,445
Due from Component Units	1,759,678		1,759,678	
Inventories		321,677	321,677	772,682
Prepaid Items	73,252	20,079	93,331	7,400
Internal Balances	850,239	(850,239)		
Capital Assets Not being Depreciated	1,484,960	1,542,307	3,027,267	84,205
Depreciable Assets, Net	26,811,468	18,928,267	45,739,735	4,738,347
Water Rights, Net		4,907,281	4,907,281	
Total Assets	\$ 41,811,051	\$ 52,913,026	\$ 94,724,077	\$ 10,054,854
DEFERRED OUTFLOWS OF RESOURCES				
Pension Plan	\$ 3,735,716	\$ 883,288	\$ 4,619,004	\$ 122,375
OPEB Plan	3,558	841	4,399	195
Total Deferred Outflows of Resources	\$ 3,739,274	\$ 884,129	\$ 4,623,403	\$ 122,570
LIABILITIES				
Accounts Payable	\$ 265,291	\$ 305,618	\$ 570,909	\$ 786
Accrued Wages	180,965	42,526	223,491	
Accrued Interest	15,690	123,134	138,824	1,285
Customer Deposits and Prepayments	4,000	315,382	319,382	
Due to City of Levelland				1,759,678
Noncurrent Liabilities				
Net Pension Liability	1,931,655	456,729	2,388,384	63,041
Total OPEB Liability	203,717	48,168	251,885	6,648
Accrued Compensated Absences	500,003	144,431	644,434	4,115
Closure/Post Closure Landfill Liability		58,870	58,870	
Due Within One Year	859,223	1,130,353	1,989,576	155,000
Due In More Than One Year	4,434,540	19,762,519	24,197,059	165,000
Total Liabilities	\$ 8,395,084	\$ 22,387,730	\$ 30,782,814	\$ 2,155,553
DEFERRED INFLOWS OF RESOURCES				
Pension Plan	\$ 1,632,600	\$ 386,019	\$ 2,018,619	\$ 40,152
OPEB Plan	58,328	13,791	72,119	1,904
Unearned Revenue - Unspent Grants	2,752,674		2,752,674	
Deferred Gain on Bond Refunding	11,350		11,350	
Total Deferred Inflows of Resources	\$ 4,454,952	\$ 399,810	\$ 4,854,762	\$ 42,056
NET POSITION				
Net Investment in Capital Assets	\$ 23,502,668	\$ 22,733,033	\$ 46,235,701	\$ 4,627,552
Restricted for:				
Enabling Legislation	323,043		323,043	
Debt Service	38,113		38,113	
Donor Requirements	258,177		258,177	
Economic Development	336,270		336,270	3,352,263
Sewer Improvements		2,862,565	2,862,565	
Water Improvements		175,001	175,001	
Unrestricted	8,242,018	5,239,016	13,481,034	
Total Net Position	\$ 32,700,289	\$ 31,009,615	\$ 63,709,904	\$ 7,979,815

See accompanying notes to the financial statements.

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CITY OF LEVELLAND, TEXAS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Fines, Fees, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
PRIMARY GOVERNMENT								
<u>Governmental Activities:</u>								
General Government	\$ 1,427,851	\$ 51,025	\$ 247,770	\$	\$ (1,129,056)	\$	\$ (1,129,056)	
Public Safety	5,105,447	203,926	709,200	35,879	(4,156,442)		(4,156,442)	
Highways and Streets	736,984				(736,984)		(736,984)	
Recreation and Parks	885,433				(885,433)		(885,433)	
Economic Development	236,082		7,977	743,996	515,891		515,891	
Cemetery	322,277	136,132			(186,145)		(186,145)	
Depreciation	1,724,677				(1,724,677)		(1,724,677)	
Interest and Fee's Related to Debt	108,147				262,827		262,827	
Total Governmental Activities	\$ 10,546,898	\$ 391,083	\$ 1,335,921	\$ 779,875	\$ (8,040,019)	\$ 0	\$ (8,040,019)	
<u>Business-Type Activities:</u>								
Water and Sewer	\$ 3,053,122	\$ 4,236,652	\$	\$	\$	\$ 1,183,530	\$ 1,183,530	
Sanitation	2,263,006	2,741,949				478,943	478,943	
Street Lights	238,167	207,419				(30,748)	(30,748)	
Sewer Improvement Fee	11,093	583,764				572,671	572,671	
Water Improvement Fee	425	66,436				66,011	66,011	
Swimming Pool	57,707	7,911				(49,796)	(49,796)	
Airport	73,903	42,152				(31,751)	(31,751)	
Interest and Fee's Related to Debt	761,274					(761,274)	(761,274)	
Bond Issue Costs	300,000					(300,000)	(300,000)	
Depreciation	1,215,600					(1,215,600)	(1,215,600)	
Amortization	262,349					(262,349)	(262,349)	
Total Business-Type Activities	\$ 8,236,646	\$ 7,886,283	\$ 0	\$ 0	\$ 0	\$ (350,363)	\$ (350,363)	
Total Primary Government	\$ 18,783,544	\$ 8,277,366	\$ 1,335,921	\$ 779,875	\$ (8,040,019)	\$ (350,363)	\$ (8,390,382)	
Component Units	\$ 2,316,281	\$ 126,750	\$ 0	\$ 0				\$ (2,189,531)

General Revenues (Expenses):

Taxes:								
Property Taxes, Levied for General Purposes	\$ 4,368,879	\$	\$ 4,368,879	\$	\$ 4,368,879	\$	\$ 1,602,213	
Sales Taxes	3,532,908		3,532,908		3,532,908			
Franchise Taxes	1,183,149		1,183,149		1,183,149			
Motel Occupancy Taxes	125,076		125,076		125,076			
Investment Earnings	438,446		438,446	1,108,777	1,547,223		179,161	
Rents and Royalties	78,058		78,058		78,058			
Miscellaneous	363,655		363,655	166,645	530,300		38,787	
Gain on Disposition of Assets	20,000		20,000		20,000			
Contributions and Donations	937,649		937,649		937,649			
Transfers	450,000		450,000	(450,000)				
Total General Revenues, Special Items, and Transfers	\$ 11,497,820	\$	\$ 825,422	\$	\$ 12,323,242	\$	\$ 1,820,161	
Change in Net Position	\$ 3,457,801	\$	\$ 475,059	\$	\$ 3,932,860	\$	\$ (369,370)	
Net Position—Beginning	29,242,488		30,534,556		59,777,044		8,349,185	
Net Position—Ending	\$ 32,700,289	\$	\$ 31,009,615	\$	\$ 63,709,904	\$	\$ 7,979,815	

See accompanying notes to the financial statements.

CITY OF LEVELLAND, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023

	Major Funds			Nonmajor Governmental Funds	Total
	General Fund	Corona Virus Relief Fund	EDA Grant Fund		
ASSETS					
Cash and Cash Equivalents	\$ 3,318,906	\$ 2,930,883	\$	\$ 1,923,355	\$ 8,173,144
Receivables (Net of Allowances)	851,727			316,988	1,168,715
Due from Other Funds	1,829,762				1,829,762
Intergovernmental Receivables			217,236	6,200	223,436
Due from LEDC	224,911		1,163,793	370,974	1,759,678
Prepays	71,037			2,215	73,252
Total Assets	<u>\$ 6,296,343</u>	<u>\$ 2,930,883</u>	<u>\$ 1,381,029</u>	<u>\$ 2,619,732</u>	<u>\$ 13,227,987</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 205,828	\$ 19,134	\$	\$ 40,329	\$ 265,291
Accrued Wages	174,668			6,297	180,965
Due to Other Funds			1,381,029	448,733	1,829,762
Customer Deposits	4,000				4,000
Advances from Other Funds	81,349				81,349
Total Liabilities	<u>\$ 465,845</u>	<u>\$ 19,134</u>	<u>\$ 1,381,029</u>	<u>\$ 495,359</u>	<u>\$ 2,361,367</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenues - Property Taxes	\$ 106,570	\$	\$	\$ 15,488	\$ 122,058
Unearned Revenue - Grants		2,752,674			2,752,674
	<u>\$ 106,570</u>	<u>\$ 2,752,674</u>	<u>\$ 0</u>	<u>\$ 15,488</u>	<u>\$ 2,874,732</u>
FUND BALANCES					
Nonspendable - Prepays	\$ 71,037	\$	\$	\$ 2,215	\$ 73,252
Restricted Fund Balance:					
Restricted for Enabling Legislation				323,043	323,043
Restricted for Economic Development				336,270	336,270
Restricted for Donor Requirements				258,177	258,177
Restricted for Debt Service				38,113	38,113
Committed Fund Balance:					
Committed for Expansion and Improvements				798,398	798,398
Committed for Cemetery Operations				352,669	352,669
Unassigned	<u>5,652,891</u>	<u>159,075</u>			<u>5,811,966</u>
Total Fund Balances	<u>\$ 5,723,928</u>	<u>\$ 159,075</u>	<u>\$ 0</u>	<u>\$ 2,108,885</u>	<u>\$ 7,991,888</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 6,296,343</u>	<u>\$ 2,930,883</u>	<u>\$ 1,381,029</u>	<u>\$ 2,619,732</u>	<u>\$ 13,227,987</u>

See accompanying notes to the financial statements.

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CITY OF LEVELLAND, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2023**

Total Fund Balances - Governmental Funds Balance Sheet	\$ 7,991,888
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Net of accumulated depreciation)	28,296,428
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	2,197,747
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(500,003)
Long-term obligations including reoffering premiums are not due and payable in the current period and therefore are not reported in the funds.	(5,293,763)
Deferred Gains on Bond Refundings are not recorded in the funds.	(11,350)
Payables for bond interest which are not due in the current period are not reported in the funds.	(15,690)
Net Pension Liability and Related Deferred Outflows and Inflows are not reported in the funds.	171,461
Total OPEB Liability and Related Deferred Outflows and Inflows are not reported in the funds.	(258,487)
Property tax revenue is recognized in funds but not in the Statement of Net Position.	<u>122,058</u>
Net Position of Governmental Activities	<u><u>\$ 32,700,289</u></u>

See accompanying notes to the financial statements

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CITY OF LEVELLAND, TEXAS

**STATEMENT OF GOVERNMENTAL FUNDS REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Major Funds			Nonmajor Governmental Funds	Total
	General Fund	Corona Virus Relief Fund	EDA Grant Fund		
REVENUES					
Taxes:					
General Property Taxes	\$ 3,287,583	\$	\$	\$ 1,079,657	\$ 4,367,240
Sales and Use Taxes	3,532,908				3,532,908
Franchise Taxes	1,183,149				1,183,149
Motel Occupancy Taxes				125,076	125,076
Intergovernmental Revenues	511,240	247,770	743,996	612,791	2,115,797
Charges for Services	20,019				20,019
Fines and Fees	186,477			184,587	371,064
Rents and Royalties	65,320			12,738	78,058
Investment Earnings	180,618	141,949		85,037	407,604
Miscellaneous	283,333			80,322	363,655
Contributions and Donations	2,331		778,197	157,121	937,649
Total Revenues	<u>\$ 9,252,978</u>	<u>\$ 389,719</u>	<u>\$ 1,522,193</u>	<u>\$ 2,337,329</u>	<u>\$ 13,502,219</u>
EXPENDITURES					
Current					
General Government	\$ 1,270,848	\$ 155,513	\$	\$ 3,500	\$ 1,429,861
Public Safety	5,503,980			40,417	5,544,397
Highways and Streets	714,961			51,021	765,982
Recreation and Parks	1,067,778				1,067,778
Economic Development			1,522,193	202,332	1,724,525
Cemetery				367,662	367,662
Debt Service					
Principal	111,022			720,000	831,022
Interest	17,757			122,928	140,685
Fiscal Agent's Fees				1,000	1,000
Total Expenditures	<u>\$ 8,686,346</u>	<u>\$ 155,513</u>	<u>\$ 1,522,193</u>	<u>\$ 1,508,860</u>	<u>\$ 11,872,912</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	<u>\$ 566,632</u>	<u>\$ 234,206</u>	<u>\$ 0</u>	<u>\$ 828,469</u>	<u>\$ 1,629,307</u>
OTHER FINANCING SOURCES (USES)					
Transfers In (Out)	\$ 581,987	\$ (92,257)	\$	\$ (39,730)	\$ 450,000
Proceeds from the Sale of Assets	20,000				20,000
Total Other Financing Sources	<u>\$ 601,987</u>	<u>\$ (92,257)</u>	<u>\$ 0</u>	<u>\$ (39,730)</u>	<u>\$ 470,000</u>
Net Change in Fund Balance	\$ 1,168,619	\$ 141,949	\$ 0	\$ 788,739	\$ 2,099,307
Fund Balance - Beginning	<u>4,555,309</u>	<u>17,126</u>	<u>0</u>	<u>1,320,146</u>	<u>5,892,581</u>
Fund Balance - Ending	<u>\$ 5,723,928</u>	<u>\$ 159,075</u>	<u>\$ 0</u>	<u>\$ 2,108,885</u>	<u>\$ 7,991,888</u>

See accompanying notes to the financial statements.

CITY OF LEVELLAND, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Net Change in Fund Balances - Total Governmental Funds	\$ 2,099,307
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Governmental funds report capital outlay as expenditures. However, the statement of activities reports these as Capital Assets that are depreciated over their useful lives.	2,271,333
Depreciation is recorded in the SOA as an expense but not in governmental funds.	(1,724,677)
Principal payments are recorded as expenditures in governmental funds but excluded in the Statement of Activities.	831,022
The net revenue of internal service funds is reported with governmental activities.	30,842
Change in accrued interest from beginning of period to end of period.	18,011
Accrued compensated absences are recorded in the statement of activities as an expense but not in governmental funds.	72,670
Amortization of discounts and premiums are not reported in the funds.	13,635
Amortization of deferred gains on refundings are not reported in the funds.	1,892
Pension Expense is not recognized in the funds related to the Net Pension Liability and related balance sheet amounts.	(152,872)
OPEB Expense is not recognized in the funds related to the Total OPEB Liability and related balance sheet amounts.	(5,001)
Deferred revenue is not recorded in the statements of net position thus the change is excluded in activities.	<u>1,639</u>
Change in Net Position of Governmental Activities	<u>\$ 3,457,801</u>

See accompanying notes to the financial statements

CITY OF LEVELLAND, TEXAS

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2023

	Major Proprietary Funds		Total Proprietary Funds	Internal Service Funds
	Enterprise Fund	Airport Fund		
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 27,050,821	\$ 56,557	\$ 27,107,378	\$ 1,266,159
Receivables (Net of Allowances)	921,996	14,280	936,276	
Inventories	321,677		321,677	
Prepays	16,422	3,657	20,079	
Noncurrent Assets:				
Advances to Other Funds				931,588
Capital Assets Not being Depreciated	1,306,061	236,246	1,542,307	
Depreciable Assets, Net	15,367,227	3,561,040	18,928,267	
Water Rights, Net	4,907,281		4,907,281	
Total Assets	<u>\$ 49,891,485</u>	<u>\$ 3,871,780</u>	<u>\$ 53,763,265</u>	<u>\$ 2,197,747</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Plan	\$ 883,288	\$	\$ 883,288	\$
OPEB Plan	841		841	
Total Deferred Outflows of Resources	<u>\$ 884,129</u>	<u>\$ 0</u>	<u>\$ 884,129</u>	<u>\$ 0</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 303,144	\$ 2,474	\$ 305,618	\$
Accrued Wages	42,526		42,526	
Accrued Interest	123,134		123,134	
Customer Deposits and Prepayments	315,382		315,382	
Noncurrent Liabilities:				
Due Within One Year	1,130,353		1,130,353	
Due In More Than One Year	19,762,519		19,762,519	
Closure/Post Closure Landfill Liability	58,870		58,870	
Accrued Compensated Absences	144,431		144,431	
Net Pension Liability	456,729		456,729	
Total OPEB Liability	48,168		48,168	
Advances from Other Funds	850,239		850,239	
Total Liabilities	<u>\$ 23,235,495</u>	<u>\$ 2,474</u>	<u>\$ 23,237,969</u>	<u>\$ 0</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Plan	\$ 386,019	\$	\$ 386,019	\$
OPEB Plan	13,791		13,791	
Total Deferred Inflows of Resources	<u>\$ 399,810</u>	<u>\$ 0</u>	<u>\$ 399,810</u>	<u>\$ 0</u>
NET POSITION				
Net Investment in Capital Assets and Water Rights	\$ 18,935,747	\$ 3,797,286	\$ 22,733,033	\$
Restricted for Sewer Improvements	2,862,565		2,862,565	
Restricted for Water Improvements	175,001		175,001	
Unrestricted	5,166,996	72,020	5,239,016	2,197,747
Total Net Position	<u>\$ 27,140,309</u>	<u>\$ 3,869,306</u>	<u>\$ 31,009,615</u>	<u>\$ 2,197,747</u>

See accompanying notes to the financial statements.

CITY OF LEVELLAND, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Major Proprietary Funds		Total Proprietary Funds	Internal Service Funds
	Enterprise Fund	Airport Fund		
OPERATING REVENUES				
Water and Sewer Revenues	\$ 4,236,652	\$	\$ 4,236,652	\$
Sanitation Charges	2,741,949		2,741,949	
Street Lights	207,419		207,419	
Sewer Improvement Fee	583,764		583,764	
Water Improvement Fee	66,436		66,436	
Swimming Pool Fee	7,911		7,911	
Hanger Rental and Fuel Sales		42,152	42,152	
Total Operating Revenues	<u>\$ 7,844,131</u>	<u>\$ 42,152</u>	<u>\$ 7,886,283</u>	<u>\$ 0</u>
OPERATING EXPENSES				
Personnel Services	\$ 1,468,974	\$	\$ 1,468,974	\$
Supplies and Capital Outlay	280,047		280,047	
Repairs and Maintenance Services	511,553	28,185	539,738	
Other Operating Expenses	3,329,382	45,718	3,375,100	
Depreciation	33,564		33,564	
Amortization of Water Rights	1,004,079	211,521	1,215,600	
Total Operating Expense	<u>\$ 6,889,948</u>	<u>\$ 285,424</u>	<u>\$ 7,175,372</u>	<u>\$ 0</u>
Operating Income (Loss)	<u>\$ 954,183</u>	<u>\$ (243,272)</u>	<u>\$ 710,911</u>	<u>\$ 0</u>
NONOPERATING REVENUE (EXPENSE)				
Investment Earnings	\$ 1,105,987	\$ 2,790	\$ 1,108,777	\$ 30,842
Interest Expense and Fees	(761,274)		(761,274)	
Bond Issue Costs	(300,000)		(300,000)	
Miscellaneous	166,645		166,645	
Total Nonoperating Revenue (Expense)	<u>\$ 211,358</u>	<u>\$ 2,790</u>	<u>\$ 214,148</u>	<u>\$ 30,842</u>
Income (Loss) Before Transfers	<u>\$ 1,165,541</u>	<u>\$ (240,482)</u>	<u>\$ 925,059</u>	<u>\$ 30,842</u>
TRANSFERS				
Transfers In/(Out)	<u>\$ (450,000)</u>	<u>\$</u>	<u>\$ (450,000)</u>	<u>\$</u>
Total Transfers	<u>\$ (450,000)</u>	<u>\$ 0</u>	<u>\$ (450,000)</u>	<u>\$ 0</u>
Change in Net Position	\$ 715,541	\$ (240,482)	\$ 475,059	\$ 30,842
TOTAL NET POSITION - BEGINNING	<u>26,424,768</u>	<u>4,109,788</u>	<u>30,534,556</u>	<u>2,166,905</u>
TOTAL NET POSITION - ENDING	<u>\$ 27,140,309</u>	<u>\$ 3,869,306</u>	<u>\$ 31,009,615</u>	<u>\$ 2,197,747</u>

See accompanying notes to the financial statements.

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CITY OF LEVELLAND, TEXAS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Major Proprietary Funds		Total Proprietary Funds	Internal Service Funds
	Enterprise Fund	Airport Fund		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received From Customers	\$ 7,779,827	\$ 87,104	\$ 7,866,931	\$
Cash Payments to Suppliers for Goods and Services	(4,132,649)	(76,450)	(4,209,099)	\$
Cash Payments to Employees for Services	(1,405,011)		(1,405,011)	\$
Net Cash From Operating Activities	\$ 2,242,167	\$ 10,654	\$ 2,252,821	\$ 0
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash Transfers To/From Other Funds	\$ (759,171)	\$ 0	\$ (759,171)	\$ 818,955
Cash Receipts From Non-Operating Activities	166,645		166,645	\$
Net Cash From Noncapital Financing Activities	\$ (592,526)	\$ 0	\$ (592,526)	\$ 818,955
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions of Capital Assets	\$ (526,957)	\$	\$ (526,957)	\$
Proceeds from Bond Issuance	19,350,000		19,350,000	\$
Principal Payments on Long-Term Debt	(1,621,168)		(1,621,168)	\$
Interest Payments	(641,743)		(641,743)	\$
Net Cash From Capital and Related Financing Activities	\$ 16,560,132	\$ 0	\$ 16,560,132	\$ 0
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Earned on Investments	\$ 1,105,987	\$ 2,791	\$ 1,108,778	\$ 30,842
Net Cash From Investing Activities	\$ 1,105,987	\$ 2,791	\$ 1,108,778	\$ 30,842
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 19,315,760	\$ 13,445	\$ 19,329,205	\$ 849,797
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	7,735,061	43,112	7,778,173	416,362
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 27,050,821	\$ 56,557	\$ 27,107,378	\$ 1,266,159
Reconciliation of Operating Income to Net Cash Flows From Operating Activities				
Operating Income (Loss)	\$ 954,183	\$ (243,272)	\$ 710,911	\$ 0
Adjustments to Reconcile Income From Operations to				
Net Cash From Operating Activities:				
Depreciation Expense	\$ 1,004,079	\$ 211,521	\$ 1,215,600	\$
Amortization Expense	262,349		262,349	\$
Change in Assets and Liabilities:				
Receivables	(64,960)	44,952	(20,008)	\$
Inventories	(41,444)		(41,444)	\$
Prepays	(11,201)	(3,657)	(14,858)	\$
Deferred Outflows	(807,775)		(807,775)	\$
Accounts Payable	67,703	1,110	68,813	\$
Accrued Payroll	(278)		(278)	\$
Meter Deposits	656		656	\$
Net Pension Asset/Liability	942,482		942,482	\$
Total OPEB Liability	(17,782)		(17,782)	\$
Closure/Post Closure Landfill Liability	6,839		6,839	\$
Accrued Compensated Absences	14,101		14,101	\$
Deferred Inflows	(66,785)		(66,785)	\$
Total Adjustments	\$ 1,287,984	\$ 253,926	\$ 1,541,910	\$ 0
Net Cash From Operating Activities	\$ 2,242,167	\$ 10,654	\$ 2,252,821	\$ 0

See accompanying notes to the financial statements.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

The City of Levelland, Texas' (the City) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

1. Reporting Entity

Primary Government

The City has a council-manager form of government with a mayor and four council members. The Mayor is elected at large for a three-year term and council members are elected to represent residents in four election districts for two-year terms. The terms are staggered so that two council members are elected each year. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs when deemed appropriate by the City. The City Council is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the GASB in its Statement No. 61, *The Financial Reporting Entity*.

Component Units

As defined by GASB No. 61, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The City has two component units that are reflected as discretely presented on the government-wide financial statements.

The Levelland Economic Development Corporation (LEDC), a nonprofit corporation, was incorporated in the State of Texas on March 12, 1992. The purpose of LEDC 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 Levelland Community Development Corporation (LCDC), a nonprofit corporation, was incorporated in the State of Texas on September 17, 2010. The purpose of the LCDC is to engage in projects primarily for amateur sports, including children's sports; this includes ballparks, soccer fields and sports and recreational complexes; for public park facilities and open space improvements; for related concession and parking facilities; and for maintenance and operation expenses for any of the above described projects.

Complete stand-alone financial statements for LEDC and LCDC may be obtained from:

City of Levelland
1709 Avenue H
Levelland, Texas 79336

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation – Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's general fund and other funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public safety, highways and streets, recreation and parks, economic development, cemetery and airport services are classified as governmental activities. The City's enterprise services are classified as business-type activities.

In the government-wide Statement of Net Position, the governmental activities, business-type activities, and component unit (a) are presented by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (public safety, highways and streets, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (public safety, highways and streets, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or franchise taxes, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

b. Basis of Presentation – Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance/net position, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

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CITY OF LEVELLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS

The following fund types are used by the City:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

Major Funds:

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

Corona Virus Relief Fund – This special revenue fund is used to account for the receipt of grant funds and for expenditures related to this grant.

EDA Grant Fund – This special revenue fund is used to account for the receipt of grant funds and for expenditures related to this grant.

Nonmajor Funds:

Debt Service Fund – This governmental fund is established to account for the payment of bond principal and interest payments.

Capital Project Funds – These governmental funds are established to account for expansion and improvements.

Special Revenue Funds – The special revenue funds are used to account for the receipt of taxes and other revenues dedicated for various purposes.

2. Proprietary Fund – Enterprise Fund:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

Enterprise Fund – This fund accounts for the revenues and expenses associated with providing water and sewer, sanitation and other business-type services to the citizens of the City.

Airport Fund – This fund accounts for the activities at the airport. Funding consists of hanger rentals and fuel sales.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

A proprietary fund is required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, to be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Fund Balances

The City applies GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Non-Spendable Fund Balance – includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaids) or because they must remain intact such as the principal of an endowment.

Restricted Fund Balance – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.

Committed Fund Balance – includes the portion of net resources upon which the City Commission has imposed limitations on use and those amounts can only be used for the specific purposes determined by a formal action of the City Council. Commitments may be changed or lifted only by the City Council taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

Assigned Fund Balance – includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

Unassigned Fund Balance – includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Fund Balance Policy

Committed Fund Balance – The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the City Council at the City's regular or special meetings. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period (i.e. the City Council may approve the calculation or formula for determining the amount to be committed).

Assigned Fund Balance – The City Council authorizes the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose as approved by this fund balance policy.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

c. Measurement Focus, Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Governmental activities, business-type activities and discretely presented component units in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 30 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

d. Financial Statement Amounts

1. Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand, cash in bank, certificates of deposit and investment pools.

2. Capital Assets:

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure and Improvements	
Other than Buildings	10-50 years
Buildings	50 years
Building Improvements	10-20 years
Vehicles	2-15 years
Office Equipment	3-15 years
Computer Equipment	3-15 years

3. Revenues:

Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue. The City also recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements related to grants, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as cash paid in advance by the provider and deferred inflows of resources by the City.

4. Expenditures:

Expenditures are recognized when the related fund liability is incurred. In accordance with GASB 63 and 65, any loss on bond refunding is recognized as a deferred outflow of resources on the statement of net position and amortized over the life of the refunding bonds. In addition, bond issue costs are immediately expensed. The City expenses immediately any refunding changes with respect to the debt issued by Canadian River Municipal Water Authority (CRMWA) that are related to the City.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

5. Compensated Absences:

Compensated absences (general leave) for the City includes both vacation and sick pay. General leave is based on an employee's length of employment and is earned ratably during the span of employment. Upon termination, employees are paid for any accrued general leave earned as set forth by personnel policy.

Vested or accumulated general leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated general leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represents a reconciling item between the fund and government-wide presentations. Vested or accumulated general leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

6. Interfund Activity:

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenue and expenditures or expenses. Reimbursements occur when one fund incurs cost, charges the appropriate benefiting fund and reduces its related cost as reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line item on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line item on the government-wide statement of net position.

7. Encumbrances:

The City does not utilize an encumbrance accounting system. At year-end, the City reviews commitments to determine amounts encumbered. At September 30, 2023, there were no material commitments to be indicated by a reserve in the general fund balance.

8. Inventory:

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in the governmental activities and governmental funds. The first in first out method (FIFO) is used in the Enterprise Fund.

9. Deferred Outflows/Inflows of Resources:

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

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

B. Cash and Cash Equivalents

At September 30, 2023, the carrying amount of the City's cash and cash equivalents was \$36,546,681, with bank balances of \$37,055,658. The City's cash in bank at September 30, 2023, and during the year then ended, were entirely covered by FDIC insurance and securities pledged by the depository bank, which are held by the bank's third-party custodian bank.

C. Disaggregation of Accounts Receivable

Estimated uncollectible receivables are charged to current operations under the allowance method of accounting. The allowance for uncollectible balances at September 30, 2023, for the various accounts included in the financial statements is as follows:

	<u>Total Receivables</u>	<u>Estimated Uncollectible Accounts</u>	<u>Net Receivables</u>
Governmental Activities:			
General Fund			
Ad Valorem Taxes	\$ 402,087	\$ 295,517	\$ 106,570
Sales Taxes	291,378		291,378
Franchise Taxes	300,512		300,512
Other	153,267		153,267
Special Revenue Funds			
Hotel Occupancy Tax	33,035		33,035
Tax Increment Financing	258,079		258,079
Park Grants and Contributions			
Other	3,892		3,892
Debt Service			
Ad Valorem Taxes	42,542	34,084	8,458
Other	2,475		2,475
Cemetery Fund			
Ad Valorem Taxes	20,826	13,796	7,030
Other	4,019		4,019
Total Governmental Activities	<u>\$ 1,512,112</u>	<u>\$ 343,397</u>	<u>\$ 1,168,715</u>
Business-Type Activities:			
Enterprise Fund			
Customer Accounts	\$ 2,015,490	\$ 1,128,637	\$ 886,853
Other	35,143		35,143
Airport Fund			
Hanger Rental and Fuel	14,280		14,280
Total Business-Type Activities	<u>\$ 2,064,913</u>	<u>\$ 1,128,637</u>	<u>\$ 936,276</u>
Primary Government	<u>\$ 3,577,025</u>	<u>\$ 1,472,034</u>	<u>\$ 2,104,991</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

D. Investments Policies and Risk

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) (the Act) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy.

That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable 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, and (9) bid solicitation preferences for certificates of deposit.

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in 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 not address the following risks:

- a. **Custodial Credit Risk – Deposits and Investments:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments in certificates of deposits may not be returned to it. The City's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state or local governments by pledging securities in excess of the highest cash balance of the government. The City is not exposed to custodial credit risk, for its deposits are all covered by depository insurance and securities pledged by the depository bank, which are held by the bank's third party custodian bank.
- b. **Concentration of Credit Risk –** The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At September 30, 2023, all of the City's investments are with various financial institutions which are covered by FDIC insurance and pledged securities, and as such the City has no risk.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

- c. Credit Risk – The risk that an issuer of other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2023, the City was not significantly exposed to credit risk.
- d. Interest Rate Risk – Not applicable
- e. Foreign Currency Risk – Not applicable

E. Property Taxes

The City is permitted by the State of Texas Constitution to levy taxes up to 1.50 per \$100 of assessed valuation for maintenance and operations, and up to 2.50 per \$100 of assessed valuation for the debt service tax. Taxes are collected by Hockley County from the citizens of Levelland and remitted to the City on a regular basis.

On October 1, 2022, property taxes of \$3,984,555 were levied for the governmental funds. Individual tax levies from the tax roll on October 1, 2022, were delinquent if unpaid at January 31, 2023.

Allowances for uncollectible tax receivables within the General, Cemetery and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property without specific authority from the Texas Legislature.

F. Component Unit Receivable

The City had \$1,759,678 due from LEDC and LCDC at September 30, 2023 for their share of administration costs and grant matching requirements.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

G. Capital Assets

Capital asset activity for the year ended September 30, 2023, was as follows:

	<u>Balance</u> <u>10/1/2022</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance</u> <u>9/30/2023</u>
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 1,484,960	\$	\$	\$ 1,484,960
Construction Work in Progress	<u>1,020,918</u>	<u>(1,020,918)</u>		<u>0</u>
Total Capital Assets Not Being Depreciated	<u>\$ 2,505,878</u>	<u>\$ (1,020,918)</u>	<u>\$ 0</u>	<u>\$ 1,484,960</u>
Depreciable Assets:				
Buildings and Improvements	\$ 7,556,508	\$	\$	\$ 7,556,508
Improvements Other Than Buildings	28,475,753	2,964,053		31,439,806
Machinery and Equipment	<u>8,410,063</u>	<u>328,198</u>	<u>22,369</u>	<u>8,715,892</u>
Total Depreciable Assets	<u>\$ 44,442,324</u>	<u>\$ 3,292,251</u>	<u>\$ 22,369</u>	<u>\$ 47,712,206</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 1,540,102	\$ 252,012	\$	\$ 1,792,114
Improvements Other Than Buildings	11,367,196	918,372		12,285,568
Machinery and Equipment	<u>6,291,132</u>	<u>554,293</u>	<u>22,369</u>	<u>6,823,056</u>
Total Accumulated Depreciation	<u>\$ 19,198,430</u>	<u>\$ 1,724,677</u>	<u>\$ 22,369</u>	<u>\$ 20,900,738</u>
Total Depreciable Assets, Net	<u>\$ 25,243,894</u>	<u>\$ 1,567,574</u>	<u>\$ 0</u>	<u>\$ 26,811,468</u>
Governmental Activities Capital Assets, Net	<u>\$ 27,749,772</u>	<u>\$ 546,656</u>	<u>\$ 0</u>	<u>\$ 28,296,428</u>

Depreciation is not allocated by function in the Statement of Activities.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

	<u>Balance 10/1/2022</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance 9/30/2023</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 1,085,357	\$	\$	\$ 1,085,357
Construction Work in Progress		<u>456,950</u>		<u>456,950</u>
Total Capital Assets Not Being Depreciated	<u>\$ 1,085,357</u>	<u>\$ 456,950</u>	<u>\$ 0</u>	<u>\$ 1,542,307</u>
Depreciable Assets:				
Buildings and Improvements	\$ 2,220,243	\$	\$	\$ 2,220,243
Improvements Other Than Buildings	31,405,295	7,374		31,412,669
Machinery and Equipment	<u>4,722,817</u>	<u>62,633</u>		<u>4,785,450</u>
Total Depreciable Assets	<u>\$ 38,348,355</u>	<u>\$ 70,007</u>	<u>\$ 0</u>	<u>\$ 38,418,362</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 692,818	\$ 47,371	\$	\$ 740,189
Improvements Other Than Buildings	14,464,432	844,678		15,309,110
Machinery and Equipment	<u>3,117,245</u>	<u>323,551</u>		<u>3,440,796</u>
Total Accumulated Depreciation	<u>\$ 18,274,495</u>	<u>\$ 1,215,600</u>	<u>\$ 0</u>	<u>\$ 19,490,095</u>
Total Depreciable Assets, Net	<u>\$ 20,073,860</u>	<u>\$ (1,145,593)</u>	<u>\$ 0</u>	<u>\$ 18,928,267</u>
Investment in Water Facilities	\$ 13,101,582	\$	\$	\$ 13,101,582
Accumulated Amortization Investment in Water Facilities	<u>(7,836,554)</u>	<u>(357,747)</u>		<u>(8,194,301)</u>
Net Investment in Water Facilities	<u>\$ 5,265,028</u>	<u>\$ (357,747)</u>	<u>\$ 0</u>	<u>\$ 4,907,281</u>

H. Investment in Water Facilities and Related Debt

The City, along with several West Texas municipalities, entered into various contracts with the CRMWA, to participate in the construction and maintenance of water gathering, holding, treatment, and transmission facilities. Under the agreements, CRMWA agreed to issue revenue bonds to finance construction and maintenance of the facilities and the City agreed to pay back their share of the total annual debt service requirements. Additionally, the City entered into a similar agreement with the City of Lubbock, Texas, for the acquisition and maintenance of a water treatment facility. The total investment made by the City to obtain its total water rights was \$13,101,582, including other amounts invested.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

The following schedules comprise the debt outstanding related to the CRMWA and City of Lubbock contracts as of September 30, 2023:

Water Facilities Debt	Balance 10/1/2022	Refunding	Principal Payments	Balance 9/30/2023
Series 2014, Refunding, CUP	\$ 381,021	\$ (354,841)	\$ 26,180	\$ 0
Series 2017, Refunding, CUP	209,156		31,597	177,559
Series 2020, Refunding, CUP	641,830		64,283	577,547
Series 2021, Refunding, CUP	528,538		213,843	314,695
Series 2023, Refunding, CUP		344,007	53,195	290,812
Water Treatment Plant 2014	130,348		63,737	66,611
	\$ 1,890,893	\$ (10,834)	\$ 452,835	\$ 1,427,224

Water Facilities Debt	Maturity	Interest Rates
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2017	2029	3.0%-5.0%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2020	2031	4.0%-5.0%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2021	2025	4.0%-5.0%
Revenue Refunding Bonds, Conjunctive Use Groundwater Supply Project, Series 2023	2027	5.0%
Water Treatment Plant 2014 - City of Lubbock	2024	3.38%

The City paid \$81,876 in interest related to this debt for the year ended September 30, 2023.

Debt service requirements related to this debt at September 30, 2023, are as follows:

	Total Water Facilities Debt		
	Principal	Interest	Total
Year Ending September 30,			
2024	\$ 462,043	\$ 61,000	\$ 523,043
2025	285,333	42,694	328,027
2026	200,931	31,473	232,404
2027	154,249	21,373	175,622
2028	110,499	14,596	125,095
2029-2032	214,169	15,963	230,132
Totals	\$ 1,427,224	\$ 187,099	\$ 1,614,323

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Investment in Water Facilities at cost as of September 30, 2023 is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions/ Other</u>	<u>Ending</u>
Cost of Water Facilities:				
CRMWA	\$ 12,316,077	\$	\$	\$ 12,316,077
City of Lubbock	585,505			585,505
Other	200,000			200,000
Total Cost of Water Facilities	\$ 13,101,582	\$ 0	\$ 0	\$ 13,101,582
Accumulated Amortization:				
CRMWA	\$ 7,394,217	\$ 305,534	\$	\$ 7,699,751
City of Lubbock	390,337	48,213		438,550
Other	52,000	4,000		56,000
Total Accumulated Amortization	\$ 7,836,554	\$ 357,747	\$ 0	\$ 8,194,301
Total Investment in Water Facilities	\$ 5,265,028	\$ (357,747)	\$ 0	\$ 4,907,281
Investments in Water Facilities, Net of Related Debt:				
	<u>Net Investment</u>	<u>Debt</u>	<u>Investment Net of Related Debt</u>	
CRMWA	\$ 4,616,326	\$ 1,360,613	\$ 3,255,713	
City of Lubbock	146,955	66,611	80,344	
Other	144,000		144,000	
Totals	\$ 4,907,281	\$ 1,427,224	\$ 3,480,057	

I. Long-Term Debt

The City's long-term debt is made up of bonds, unamortized premiums on bonds, notes, lease obligations, and compensated absences, the activity from the year is summarized below. These liabilities have been grouped by primary government activities in which the debts are recorded and serviced and show the amounts payable at September 30, 2023:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>	<u>Interest and Fees</u>
Governmental Activities:						
Series 2012, GO Refunding Bonds	\$ 735,000	\$	\$ 235,000	\$ 500,000	\$ 245,000	\$ 16,381
Series 2013, COs	2,825,000		220,000	2,605,000	230,000	73,831
Series 2019, GO Refunding Bonds	1,940,000		265,000	1,675,000	270,000	32,716
Lease Obligations	536,099		111,023	425,076	114,223	17,757
Compensated Absences	572,673		72,670	500,003		
Unamortized Bond Premiums	102,322		13,635	88,687		
Total Governmental Activities	\$ 6,711,094	\$ 0	\$ 917,328	\$ 5,793,766	\$ 859,223	\$ 140,685

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year	Interest and Fees
Business-Type Activities:						
CRMWA - Debt	\$ 1,760,545	\$ (10,834)	\$ 389,098	\$ 1,360,613	\$ 395,432	\$ 76,767
City of Lubbock Debt	130,348		63,737	66,611	66,611	5,109
Series 2022, Tax and Waterworks		19,650,000	945,000	18,705,000	615,000	632,666
State Infrastructure Bank Loan	635,651		51,946	583,705	53,310	16,023
Lease Obligations	171,385		171,385	0		5,474
Compensated Absences	130,330	14,101		144,431		
Unamortized Net Bond Premium	256,731	15,610	95,398	176,943		
Total Business-Type Activities	\$ 3,084,990	\$ 19,668,877	\$ 1,716,564	\$ 21,037,303	\$ 1,130,353	\$ 736,039

Detail on the maturity dates and interest rates of the outstanding Long-Term Debt of the City as of September 30, 2023 are as follows:

Governmental Activities:

<u>Debt</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>
Series 2012, GO Refunding Bonds	2025	2.00% - 2.75%
Series 2019, GO Refunding Bonds	2029	1.81%
Series 2009, COs	2029	4.00% - 4.13%
Series 2013, COs	2033	2.00% - 3.13%
Series 2015, Tax Notes	2022	1.63%
Lease Obligations	2028	2.99% - 3.39%

Business-Type Activities:

<u>Debt</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>
CRMWA - Debt	See Note H	See Note H
City of Lubbock - Debt	See Note H	See Note H
Series 2022, Tax and Waterworks	2042	4.67% - 5.50%
Lease Obligations	2023	3.19%

Debt service requirements on all long-term debt outstanding at September 30, 2023, are as follows:

Year Ending September 30,	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 859,223	\$ 121,411	\$ 980,634
2025	838,866	100,802	939,668
2026	596,374	84,093	680,467
2027	608,966	70,290	679,256
2028	626,647	56,089	682,736
2029-2033	1,675,000	112,996	1,787,996
Unamortized Bond Premiums	88,687		88,687
Totals	\$ 5,293,763	\$ 545,681	\$ 5,839,444

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2024	\$ 1,130,353	\$ 1,039,314	\$ 2,169,667
2025	985,042	990,581	1,975,623
2026	932,077	947,415	1,879,492
2027	921,869	903,846	1,825,715
2028	909,630	861,689	1,771,319
2029-2033	4,806,958	3,646,795	8,453,753
2034-2038	5,490,000	2,404,577	7,894,577
2039-2042	5,540,000	776,001	6,316,001
Unamortized Bond Premiums	176,943		176,943
Totals	\$ 20,892,872	\$ 11,570,218	\$ 32,463,090

LCDC is obligated to the City to make all debt payments on the Series 2013 Certificate of Obligation Bonds. LEDC is obligated to the City to make all debt payments, in excess of TIF #2 property tax payments received, on the Series 2009 Certificate of Obligation Bonds. These amounts are shown as Operating Grants and Contributions to offset Interest and Fees Related to Debt under the governmental activities.

On December 29, 2022, the City issued Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Taxable Series 2022 in the amount of \$19,650,000. The proceeds from the sale of the certificates will be used for (i) the construction of public works, to wit: constructing, acquiring, purchasing, renovating, enlarging, equipping, and improving water and sewer system properties and facilities, including land and rights-of-way therefor, and (ii) the payment of the costs associated with the issuance of the Certificates.

CRMWA refunded the 2014 refunding bonds with the 2023 refunding bond issue. The refunding will result in a savings of \$463,750 (Net Present Value Savings - \$430,579 or 3.377% of the refunded principal) over the next 4 years. This results in annual savings of around \$113,625 – \$118,500 for the CRMWA members. The City’s proportionate share of the savings is 2.7%.

Lease Obligations:

The assets acquired through lease obligations are as follows:

Cash and Capital Assets	Governmental Activities
Machinery and Equipment	\$ 733,075
Less: Accumulated Depreciation	(244,025)
Totals	\$ 489,050

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Commitments under lease obligation agreements for machinery and equipment provide for minimum future lease payments as of September 30, 2023, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2024	\$ 114,223	\$ 14,265	\$ 128,488
2025	73,866	10,552	84,418
2026	76,374	8,044	84,418
2027	78,966	5,452	84,418
2028	81,647	2,722	84,369
Totals	<u>\$ 425,076</u>	<u>\$ 41,035</u>	<u>\$ 466,111</u>

J. Pension Plan

Plan Description

The City participates as one of 919 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 retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Currently the City has adopted the following provisions related to the pension plan:

	<u>December 31, 2022</u>
Employee Deposit Rate	6%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Requirement Eligibility (Expressed as Age / Years of Service)	60/5,0/20
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to Retirees)	70% of CPI

Employees Covered by Benefit Terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	66
Inactive Employees Entitled to but not Yet Receiving Benefits	51
Active Employees	<u>94</u>
Total Plan Employees	<u><u>211</u></u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 6% of their annual gross earnings during the fiscal year. The required contribution rates for the City were 9.04% and 8.97% in calendar years 2022 and 2023, respectively. The City's contributions to TMRS for the year ended September 30, 2023, were \$479,321, and were equal to the required contributions.

Net Pension Asset/Liability

The City's Net Pension Asset/Liability (NPAL) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the NPAL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

Inflation	2.5% per year
Overall Payroll Growth	2.75% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Amortization Period	23 years

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Salary increases are 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 is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled.

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	35.00%	7.70%
Core Fixed Income	6.00%	4.90%
Non-Core Fixed Income	20.00%	8.70%
Other Public and Private Markets	12.00%	8.10%
Real Estate	12.00%	5.80%
Hedge Funds	5.00%	6.90%
Private Equity	10.00%	11.80%

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Discount Rate

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

Changes in Net Pension Liability (Asset)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance 12/31/2022	\$ 31,683,089	\$ 34,235,531	\$ (2,552,442)
Service Cost	767,592		767,592
Interest (on the Total Pension Liability)	2,074,206		2,074,206
Difference Between Expected and Actual Expenses	426,126		426,126
Contributions - Employer		470,376	(470,376)
Contributions - Employee		312,518	(312,518)
Net Investment Income		(2,456,929)	2,456,929
Benefit Payments	(1,550,918)	(1,550,918)	
Administrative Expense		(21,272)	21,272
Other	2,978	25,383	(22,405)
Balance 12/31/2021	\$ 33,403,073	\$ 31,014,689	\$ 2,388,384

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension asset/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	Current Rate Assumption	1% Increase
\$ 6,897,478	\$ 2,388,384	\$ (1,317,030)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

For the year ended September 30, 2023, the City recognized pension income of \$678,997 and calculated as shown below:

Total Service Cost	\$	767,592
Interest on the Total Pension Liability		2,074,206
Employee Contributions (Reduction of Expense)		(312,518)
Projected Earnings on Plan Investments (Reduction of Expense)		(2,273,048)
Administrative Expense		21,272
Other Changes in Fiduciary Net Position		(25,383)
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities		(161,263)
Recognition of Current Year Outflow (Inflow) of Resources-Assets		588,139
Total Pension Expense (Income)	\$	<u>678,997</u>

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Deferred Outflows/(Inflows) of Resources - Pension Plan</u>	<u>Plan Year</u>	<u>Amount</u>	<u>Remaining Amortization Period</u>
Employer Contribution Deferrals	2021	\$ 334,126	1.000
Differences Between Projected and Actual Investment Earnings	2019	(445,060)	1.000
Differences Between Projected and Actual Investment Earnings	2020	(97,887)	2.000
Differences Between Projected and Actual Investment Earnings	2021	(1,144,441)	3.000
Differences Between Projected and Actual Investment Earnings	2022	3,783,983	4.000
Differences Between Expected and Actual Economic Experience	2019	(75,984)	0.790
Differences Between Expected and Actual Economic Experience	2020	(255,247)	1.740
Differences Between Expected and Actual Economic Experience	2021	168,915	2.820
Differences Between Expected and Actual Economic Experience	2022	327,940	2.340
Difference in Assumptions	2019	4,040	0.790
Total Deferred Outflows/(Inflows) of Resources		<u>\$ 2,600,385</u>	

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Plan Year</u>	<u>Amortization of Deferred Outflows</u>
2024	\$ 344,087
2025	565,105
2026	711,816
2027	979,377
	<u>\$ 2,600,385</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

K. Other Post-Employment Benefits (OPEB)

Plan Description:

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan.

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees’ entire careers.

Benefits Provided:

The plan provides a \$7,500 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the SDBF. The OPEB benefit is a fixed \$7,500 lump-sum benefit and no future increases are assumed in the benefit amount.

The SDBF fund does not meet the requirements of a trust under Paragraph 4b of GASB No. 75, as the assets of the SDBF can be used to pay active SDBF benefits which are not part of the OPEB plan. The contributions for retiree SDBF coverage are assigned to the OPEB plan under GASB 75 and are used to determine the benefit payments shown in the changes in the total OPEB liability.

Benefit terms are established under the TMRS Act. Participation in the retiree SDBF is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year. The City’s contribution rate for the retiree SDBF program is calculated annually on an actuarial basis and is equal to the cost of providing a one-year death benefit equal to \$7,500.

Employees Covered by Benefit Terms:

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	42
Inactive Employees Entitled to but not Yet Receiving Benefits	18
Active Employees	94
Total Plan Employees	<u>154</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

Total OPEB Liability:

The City’s total OPEB liability of \$251,885 was measured as of December 31, 2022 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of Economic/Demographic Gains and Losses and Assumptions	Straight-Line Amortization over Expected Working Life
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Discount Rate	4.05%
Retirees’ Share of Benefit-Related Costs	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3.0% 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 TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB No. 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 4.05% based on the 20-Year Bond GO Index published by bondbuyer.com is used as the measurement date of December 31, 2022.

Annuity Purchase Rates:

Annuity purchase rates are used to determine the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027, the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

Experience Studies:

Actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the APRs until 2027 are based on a mortality study performed in 2013. TMRS uses the experience studies as a basis for determining assumptions, except where required to be treated different by GASB No. 75.

Changes in the Total OPEB Liability:

Balance as of December 31, 2021	\$ 353,050
Changes for the year:	
Service Cost	18,116
Interest on Total OPEB Liability	6,614
Difference Between Expected and Actual Experiences	4,523
Changes in Assumptions and Other Inputs	(124,962)
Other	238
Benefit Payments	<u>(5,694)</u>
Balance as of December 31, 2022	<u>\$ 251,885</u>

Changes of assumptions or other inputs reflect a change in the discount rate from year to year.

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

Sensitivity Analysis:

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 4.05%, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.05%) or 1 percentage point higher (5.05%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease in <u>Discount Rate (3.05%)</u>	<u>Discount Rate (4.05%)</u>	1% Increase in <u>Discount Rate (5.05%)</u>
Total OPEB Liability	\$ <u>300,156</u>	\$ <u>251,885</u>	\$ <u>213,913</u>

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

For the year ended September 30, 2023, the City recognized OPEB expense of \$13,690. At September 30, 2023, 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>
Difference Between Expected and Actual Experiences	\$	\$ 11,956
Changes in Assumptions and Other Inputs		60,163
Contributions Made Subsequent to Measurement Date	<u>4,399</u>	
	<u>\$ 4,399</u>	<u>\$ 72,119</u>

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

	<u>OPEB Expense Amount</u>
2023	\$ (9,196)
2024	(9,797)
2025	(13,893)
2026	(17,832)
2027	(17,001)
Thereafter	
	<u>\$ (67,720)</u>

L. Commitments and Contingencies

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

The City has no litigation pending which would have a material impact on the financial statements.

CITY OF LEVELLAND, TEXAS

NOTES TO FINANCIAL STATEMENTS

M. Closure and Post-Closure Care Costs

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$58,870 reported as landfill closure and post closure care liability at September 30, 2023, represents the cumulative amount reported to date based on the use of 5.44% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post closure care of \$898,000 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care at September 30, 2023. Actual costs in the future may be higher due to inflation, changes in technology, or changes in regulations.

N. Undivided Interests Related Party

The City and Hockley County both own a 50% undivided interest in the real property of the airport. Total net capital assets of the Airport are \$3,797,286, with no related debt, at September 30, 2023. The total net capital assets are included in the proprietary funds and in the business-type activities of the primary government in the City's statement of net position. The City and the County have always equally shared the responsibilities and benefits in regards to the undivided interests ownership and joint operations. While the City and the County share equally in all decision making, the City accepted the mantle of adopting government regulations to facilitate airport operations and for the accounting function.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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[CLOSING DATE]

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
United States

Tel +1 214 855 8000
Fax +1 214 855 8200
nortonrosefulbright.com

IN REGARD to the authorization and issuance of the “City of Levelland, Texas, Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificates of Obligation, Series 2025,” dated February 15, 2025, in the principal amount of \$_____ (the “Certificates”), we have examined into their issuance by the City of Levelland, Texas (the “City”), solely to express legal opinions as to the validity of the Certificates and the exclusion of the interest on the Certificates from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Certificates, or the sufficiency of the security for or the value or marketability of the Certificates.

THE CERTIFICATES are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Certificates mature on August 15 in each of the years specified in the ordinance adopted by the City Council of the City authorizing the issuance of the Certificates (the “Ordinance”), unless redeemed prior to maturity in accordance with the terms stated on the Certificates. The Certificates accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Certificates, including the Ordinance and an examination of the initial Certificate executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Certificates and certain other funds of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Certificates, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Certificates have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and are additionally payable from and secured by a limited pledge of the Net Revenues (as defined in the Ordinance) of the City’s Waterworks and Sewer System in the manner and to the extent provided in the Ordinance, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "City of Levelland, Texas, Tax and Waterworks and Sewer System (Limited Pledge)
Revenue Certificates of Obligation, Series 2025"

other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Certificates for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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