OFFICIAL STATEMENT DATED AUGUST 26, 2026

Ratings: Fitch: "AA+"/ Moody's "Aa3"

NEW ISSUE - BOOK-ENTRY-ONLY **(See "OTHER INFORMATION - RATINGS" herein)**

In the opinion of Bond Counsel, under existing law, interest on the Bonds is (i) excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.

$9,765,000
CITY OF GALVESTON, TEXAS
PUBLIC IMPROVEMENT BONDS
SERIES 2026

Interest Accrual Date: Date of Delivery (as defined below) **Due: May 1, as shown on page ii**

PAYMENT TERMS . . . Interest on the $9,765,000 City of Galveston, Texas, Public Improvement Bonds, Series 2026 (the "Bonds") will accrue from the Date of Delivery (as defined below), will be payable May 1 and November 1 of each year commencing May 1, 2027, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (hereinafter defined) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A. (see "THE BONDS - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapters 1331 and 1371, Texas Local Government Code, as amended, and election held in the City of Galveston, Texas (the "City") on November 4, 2025, and an ordinance adopted by the City Council of the City (the "City Council") on July 23, 2026, authorizing the issuance of the Bonds (the "Bond Ordinance") in which the City Council delegated pricing of the Bonds to an Authorized Officer who approved and executed a pricing certificate on August 26, 2026 (the "Pricing Certificate," which together with the Bond Ordinance is referred to herein as the "Ordinance") which contains the final terms of sale of the Bonds (see "THE BONDS - AUTHORITY FOR ISSUANCE OF THE BONDS").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) provide funds for the design, construction, acquisition and equipment of fire department and emergency facilities, including the replacement and construction of Fire Station No. 2, and the acquisition of land in connection therewith and (ii) pay the costs of issuance thereof (see "THE BONDS - SOURCES AND USES OF FUNDS").

SECURITY AND SOURCE OF PAYMENT. . . The Bonds constitute direct obligations of the City and are payable from a direct and continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City, as provided in the Ordinance (see "THE BONDS - SECURITY AND SOURCE OF PAYMENT").

REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 1, 2037, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on May 1, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - OPTIONAL REDEMPTION").

See Maturity Schedule on page ii

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the underwriters listed below (collectively, the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel (see APPENDIX C, "FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the City by Jackson Walker LLP, Houston, Texas, Disclosure Counsel, and for the Underwriters by The Bates Law Firm PLLC, Counsel for the Underwriters.

DELIVERY . . .It is expected that the Bonds will be available for delivery through the facilities of DTC on September 24, 2026 ("Date of Delivery").

FHN FINANCIAL CAPITAL MARKETS **CREWS & ASSOCIATES**

MATURITY SCHEDULE
$9,765,000

CITY OF GALVESTON, TEXAS
PUBLIC IMPROVEMENT BONDS, SERIES 2026

Maturity Date (5/1)[1]	Principal Amount	Interest Rate	Initial Yield[2]	CUSIP No.[4]
2027	$490,000	5.000%	2.760%	364478 ZL4
2028	490,000	5.000	2.840	364478 ZM2
2029	490,000	5.000	2.950	364478 ZN0
2030	490,000	5.000	3.070	364478 ZP5
2031	490,000	5.000	3.230	364478 ZQ3
2032	490,000	5.000	3.330	364478 ZR1
2033	490,000	5.000	3.480	364478 ZS9
2034	490,000	5.000	3.590	364478 ZT7
2035	490,000	5.000	3.700	364478 ZU4
2036	490,000	5.000	3.810	364478 ZV2
2037	490,000	5.000	3.950[3]	364478 ZW0
2038	490,000	5.000	4.090[3]	364478 ZX8
2039	490,000	5.000	4.210[3]	364478 ZY6
2040	485,000	5.000	4.350[3]	364478 ZZ3
2041	485,000	5.000	4.420[3]	364478 A23
2042	485,000	5.000	4.470[3]	364478 A31
2043	485,000	5.000	4.520[3]	364478 A49
2044	485,000	5.000	4.580[3]	364478 A56
2045	485,000	5.000	4.650[3]	364478 A64
2046	485,000	5.000	4.750[3]	364478 A72

(Interest to accrue from Date of Delivery.)

(1) The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 1, 2037, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on May 1, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.
(2) The initial yield is established by the Underwriters and may subsequently be changed at the discretion of the Underwriters.
(3) The initial yields are calculated to the first optional redemption date of May 1, 2036.
(4) CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc., on behalf of The American Bankers Association and are included solely for convenience of the registered owners of the Bonds. Neither the City, the Financial Advisor, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

No dealer, broker, salesman or other person has been authorized by the City or the Underwriters to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriters. 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.

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

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

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

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

The agreements of the City and others related to the Bonds 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 Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

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OFFICIAL STATEMENT SUMMARY

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

THE CITY	The City of Galveston, Texas (the "City") is a political subdivision and municipal corporation of the State of Texas (the "State"), located in Galveston County, Texas (see "INTRODUCTION - DESCRIPTION OF CITY" and "APPENDIX A - GENERAL INFORMATION REGARDING THE CITY").
THE BONDS	The $9,765,000 City of Galveston, Texas, Public Improvement Bonds, Series 2026 (the "Bonds") are issued as serial bonds maturing on May 1, 2027 through May 1, 2046, inclusive (see "THE BONDS - DESCRIPTION OF THE BONDS").
PAYMENT OF INTEREST	Interest on the Bonds accrues from the date of delivery to the Underwriters (the "Date of Delivery"), and is payable May 1, 2027 and each November 1 and May 1 thereafter until maturity or prior redemption (see "THE BONDS - DESCRIPTION OF THE BONDS").
AUTHORITY FOR ISSUANCE OF THE BONDS	The Bonds are issued pursuant to the general laws of the State, including particularly Chapters 1331 and 1371, Texas Government Code, an election held in the City on November 4, 2025, and an ordinance adopted by the City Council of the City (the "City Council") on July 23, 2026 authorizing the issuance of the Bonds (the "Bond Ordinance") (see "THE BONDS - AUTHORITY FOR ISSUANCE OF THE BONDS"). In the Bond Ordinance, the City Council authorized an authorized representative of the City to determine the final terms of the Bonds in a "Pricing Certificate" executed in a manner prescribed by the Bond Ordinance. The Pricing Certificate was executed on August 26, 2026. The Bond Ordinance and the Pricing Certificate are collectively referred to herein as the "Ordinance."
SECURITY FOR THE BONDS	The Bonds 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 within the City, as provided in the Ordinance (see "THE BONDS - SECURITY AND SOURCE OF PAYMENT").
OPTIONAL REDEMPTION	The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 1, 2037, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on May 1, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - OPTIONAL REDEMPTION").
TAX EXEMPTION	In the opinion of Bond Counsel, under existing law, interest on the Bonds is (i) excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used to (i) provide funds for the design, construction, acquisition and equipment of fire department and emergency facilities, including the replacement and construction of Fire Station No. 2, and the acquisition of land in connection therewith and (ii) pay the cost of issuance thereof (see "THE BONDS - SOURCES AND USES OF FUNDS").
RATINGS	The Bonds are rated "AA+" by Fitch Ratings ("Fitch") and "Aa3" by Moody's Ratings ("Moody's"), in each case without regard to credit enhancement (see "OTHER INFORMATION - RATINGS").

BOOK-ENTRY-ONLY SYSTEM	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the initial paying agent/registrar, The Bank of New York Mellon Trust Company, N.A., to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - BOOK-ENTRY-ONLY SYSTEM").
PAYMENT RECORD	The City has not defaulted on the payment of its general obligation debt except during the period of rehabilitation following the disastrous hurricane and flood of 1900 when maturing interest coupons were compromised at $0.50 on the dollar. The City has not had a payment default on its revenue bonds except for the Marine Park & Recreation Pier Revenue Bonds issued to Reconstruction Finance Corporation, an independent agency of the United States government, in 1941 for which no payments were made and the bonds were subsequently refunded in August 1963.

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SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population (1)	Net Taxable Assessed Valuation (2)	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year (3)	G.O. Tax Debt Per Capita	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2021	53,695	$7,252,693,771	135,072	$140,035,000	2,608	1.93%	100.80%
2022	53,219	8,600,162,946	161,599	144,210,000	2,710	1.68%	100.10%
2023	53,695	9,980,490,414	185,874	196,945,000	3,668	1.97%	101.20%
2024	53,237	11,675,154,602	219,305	188,140,000	3,534	1.61%	99.90%
2025	53,237	12,509,665,786	234,981	206,600,000	3,881	1.65%	100.20%
2026	53,623	13,094,626,074	244,198	196,650,000 (4)	3,667 (4)	1.50% (4)	98.21% (5)

(1) Source: United States Census Bureau.
(2) Source: Galveston Central Appraisal District and City Finance Department. Includes assessed valuation attributable to the City's Tax Increment Zones. Taxes levied on such property are not available to pay debt service on the Bonds. For fiscal year ended 2027, value attributed to the Tax Increments Zones is $176,021,867. See "TAX INFORMATION – CITY TAX INCREMENT REINVESTMENT ZONES."
(3) Includes self-supporting debt including the Bonds. See "Table 1 - VALUATIONS, EXEMPTIONS AND TAX SUPPORTED DEBT" and the accompanying footnotes.
(4) Includes the Bonds.
(5) Tax Collections as of July 31, 2026.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	2026 (1)	2025	2024	2023	2022	2021
Beginning Balance	$ 28,226,672	$ 23,885,781	$ 25,257,298	$ 24,162,825	$ 21,945,561	$ 16,752,563
Total Revenue	85,269,967	83,069,868	77,087,526	74,080,366	70,745,055	66,271,848
Total Expenditures	77,208,101	74,047,675	70,919,193	65,365,810	57,198,734	53,713,622
Other Sources (Uses) (2)	(8,282,708)	(5,721,676)	(7,539,850)	(7,620,083)	(11,137,135)	(7,365,228)
Adjustments		1,040,374	-	-	(191,922)	-
Ending Balance	$ 28,005,830	$ 28,226,672	$ 23,885,781	$ 25,257,298	$ 24,162,825	$ 21,945,561

Source: The City Finance Department – City's Audited Financial Statements.
(1) Unaudited information from the City.
(2) Beginning in Fiscal Year 2015, the charter-mandated transfer to the Infrastructure and Debt Service Fund was reported as a part of "Other Uses." The fund has been reported separately in the ACFR as a non-major governmental fund. In Fiscal Year 2025, this transfer totaled $6,529,535.

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CITY OF GALVESTON OFFICIALS AND STAFF

Elected Officials

City Council	Position[(1)]	Elected	Occupation
John Paul Listowski	Mayor	2026	Construction – Custom Home Building
Sharon B. Lewis[(2)]	Council Member	2026	Retired Teacher
Jeff Taylor	Council Member	2026	Salvation Army Shelter Manager
Robert Brown[(3)]	Council Member	2026	Retired University Administrator
Alex Porretto[(3)]	Council Member	2026	Business Manager
Michael Niebuhr	Council Member	2026	Green Infrastructure Program Coordinator
Jason Hardcastle	Council Member	2025	Wealth Advisor

(1) Pursuant to the Charter, no Mayor or Councilmember may serve for more than 3 consecutive regular 2-year terms in each office.
(2) Originally elected in the August 2021 special election to fill deceased Councilman E.R. Johnson's position, reelected in May 2022, May 2024 and May 2026.
(3) Originally elected in May 2024 and reelected May 2026.

SELECTED ADMINISTRATIVE STAFF

Name	Position	Years of Experience	Time in Current Position
Brian Maxwell	City Manager	30	15
Csilla Ludanyi	Finance Director and Chief Financial Officer	24	3
Janelle Williams	City Secretary	31	13
Donna Fairweather	Interim City Attorney	30	1
Daniel J. Buckley	Deputy City Manager	38	12
Brandon Cook	Assistant City Manager, Development & Municipal Services	24	9
Tammy Jacobs	Director & City Controller	17	12

CONSULTANTS AND ADVISORS

Auditor .... Weaver
Certified Public Accountants
The Woodlands, Texas

Bond Counsel .... Bracewell LLP
Houston, Texas

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

Disclosure Counsel .... Jackson Walker LLP
Houston, Texas

For additional information regarding the City, please contact:

Csilla Ludanyi Finance Director and Chief Financial Officer City of Galveston 823 Rosenberg Galveston, Texas 77553 Phone: (409) 797-3550 cludanyi@galvestontx.gov	Joseph W. Morrow Hilltop Securities Inc. Managing Director 700 Milam St, Ste 1200 Houston, TX 77002 Phone: 713.654.8690 joe.morrow@hilltopsecurities.com

OFFICIAL STATEMENT

RELATING TO

$9,765,000
CITY OF GALVESTON
PUBLIC IMPROVEMENT BONDS,
SERIES 2026

INTRODUCTION

This Official Statement, which includes the cover page and Appendices A and B, provides certain information regarding the issuance of $9,765,000 City of Galveston, Texas, Public Improvement Bonds, Series 2026 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted by the City Council of the City of Galveston, Texas (the "City") on July 23, 2026, authorizing the issuance of the Bonds (the "Bond Ordinance") except as otherwise indicated herein. In the Bond Ordinance, the City Council authorized an authorized representative of the City to determine the final terms of the Bonds in a "Pricing Certificate" executed in a manner prescribed by the Bond Ordinance. The Pricing Certificate was executed on August 26, 2026. The Bond Ordinance and the Pricing Certificate are collectively referred to herein as the "Ordinance."

There follows in this Official Statement descriptions of the Bonds 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., Houston, 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 and first adopted its Home Rule Charter in 1839. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Council members. The City Manager is the chief executive officer. The term of office is two years, and elections for all offices are held in May of even-numbered years. Council members, including the Mayor, are limited to serving three terms. The 2026 estimated population for the City is 53,623.

The City is located on the upper Texas Gulf Coast and occupies virtually all of a 32 mile-long island located approximately two miles off the Texas mainland and 50 miles southeast of Houston, Texas. See "WEATHER EVENTS."

The City provides a full range of services including police and fire protection, the constructions and maintenance of streets and other infrastructure, water services, sewer services, refuse collection, drainage services, parks and recreational activities, and general administration. Additional services include building inspection, planning, zoning, engineering, and an airport.

THE BONDS

DESCRIPTION OF THE BONDS

The Bonds shall be dated the Date of Delivery (as defined below). Interest on the Bonds will accrue from the date of their initial delivery (the "Date of Delivery") to the underwriters listed on the cover page hereof (collectively, the "Underwriters"), and mature on May 1 in each of the years and in the amounts shown on page ii hereof. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on May 1 and November 1, commencing May 1, 2027. The Bonds will be issued only in fully registered form in any integral multiple of $5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM").

AUTHORITY FOR ISSUANCE OF THE BONDS

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly Chapters 1331 and 1371, Texas Government Code, an election held in the City on November 4, 2025, and the Ordinance.

PURPOSE

Proceeds from the sale of the Bonds will be used to (i) provide funds for the design, construction, acquisition and equipment of fire department and emergency facilities, including the replacement and construction of Fire Station No. 2, and the acquisition of land in connection therewith and (ii) pay the costs of issuance thereof (see "THE BONDS - SOURCES AND USES OF FUNDS").

SECURITY AND SOURCE OF PAYMENT

The Bonds 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 within the City as provided in the Ordinance. See "TAX INFORMATION."

TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 taxable assessed valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance. The Home Rule Charter of the City (the "Charter") sets an ad valorem tax rate limit of $0.70 per $100 assessed valuation for general operating expenses, including payment of the general obligation tax debt of the City. Pursuant to the Charter, the City Council may not increase the ad valorem tax rate by more than 5% in any one year; provided, however, that the 5% limitation does not prevent increased market valuation and taxation of taxable property when subsequent improvements are made. Further, the City's Charter requires the City to use the proceeds of the City's 1/2 of one percent sales tax to reduce the ad valorem tax rate. See "FINANCIAL INFORMATION - TABLE 11 - MUNICIPAL SALES TAX HISTORY."

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after May 1, 2037, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on May 1, 2036, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of Bonds to be redeemed shall be selected by the City. If less than all of a maturity of the Bonds is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot, or other customary method that results in random selection, the Bonds, 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.

NOTICE OF REDEMPTION

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or

Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar of each series, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, 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 principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below. Discontinuance by the City of DTC's Book-Entry-Only system may require consent of participants under DTC operations and arrangements.

PAYING AGENT/REGISTRAR

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

TRANSFER, EXCHANGE AND REGISTRATION

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the 15th 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 Bonds 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.

SOURCES AND USES OF FUNDS

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

Sources of Funds	
Principal Amount	$9,765,000.00
Original Issue Premium	568,631.65
Total	$10,333,631.65
Uses of Funds	
Deposit to Project Fund	$10,000,000.00
Costs of Issuance[(1)]	270,137.49
Underwriters' Discount	63,494.16
Total	$10,333,631.65

(1) Includes legal fees of the City, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, contingency, and other costs of issuance.

DEFEASANCE

The City reserves the right to defease, discharge or refund the Bonds in any manner permitted by law.

REMEDIES OF HOLDERS OF THE BONDS

The Ordinance does not establish specific events of default with respect to the Bonds or provide for the appointment of a trustee to represent the interests of the owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. If the City defaults in any payment due on the Bonds, or if the City defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinance, any registered owner is entitled to seek a writ of mandamus or mandatory injunction from a court of proper jurisdiction to compel the City to levy, assess and collect an annual ad valorem tax sufficient (within the limits described herein) to pay principal of and interest on the Bonds as they become due or to perform other material covenants, conditions or obligations contained in the Ordinance. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract; and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. Such rights are in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State with respect to the Bonds. Under Texas law there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. A registered owner of Bonds could file suit against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, a suit for monetary damages could be vulnerable to the defense of sovereign immunity and any judgment could not be satisfied by execution against any property of the City.

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. In so ruling, the Court declared that statutory language such as "sue and be sued," in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Chapter 1371, Texas Government Code, which pertains to the issuance of public securities by issuers such as the City, permits the City to waive governmental immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds, the City has not waived the governmental immunity with respect thereto.

Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance. In Tooke, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities.

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

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or owners of an entity that 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 another federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the limitations related to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the rights of creditors of political subdivisions.

TAX INFORMATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. 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 Galveston Central Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

State law 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.

Through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2026 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than $5,320,000 (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 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. 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 ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates (see "– CITY AND TAXPAYER REMEDIES").

CITY AND TAXPAYER REMEDIES

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

Owners of certain property with a taxable value 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 $ 62,883,169 for the 2026 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 "– PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS." The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

STATE MANDATED HOMESTEAD EXEMPTIONS

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See "TABLE 1 - VALUATIONS, EXEMPTIONS AND TAX SUPPORTED DEBT" for the reduction in taxable valuation attributable to exemptions for veterans.

LOCAL OPTION HOMESTEAD EXEMPTIONS

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than $5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. See "– CITY APPLICATION OF PROPERTY TAX CODE" herein.

Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

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. Effective January 1, 2026, a person is entitled to an exemption from taxation by a taxing unit of $125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of $125,000, regardless of where the property is located in the taxing unit.

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. Beginning with the 2026 tax year, all intangible personal property is exempt from State taxation.

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER

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

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. 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 "tax increment." During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, 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. See "– CITY APPLICATION OF PROPERTY TAX CODE" and "-CITY TAX INCREMENT REINVESTMENT ZONES" for descriptions of any TIRZ created in the City.

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. See "– CITY APPLICATION OF PROPERTY TAX CODE" for descriptions of any of the City's tax abatement agreements.

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

CHAPTER 380 AGREEMENTS

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380") to establish programs to promote State or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes.

On October 13, 2017, the City entered into a Chapter 380 Economic Incentive Program Agreement with Meilleur, LLC, pursuant to Ordinance No. 17-064 adopted by the City Council on September 28, 2017, in order to encourage economic development within the City through the rehabilitation of commercial structures. The City makes certain payments derived from the City's increased ad valorem taxes on the subject property over the base year, the City's increased personal property taxes on the subject property over the base year, and the City's portion of the Texas sales tax (2%) generated at the subject property, in each case only to the extent such revenues exceed the base year values and only if and to the extent the company meets the terms of the agreement. The reimbursable period commenced January 1, 2018 and continues through December 31, 2037, or until the maximum reimbursable amount of $74,200 is met, whichever occurs first, and the agreement terminates automatically upon the earlier of such events or upon the sale of the building. Reimbursement is conditioned upon completion of the rehabilitation project and the City's confirmation of valid expenditures. The City has paid approximately $0 under the agreement to date, leaving approximately $74,200 remaining to be paid if and only if the company meets the terms of the agreement.

On March 28, 2018, the City entered into a Chapter 380 Economic Incentive Program Agreement with JMK5 Galveston Holdings, LLC, pursuant to Ordinance No. 18-014 adopted by the City Council on March 22, 2018, to encourage additional economic development in the City through the rehabilitation of the structure located at 402 33rd Street, commonly referred to as the "Falstaff," for use as a hotel. All payments may only be made as reimbursements from an amount equal to the portion of the City's increased ad valorem tax on the subject property over the base year, for a maximum of twenty years, and are payable only upon the property owner's annual submission of an invoice with evidence of taxes paid and only if the company meets the terms of the agreement. The reimbursable period commenced January 1, 2019 and continues through December 31, 2038, or until the maximum reimbursable amount of $6,000,000 is met, whichever occurs first, and the agreement terminates automatically upon the earlier of such events or upon the sale of the building. Reimbursement is limited to 50% of valid expenditures and may not exceed $6,000,000 regardless of the amount of valid expenditures incurred. The City has paid approximately $0 under the agreement to date, leaving approximately $6,000,000 remaining to be paid if and only if the company meets the terms of the agreement.

Also on March 28, 2018, the City entered into a separate Chapter 380 Economic Incentive Program Agreement with JMK5 Galveston Holdings, LLC, pursuant to Ordinance No. 18-015 adopted by the City Council on March 22, 2018, to encourage additional economic development in the City through the rehabilitation of the structure located at 3316 Church/Avenue F, commonly referred to as the "Falstaff," for use as indoor storage. All payments may only be made as reimbursements from an amount equal to the portion of the City's increased ad valorem tax on the subject property over the base year, for a maximum of twenty years, and are payable only upon the property owner's annual submission of an invoice with evidence of taxes paid and only if the company meets the terms of the agreement. The reimbursable period commenced January 1, 2019 and continues through December 31, 2038, or until the maximum reimbursable amount of $1,500,000 is met, whichever occurs first, and the agreement terminates automatically upon the earlier of such events or upon the sale of the building. Reimbursement is limited to 50% of valid expenditures and may not exceed $1,500,000 regardless of the amount of valid expenditures incurred. The City has paid approximately $0 under the agreement to date, leaving approximately $1,500,000 remaining to be paid if and only if the company meets the terms of the agreement.

PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS

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

> "adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.
>
> "de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the

rate that produces an additional $500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

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

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

"unused increment rate" means the greater of zero and the rate expressed in dollars per $100 of taxable value calculated by dividing (i) the cumulative difference of the foregone revenue amount, calculated using the difference between a city's voter-approval tax rate and its actual tax rate for each of the preceding three tax years, by (ii) the "current total value" as defined in Section 26.012 of the Property Tax Code, and which may be applied to a city's tax rate when calculating the voter-approval tax rate.

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

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

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

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

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

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

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

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

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

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

During the 89th Regular Session, the Legislature adopted Senate Bill 1851 ("SB 1851"), which will become effective in connection with the adoption of an ad valorem tax rate for tax year 2026 and thereafter. Under SB 1851, if the Texas Attorney General determines that a city has (a) not had its records and accounts audited and an annual financial statement prepared based on the audit or (b) failed to file its financial statements and auditor's opinion on such financial statements with the city secretary or city clerk before the 180th day after the city's fiscal year end, the city may not adopt an ad valorem tax rate that exceeds the city's no-new-revenue tax rate for (i) the tax year that begins on or after the date for the Attorney General's determination or (ii) a subsequent tax year that begins before the date the city has had an annual audit completed and financial statements prepared or filed the financial statement and auditor's opinion on such financial statement with the city secretary or city clerk, as applicable. If a city were limited to levying an ad valorem tax rate that is not in excess of its no-new revenue tax rate, such a limitation would impact the total amount of ad valorem tax revenue available to the city to pay for both operations and maintenance and debt service.

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.

2025 Legislative Session

The regular session of the 89th Texas Legislature convened on January 14, 2025 and concluded on June 2, 2025 (the "89th Regular Session"). The Texas Legislature (the "Legislature ") meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called and the Legislature has concluded two special sessions since the conclusion of the 89th Regular Session.

During the 89th Regular Session, the Legislature adopted a general appropriations act and legislation affecting ad valorem taxation procedures and the procedures of issuing debt affecting cities among other legislation affecting cities. Adopted legislation affecting ad valorem taxation procedures includes legislation that (i) changes the procedure for the adoption of and imposes limits on the amount of an M&O tax increase that may be adopted in response to declared disasters, (ii) makes technical modifications to the tax rate setting process, and (iii) makes intangible personal property exempt from ad valorem taxation.

Debt Tax Rate Limitations

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

Levy And Collection Of Taxes

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. Taxpayers 65 years old or older, disabled veterans or an unmarried surviving spouse of a disabled veteran, are permitted by State law to pay taxes on homesteads in four installments with the first installment due before

February 1 of each year and the final installment due before August 1. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers.

Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. 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, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts.

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

PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF PROPERTY TAX CODE

The City has granted an exemption of 20% of the market value of residence homesteads; minimum exemption of $60,000. See TABLE 1 for a listing of the amounts of the exemptions described above. The City grants an additional exemption to the market value of the residence homestead of persons 65 years of age or older of $15,000; the disabled are also granted an exemption of $10,000.

The City has adopted the tax freeze for citizens who are disabled or are 65 years of age or older, effective January 1, 2005. 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 nonbusiness personal property.

The City does not tax Freeport Property.

The City does tax Goods-in-Transit.

Galveston County collects taxes for the City. The City does permit split payments, and discounts are not allowed. The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has adopted a tax abatement policy.

The City currently participates in Tax Increment Reinvestment Zone 13.

TAX ABATEMENT POLICY

The City has established a tax abatement program to encourage economic development consistent with State law. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. The City awards tax abatements according to state law and does so very sparingly at the present time.

The City has a program to give limited tax relief to persons who rehabilitate historic buildings in need of preservation.

CITY TAX INCREMENT REINVESTMENT ZONES

The City currently participates in one TIRZ; Tax Increment Reinvestment Zone 13 ("TIRZ 13"). The City has created a local government corporation, the Galveston Island Redevelopment Authority (the "Authority"), to manage various aspects of TIRZ 13 in accordance with a Tri-Party Agreements among the City, the Authority and TIRZ 13 (the "Tri-Party Agreement"). The Authority has no debt outstanding which was issued on behalf of TIRZ 13 pursuant to the Tri-Party Agreement. The taxable value on property inside each TIRZ is compared with the base taxable value present when the zone was created, and paid to the TIRZ by the city as it is collected.

In accordance with Chapter 311, Texas Tax Code, the taxable value on property inside each TIRZ is compared with the base taxable value present when the zone was created, and paid to the TIRZ by the city as it is collected. In Fiscal Year 2026, approximately $173,045,368 million in assessed value is attributable to TIRZ 13 and is included in the City's approximately $13 billion in assessed value. This amount of approximately $173,045,368 million in taxable value results in approximately $614,756.31 in TIRZ revenue for Fiscal Year 2026.

TABLE 1 – VALUATIONS, EXEMPTIONS AND TAX SUPPORTED DEBT

2026/2027 Market Valuation Established by Galveston Central Appraisal District (1) (excluding totally exempt property)		$ 14,947,528,248
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemptions	$ 819,603,008	
Homestead Cap Adjustment	401,919,227	
Circuit Breaker Limitation	437,920,022	
Over 65	79,857,064	
Disabled Persons	4,116,734	
Disabled Veterans	73,106,149	
Freeport Exemptions	29,170,928	
Solar	4,153,690	
Leased Vehicle	15,980,135	
Historical	9,394,302	
Pollution Control	21,855,139	
Productivity Loss	64,490,596	
Other	81,300,226	$ (2,042,867,220)
2026/2027 Net Taxable Valuation (2)(3)		$ 12,904,661,028
General Obligation Debt (as of 7/1/2026)		$ 186,885,000
The Bonds		9,765,000
Outstanding General Obligation Debt		$ 196,650,000
Less: Self-Supporting Debt (as of 7/1/2026) (4)	$ 146,470,600	
Less: Interest & Sinking Fund Balance (as of 6/30/2026)	2,113,806	148,584,406
Net General Obligation Debt Payable From Ad Valorem Taxes		$ 48,065,594
Ratio Net General Obligation Debt to 2027 Net Taxable Assessed Valuation		0.32%

2026 Estimated Population - 53,623

Per Capita Taxable Assessed Valuation - $240,655

Per Capita Net General Obligation Funded Debt - $896

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(1) Source: Galveston Central Appraisal District. Subject to change throughout the year.

(2) Includes approximately $173,045,368 (FY 2026) of value attributable TIRZ 13. Taxes levied on value attributable to TIRZ 13 are not available to pay debt service on the Bonds.

(3) Total Taxable Assessed Valuation has declined from prior year due to current housing market conditions affecting Single Family Residential and a decrease in Short Term Rentals accounts which lowered the value of Commercial Personal Property.

(4) Includes self-supporting debt consisting of a portion of the General Obligation Refunding Bonds (Series 2016 and 2021) and the Combination Tax and Revenue Bonds of Obligation (Series 2017, 2019, 2022, 2022A and 2024). It is the City's current policy to provide payments for these obligations from the respective system revenues; this policy is subject to change in the future. In the event that such revenues or Additional Sales Tax, as applicable, are insufficient to pay debt service on such self-supporting obligations, the City has covenanted to levy and collect an ad valorem property tax to pay the debt service.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Fiscal Year Ended September 30,					
	2027		2026		2025	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real Residential, Single- Family	$ 10,531,843,414	70.46%	$ 11,155,561,652	71.94%	$ 11,273,551,061	74.13%
Real, Residential, Multi-Family	1,037,934,167	6.94%	973,243,756	6.28%	960,079,382	6.31%
Real, Vacant Platted Lots/Tracts	574,727,060	3.84%	591,928,772	3.82%	514,045,899	3.38%
Real, Acreage (Land Only)	64,666,608	0.43%	54,389,117	0.35%	43,256,340	0.28%
Real, Farm and Ranch Improvements	67,448,181	0.45%	62,137,058	0.40%	39,362,075	0.26%
Real, Commercial and Industrial	1,918,231,779	12.83%	1,809,690,252	11.67%	1,673,881,888	11.01%
Real, Oil, Gas & Other Mineral Reserves	756,874	0.01%	1,112,421	0.01%	1,540,620	0.01%
Real and Intangible Personal, Utilities	169,715,490	1.14%	159,113,370	1.03%	150,676,170	0.99%
Tangible Personal, Business	560,065,333	3.75%	675,108,905	4.35%	522,234,926	3.43%
Tangible Personal, Other	22,060	0.00%	25,590	0.00%	4,333,703	0.03%
Real, Inventory	12,338,432	0.08%	11,636,316	0.08%	11,784,537	0.08%
Special Inventory	9,778,850	0.07%	12,647,340	0.08%	13,316,780	0.09%
Total Appraised Value Before Exemptions	$ 14,947,528,248	100.00%	$ 15,506,594,549	100.00%	$ 15,208,063,381	100.00%
Less: Total Exemption/Reductions	(2,042,867,220)		(2,411,968,475)		(2,698,397,595)	
Taxable Assessed Value (1)	$ 12,904,661,028 (2)		$ 13,094,626,074		$ 12,509,665,786	

	Fiscal Year Ended September 30,			
	2024		2023	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 10,433,013,469	75.76%	$ 8,610,022,941	73.90%
Real, Residential, Multi-Family	805,318,547	5.85%	682,199,459	5.86%
Real, Vacant Platted Lots/Tracts	387,739,774	2.82%	369,229,167	3.17%
Real, Acreage (Land Only)	43,248,796	0.31%	37,469,102	0.32%
Real, Farm and Ranch Improvements	24,478,055	0.18%	22,651,543	0.19%
Real, Commercial and Industrial	1,427,743,060	10.37%	1,368,862,357	11.75%
Real, Oil, Gas & Other Mineral Reserves	1,430,857	0.01%	1,295,546	0.01%
Real and Intangible Personal, Utilities	142,234,030	1.03%	131,046,497	1.12%
Tangible Personal, Business	477,509,916	3.47%	403,707,727	3.47%
Tangible Personal, Other	16,960	0.00%	50,070	0.00%
Real, Inventory	15,763,710	0.11%	11,663,100	0.10%
Special Inventory	12,844,770	0.09%	12,225,190	0.10%
Total Appraised Value Before Exemptions	$ 13,771,341,944	100.00%	$ 11,650,422,699	100.00%
Less: Total Exemption/Reductions	(2,096,187,342)		(1,669,932,285)	
Taxable Assessed Value	$ 11,675,154,602		$ 9,980,490,414	

(1) Valuations shown are certified taxable assessed values reported by the Galveston Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.
(2) Total Taxable Assessed Valuation has declined from prior year due to current housing market conditions affecting Single Family Residential and a decrease in Short Term Rentals accounts which lowered the value of Commercial Personal Property.

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TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population [(1)]	Net Taxable Assessed Valuation [(2)]	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year [(3)]	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2022	53,219	$ 8,600,162,946	161,599	$ 144,210,000	1.68%	2,710
2023	53,695	9,980,490,414	185,874	196,945,000	1.97%	3,668
2024	53,237	11,675,154,602	219,305	188,140,000	1.61%	3,534
2025	53,237	12,509,665,786	234,981	206,600,000	1.65%	3,881
2026	53,623	13,094,626,074	244,198	196,650,000 [(4)]	1.50% [(4)]	3,667 [(4)]

(1) Source: United States Census Bureau.
(2) Source: Galveston Central Appraisal District and City Finance Department. Includes assessed valuation attributable to the City's Tax Increment Zones. Taxes levied on such property are not available to pay debt service on the Bonds.
(3) Includes self-supporting debt including the Bonds. See "Table 1 - Valuations, Exemptions and Tax Supported Debt" and the accompanying footnotes.
(4) Includes the Bonds.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30 [(1)]	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2022	0.498500	0.446000	0.052500	$ 41,619,594	98.12%	100.10%
2023 [(2)]	0.444500	0.392000	0.052500	43,499,294	98.56%	101.20%
2024	0.408850	0.365780	0.043070	46,825,395	98.14%	99.90%
2025	0.408850	0.368640	0.040210	49,857,749	98.06%	100.20%
2026	0.408791	0.365784	0.043007	51,085,673	96.16%	98.21% [(3)]

Source: Galveston Central Appraisal District and City Finance Department.
(1) All years include $0.05 allocated to the Rosenberg Library per the Charter that is a part of the General Fund amount shown above.
(2) For fiscal year end 2025, the City was required to transfer approximately $614,756.31 representing TIRZ 13 tax increment to the Galveston Island Redevelopment Authority and such money is not available to pay debt service. See "AD VALOREM PROPERTY TAXATION – Tax Increment Reinvestment Zones" herein. Tax levy presented considers the estimated impact of the "Over 65 and Disabled Homeowners" tax freeze.
(3) Collections as of July 31, 2026.

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TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2026/2027 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Fertitta Hospitality Inc	Hotel & Hospitality	$ 106,717,085	0.83%
CenterPoint Energy Houston	Utility	90,220,230	0.70%
GCC Supply & Trading	Oil & Gas	85,390,360	0.66%
Brownstone GYB Apartments LLC	Luxury Apartments	52,841,500	0.41%
Pecos Housing Finance Corporation	Non-Profit Housing	52,225,000	0.40%
3433 Cove View Blvd LLC	Apartments	42,250,000	0.33%
Texas International Terminals	Commercial Port Facility	41,502,710	0.32%
Seawall Hospitality LLC	Hotal and Resort	41,471,843	0.32%
CW Campeche Owner LLC	Luxury Apartments	32,500,000	0.25%
Island Hospitality Inc	Tourism & Hospitality	31,117,830	0.24%
		$ 576,236,558	4.47%

Source: Galveston Central Appraisal District.

GENERAL OBLIGATION DEBT LIMITATION

No general obligation debt limitation is imposed on the City under current State law or the Charter; however, State law and the City's Charter limit the City's ad valorem tax rate (see "THE BONDS - TAX RATE LIMITATION").

TABLE 6 – TAX ADEQUACY

2026 Net Principal & Interest Requirements	$	4,674,033 [(1)]
$0.0370 Tax Rate at 98% Collection Produces	$	4,679,230
Average Net Principal & Interest Requirements (2026 - 2052)	$	2,648,953 [(1)]
$0.0210 Tax Rate at 98% Collection Produces	$	2,655,779
Maximum Net Principal & Interest Requirements (2028)	$	5,522,378 [(1)]
$0.0437 Tax Rate at 98% Collection Produces	$	5,526,550

(1) Excludes self-supporting debt.

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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 bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

	Total G.O. Debt as of 8/1/26	Estimated % Applicable	City's Overlapping G.O. Debt as of 8/1/26
Galveston County	$ 126,960,000	21.83%	$ 27,715,368
Galveston ISD	1,945,000	100.00%	1,945,000
Galveston County MUD #30	309,360,000	81.46%	252,004,656
Texas City ISD	281,200,000	0.00%	-
Total Direct and Overlapping Funded Debt			$ 281,665,024
City of Galveston [(1)]			196,650,000
Total Direct and Overlapping Debt			478,315,024
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation			3.71%
Total Direct and Overlapping Debt Per Capita			$ 8,920

(1) Includes the Bonds. Also includes self-supporting debt consisting of a portion of the General Obligation Refunding Bonds (Series 2016 and 2021) and the Combination Tax and Revenue Bonds of Obligation (Series 2017, 2019, 2022, 2022A and 2024). It is the City's current policy to provide payments for these obligations from the respective system revenues; this policy is subject to change in the future. In the event that such revenues or Additional Sales Tax, as applicable, are insufficient to pay debt service on such self-supporting obligations, the City has covenanted to levy and collect an ad valorem property tax to pay such debt service.

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DEBT INFORMATION

TABLE 8- GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt Service (1) Principal	Outstanding Debt Service (1) Interest	Outstanding Debt Service (1) Total	The Bonds (2) Principal	The Bonds (2) Interest	The Bonds (2) Total	Total Outstanding Debt Service	Less: Self-Supporting Debt Service	Total Net Debt Service Requirements (3)
2026	$ 9,870,000	$ 8,871,866	$ 18,741,866	$ -	$ -	$ -	$ 18,741,866	$ 14,067,833	$ 4,674,033
2027	10,255,000	8,491,048	18,746,048	490,000	294,306	784,306	19,530,354	14,071,265	5,459,089
2028	9,365,000	8,089,812	17,454,812	490,000	463,750	953,750	18,408,562	12,886,184	5,522,378
2029	9,745,000	7,699,773	17,444,773	490,000	439,250	929,250	18,374,023	12,883,305	5,490,718
2030	9,295,000	7,280,754	16,575,754	490,000	414,750	904,750	17,480,504	12,023,396	5,457,108
2031	8,165,000	6,876,575	15,041,575	490,000	390,250	880,250	15,921,825	10,604,384	5,317,441
2032	8,535,000	6,497,875	15,032,875	490,000	365,750	855,750	15,888,625	10,600,253	5,288,372
2033	8,925,000	6,095,875	15,020,875	490,000	341,250	831,250	15,852,125	10,604,527	5,247,598
2034	7,970,000	5,675,175	13,645,175	490,000	316,750	806,750	14,451,925	9,568,375	4,883,550
2035	8,295,000	5,320,325	13,615,325	490,000	292,250	782,250	14,397,575	9,567,525	4,830,050
2036	8,555,000	4,946,500	13,501,500	490,000	267,750	757,750	14,259,250	9,571,900	4,687,350
2037	8,935,000	4,560,113	13,495,113	490,000	243,250	733,250	14,228,363	9,564,513	4,663,850
2038	7,680,000	4,156,350	11,836,350	490,000	218,750	708,750	12,545,100	9,570,350	2,974,750
2039	8,030,000	3,800,338	11,830,338	490,000	194,250	684,250	12,514,588	9,563,138	2,951,450
2040	6,140,000	3,430,375	9,570,375	485,000	169,750	654,750	10,225,125	9,570,375	654,750
2041	6,425,000	3,133,438	9,558,438	485,000	145,500	630,500	10,188,938	9,558,438	630,500
2042	6,740,000	2,822,575	9,562,575	485,000	121,250	606,250	10,168,825	9,562,575	606,250
2043	7,065,000	2,496,313	9,561,313	485,000	97,000	582,000	10,143,313	9,561,313	582,000
2044	7,405,000	2,154,138	9,559,138	485,000	72,750	557,750	10,116,888	9,559,138	557,750
2045	6,315,000	1,795,338	8,110,338	485,000	48,500	533,500	8,643,838	8,110,338	533,500
2046	6,600,000	1,507,988	8,107,988	485,000	24,250	509,250	8,617,238	8,107,988	509,250
2047	4,870,000	1,207,425	6,077,425	-	-	-	6,077,425	6,077,425	-
2048	5,100,000	974,125	6,074,125	-	-	-	6,074,125	6,074,125	-
2049	5,325,000	749,875	6,074,875	-	-	-	6,074,875	6,074,875	-
2050	3,550,000	515,688	4,065,688	-	-	-	4,065,688	4,065,688	-
2051	3,715,000	351,500	4,066,500	-	-	-	4,066,500	4,066,500	-
2052	3,885,000	179,681	4,064,681	-	-	-	4,064,681	4,064,681	-
	$196,755,000	$109,680,833	$306,435,833	$ 9,765,000	$ 4,921,306	$14,686,306	$321,122,139	$ 249,600,402	$ 71,521,737

(1) Does not include lease/purchase obligations.
(2) Interest rate calculated at the rates stated on page ii hereof.
(3) Includes the Bonds. Also includes self-supporting debt consisting of a portion of the General Obligation Refunding Bonds (Series 2016 and 2021) and the Combination Tax and Revenue Bonds of Obligation (Series 2017, 2019, 2022, 2022A and 2024). It is the City's current policy to provide payments for these obligations from the respective system revenues; this policy is subject to change in the future. In the event that such revenues or Additional Sales Tax, as applicable, are insufficient to pay debt service on such self-supporting obligations, the City has covenanted to levy and collect an ad valorem property tax to pay such debt service.

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TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Obligation Debt Service Requirements, Fiscal Year Ending September 30, 2026 (1)		$ 4,674,033
Interest and Sinking Fund, June 30, 2026	$ 2,113,806	
Budgeted I&S Property Tax Revenue including Deliquent Taxes (100.01 percent of Tax Levy)	4,905,500	
Budgeted Investment Income	95,800	7,115,106
Estimated Balance, 9/30/2026		$ 2,441,073

(1) Excludes self-supporting debt. Self-supporting debt also consists of a portion of the General Obligation Refunding Bonds (Series 2016 and 2021) and the Combination Tax and Revenue Bonds of Obligation (Series 2017, 2019, 2022, 2022A and 2024). It is the City's current policy to provide payments for these obligations from the respective system revenues; this policy is subject to change in the future. In the event that such revenues or Additional Sales Tax, as applicable, are insufficient to pay debt service on such self-supporting obligations, the City has covenanted to levy and collect an ad valorem property tax to pay the debt service.

TABLE 10 - ANTICIPATED BUT UNISSUED GENERAL OBLIGATION DEBT

The table below shows the City's authorized but unissued general obligation debt. The City does not anticipate the issuance of additional general obligation debt in the next 12 month.

Date of Authorization	Purpose	Amount Authorized	Amount Issued to Date	Amount this Issue (1)	Unissued(2)
5/5/2001	Street Improvements	$ 13,215,000	$ 13,215,000	$ -	$ -
5/5/2001	Park Improvements	4,405,000	4,405,000	-	-
5/5/2001	Transit Improvement	1,300,000	1,294,492	-	5,508
5/6/2017	Street & Drainage	62,000,000	62,000,000	-	-
11/4/2025	Fire Improvements	10,000,000	-	10,000,000	-
		$ 18,920,000	$ 18,914,492	$ 10,000,000	$ 5,508

(1) Includes premium counted against voted authority.
(2) The City has no intention of using the remaining voter authority.

TABLE 11 - OTHER OBLIGATIONS

The City has the following outstanding lease payable and subscription-based information technology arrangements (SBITA) as of June 30, 2026.

		Balance Remaining
Lease Payables	$	87,776

PENSION FUND

The City provides pension benefits for substantially all of its full-time employees through three defined benefit pension plans (i.e., the City of Galveston Employees' Retirement Plan for City Employees, the City of Galveston Employees' Retirement Plan for Police, and Galveston Firefighters' Pension Fund). The City makes annual contributions to such plans based on actuarial recommendations consistent with State law. For the fiscal year ended September 30, 2025, the City recognized pension expense (City contributions) for the City's Employees', Police, and Firefighters' pension plans are $4,472,371, $3,307,722 and $4,607,209, respectively. For more detailed information concerning the pension plans, see "APPENDIX B – CITY'S ANNUAL COMPREHENSIVE FINANCIAL REPORT" - Note 15.

GASB Statement No. 68 establishes accounting and financial reporting requirements for governments that provide their employees with pensions, including requiring that the City's funding obligation be calculated and reported as "Net Pension Liability." The "Net Pension Liability" is the difference between the City's "Total Pension Liability" and the "Fiduciary Net Position" of each respective pension plan. The Total Pension Liability is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method.

It includes benefits related to projected salary and service, and cost of living adjustments for police and fire plan retirees that vary in the amounts granted and the frequency and timing of those adjustments. In addition, the ad hoc cost of living adjustments are also included in the Total Pension Liability to the extent they are substantively automatic. Under these reporting parameters measured as of December 31, 2024, the Net Pension Liability for the City's Employees', Police, and Firefighters' pension plans are $21,492,795, $33,866,922 and $33,096,189, respectively, representing a fiduciary net position as a percentage of total pension liability of 78.4%, 47.4% and 64.2%, respectively. The City's defined benefits plans offer retiree benefits based on years of service and salary, and the City and the plan members jointly bear the financial risk of such plans. As such, the City must fund the plans to pay retirees' defined benefits despite being underfunded. The City has filed plans with the Texas Pension Review Board to amortize the unfunded amount for the Police and Fire plans in accordance with State law. For more detailed information concerning the pension plans, see "APPENDIX B – CITY'S ANNUAL COMPREHENSIVE FINANCIAL REPORT - Note 15."

OTHER POST-EMPLOYMENT BENEFITS

In addition to pension benefits, the City provides certain other post-employment benefits for qualified employees ("OPEB"). The costs of these benefits are recognized as expenditures on a modified accrual basis when the underlying claims are paid. Commencing in fiscal year 2009, the City implemented GASB Statement No. 45 "Accounting And Financial Reporting By Employers For Post- Employment Benefits Other Than Pensions." Under the reporting parameters, the City's retiree health care plan is 0% funded, with an estimated actuarial liability exceeding actuarial assets by $5,744,158 at December 31, 2024. (For more detailed information concerning the City's OPEB, see "APPENDIX B – CITY'S ANNUAL COMPREHENSIVE FINANCIAL REPORT" - Note 14).

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FINANCIAL INFORMATION

TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	For Fiscal Year Ended September 30,					
	2026[1]	2025	2024	2023	2022	2021
Revenues:						
Taxes	$ 69,828,376	$ 68,319,184	$ 63,700,890	$ 62,844,790	$ 61,197,060	$56,416,342
Licenses and Permits	1,086,688	1,689,521	1,591,663	1,697,672	2,450,956	1,847,839
Fines and Forfeitures	1,913,450	2,032,369	1,604,870	1,537,357	1,493,596	1,652,475
Charges for Services	3,513,657	2,475,798	459,483	1,459,399	332,140	320,064
Interfund Charges for Services	3,759,085	3,369,163	3,260,884	3,260,459	3,078,700	2,704,700
Investment Earnings	1,125,000	1,178,726	1,402,235	1,181,526	150,266	36,749
Intergovernmental	2,894,567	2,527,009	1,677,192	1,325,195	773,613	-
Other	1,149,144	1,478,098	3,390,309	773,968	1,268,724	3,293,679
Total Revenues	$ 85,269,967	$ 83,069,868	$ 77,087,526	$ 74,080,366	$ 70,745,055	$66,271,848
Expenditures:						
General Government	$ 10,833,643	$ 10,086,104	$ 9,599,412	$ 8,760,652	$ 7,940,762	$ 8,133,803
Public Safety	53,743,734	50,458,096	46,617,732	43,243,055	39,300,361	37,361,903
Highways and Roads	5,805,207	6,073,567	6,441,428	4,764,575	3,904,818	3,080,829
Culture and Recreation	4,319,468	3,776,699	3,770,415	3,644,947	3,252,380	2,934,254
Planning and Community Development	2,302,049	2,183,366	2,066,767	1,860,291	1,699,952	1,544,714
Transportation	204,000	371,971	975,000	975,000	250,000	231,711
Debt Service	-	-	-	3,431	-	-
Other	-	1,097,872	1,448,439	2,113,859	850,461	426,408
Total Expenditures	$ 77,208,101	$ 74,047,675	$ 70,919,193	$ 65,365,810	$ 57,198,734	$53,713,622
Excess (Deficiency) of Revenues Over Expenditures	$ 8,061,866	$ 9,022,193	$ 6,168,333	$ 8,714,556	$ 13,546,321	$12,558,226
Other Sources (Uses) [2]:						
Charter Mandated Infrastructure & Debt Service	$ (6,775,208)	$ (6,529,535)	$ (6,257,485)	(5,734,627)	$ (5,158,348)	$ (4,877,683)
Interfund Transfers In (Out)	(1,507,500)	(1,115,004)	(1,484,000)	(2,071,505)	(6,093,500)	(2,576,424)
Other Sources (Uses)	-	1,922,863	201,635	186,048	114,713	88,879
Total Other Sources (Uses)	$ (8,282,708)	$ (5,721,676)	$ (7,539,850)	$ (7,620,083)	$ (11,137,135)	$ (7,365,228)
Net change in fund balance	$ (220,842)	$ 3,300,517	$ (1,371,517)	$ 1,094,473	$ 2,409,186	$ 5,192,998
Fund Balance, Beginning of Year	28,226,672	23,885,781	25,257,298	24,162,825	21,945,561	16,752,563
Prior period adjustments	-	1,040,374	-	-	(191,922)	-
Fund Balance, End of Year	$ 28,005,830	$ 28,226,672	$ 23,885,781	$ 25,257,298	$ 24,162,825	$21,945,561

Source: The City's audited financial statements.
(1) Unaudited information from the City.
(2) Beginning in Fiscal Year 2015, the charter-mandated transfer to the Infrastructure and Debt Service Fund was reported as a part of "Other Uses." The fund has been reported separately in the ACFR as a non-major governmental fund. In Fiscal Year 2025, this transfer totaled $6,529,535.

MUNICIPAL SALES TAX

The City's sales tax rate is 2 cents. The City has adopted the Municipal Sales and Use Tax Act, Chapter 321 Texas Tax Code, together with additional City authorization, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City. The proceeds of such sales tax are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. A Charter amendment was passed by the voters on January 21, 1989, whereby the City is required to offset ad valorem taxes each year with the amount of additional (1/2 cent) sales tax collected in the prior year. The ½ cent offset was calculated using a calendar year formula provided by the State of Texas, resulting in ad valorem taxes offset by actual sales tax revenues of $7,669,460 in Fiscal Year 2025. The total maximum allowable tax rate of $0.70 was thus limited to $0.632368 for the current fiscal year.

Of the 2 cents sales tax, 1 and 1/2 cents is allocated to the General Fund and 1/2 cent is for Industrial Development Corporation ("IDC") projects. Pursuant to an election held within the City in November 2008, the proceeds of the IDC's 1/2 cent sales tax are divided equally between the following projects: (1) beach remediation, (2) drainage, streets and sewer, (3) economic development and (4) parks and park facilities.

The sales tax breakdown for the City is as follows:

Industrial Development Corporation:	
Beach Remediation	1/8 ¢
Drainage, Streets and Sewer	1/8
Economic Development	1/8
Parks and Park Facilities	1/8
Property Tax Relief	1/2
City Sales & Use Tax	1
State Sales & Use Tax	6 1/4
Total	8 1/4 ¢

TABLE 13 - MUNICIPAL SALES TAX HISTORY

Fiscal Year Ended 9/30	Total Sales Tax Revenue Collected	Industrial Development Corporation	General Fund	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2021	$ 24,997,605	$ 6,249,401	$ 18,748,204	47.83%	25.85%	$466
2022	30,078,268	7,505,496	22,572,772	54.24%	26.25%	$565
2023	31,226,280	7,806,570	23,419,710	53.84%	23.47%	$582
2024	29,434,012	7,358,524	22,075,488	47.14%	18.91%	$553
2025	31,742,280	7,935,583	23,806,697	47.75%	19.03%	$593

Source: The City.

TABLE 14 - CONDENSED STATEMENT OF OPERATIONS OF COMBINED UTILITY SYSTEM FUND

	For Fiscal Year Ended September 30,					
	2026(1)	2025	2024	2023	2022	2021
Revenues						
Charges for Services	$ 47,009,935	$ 46,450,223	$ 41,385,904	$ 43,386,035	$ 41,946,614	$ 37,183,780
Lease revenue	-	39,596	39,704	39,596	39,596	39,596
Miscellaneous	75,552	-	41,004	196,632	230,460	108,286
Total Operating Revenues	$ 47,085,487	$ 46,489,819	$ 41,466,612	$ 43,622,263	$ 42,216,670	$ 37,331,662
Operating Expenses						
Personnel Services	$ 11,910,445	$ 12,785,891	$ 13,591,043	$ 13,006,191	$ 9,584,437	$ 8,947,764
Contractual Services	6,513,418	5,194,874	7,680,217	5,217,441	3,237,811	4,696,194
Supplies and Materials	2,287,419	1,690,938	2,885,267	2,871,029	2,470,577	2,511,829
Surface Water Contract	8,467,303	8,405,818	7,845,140	7,882,983	7,365,738	7,828,983
Other Expenses	-	2,056,169	2,328,654	2,265,158	1,847,646	1,781,697
Depreciation	11,500,000	11,767,649	10,977,444	10,856,446	10,136,262	9,172,347
Total Operating Expenses	$ 40,678,585	$ 41,901,339	$ 45,307,765	$ 42,099,248	$ 34,642,471	$ 34,938,814
Operating Income (loss)	$ 6,406,902	$ 4,588,480	$ (3,841,153)	$ 1,523,015	$ 7,574,199	$ 2,392,848
Non-Operating Revenues (Expenses)						
Interest and Investment Revenue	$ 3,000,000	$ 3,081,777	$ 4,131,048	$ 3,722,032	$ 163,208	$ 51,400
Intergovernmental	300,000	294,296	-	-	-	-
Gain on disposal of capital assets	-	(33,378)	(32,575)	129,380	16,661	(65,040)
Interest Expense	(6,000,000)	(6,505,052)	(6,192,597)	(6,104,742)	(3,290,721)	(4,030,515)
Total Non-Operating Revenue (Expenses)	$ (2,700,000)	$ (3,162,357)	$ (2,094,124)	$ (2,253,330)	$ (3,110,852)	$ (4,044,155)
Income (loss) before contributions and transfers	$ 3,706,902	$ 1,426,123	$ (5,935,277)	$ (730,315)	$ 4,463,347	$ (1,651,307)
Capital Contributions	$ -	$ 1,251,107	$ 18,440,830	$ 5,824,357	$ (1,923,585)	$ 69,154
Transfers (out)	-	(2,412,240)	(2,369,240)	(2,394,240)	(2,395,241)	(2,376,893)
Change in Net Position	$ -	$ 264,990	$ 10,136,313	$ 2,699,802	$ 144,521	$ (3,959,046)
Total Net Position - Beginning	$ 270,591,774	$ 270,326,784	$ 260,190,471	$257,490,669	$ 257,346,149	$261,305,195
Prior Period Adjustment	-	-	-	-	-	-
Total Net Position Ending	$ 274,298,676	$ 270,591,774	$ 270,326,784	$260,190,471	$ 257,490,670	$257,346,149

Source: City's audited financial statements.

(1) Unaudited information from the City.

FINANCIAL POLICIES

Basis of Accounting . . .The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary.

Governmental Funds . . .Used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (Special Revenue Funds), the acquisition or construction of general fixed assets (Capital Projects Funds), and the servicing of general long-term debt (Debt Service Funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Budgetary Procedures . . .Budgets are adopted on a modified accrual basis. Annual appropriated budgets are adopted for the general, special revenue (except for Industrial Development Corporation Revenue Fund), debt service and enterprise funds. All annual appropriations lapse at fiscal year-end. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances because the commitments will be honored during the subsequent year, but they do not constitute expenditures or liabilities.

As provided by the Charter, after public hearings are held by the City Council to obtain citizen comments, the City Council must approve and adopt the budget by the second regularly scheduled City Council meeting in September, either in the same form as submitted by the City Manager or with changes that the City Council finds to be necessary or desirable. The budget may not be adopted nor any appropriation made unless the anticipated revenues for the fiscal year equal or exceed the authorized expenditures. The adoption of the budget requires a favorable vote of at least a majority of all the members of the City Council. In the event the budget has not been adopted by the beginning of the fiscal year, the latest budget proposed by the City Manager will take and remain in effect until the budget is finally adopted by the City Council. The proposed budget includes proposed expenditures and the means of financing them. A statement of capital projects planned for the next succeeding five fiscal years, with estimates of their costs is also submitted at this time. The Charter requires that no funds shall be expended nor shall any obligation for the expenditure of money be incurred unless an appropriation exists in the duly adopted budget. During the fiscal year the City Council may transfer any unencumbered appropriation balance or portion thereof from one department to another at any time.

Capital Improvement/Debt Service Account Requirement beginning Fiscal Year 2013 . . .In May 2012 the voters of the City approved an amendment to the Charter, which requires the City to create a "Capital Improvement and/or Debt Service Account" and allocate an equivalent of 1% of the General Fund Operating Budget to such account beginning in Fiscal Year 2013 for either capital improvements or debt service costs. Each fiscal year thereafter, the City expects to allocate an additional 1% of the General Fund Operating Budget to the Capital Improvement and/or Debt Service Account, until the cumulative annual allocation to the account reaches a minimum of 8% of the total General Fund Operating Budget. Thereafter, the City will be required to annually allocate at least 8% of the total General Fund Operating Budget to such account.

INVESTMENTS

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

LEGAL INVESTMENTS

Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is 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) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (i) that are issued by or through an institution that has its main office or a branch office in the State, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) 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 issued for the account of the City; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City’s name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) 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; (10) commercial paper with a stated maturity of 270 days or less that is rated at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or its equivalent. 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 below.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) 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 (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City’s name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

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

INVESTMENT POLICIES

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

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the City's investment officers shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from City Council.

ADDITIONAL PROVISIONS

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

TABLE 15 - CURRENT INVESTMENTS

Type of Investment	Book Value	Market Value
Treasury Notes	$ 47,034,929	$ 46,966,523
Agency Notes	25,941,749	25,825,767
Local Government Pools	146,379,446	146,379,446
	$219,356,125	$ 219,171,737

Source: City Finance Department. As of June 30, 2026.

WEATHER EVENTS

The City is located on the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by rain events, hurricanes, tropical storms, and other tropical disturbances. If a weather-related event were to significantly damage all or part of the improvements within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the City's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the City will be covered by insurance (or property owners will choose to carry flood or other casualty insurance), any insurance company will fulfill its obligations to provide insurance proceeds or that insurance proceeds will be used to rebuild or repair damaged improvements within the City. Even if insurance proceeds are available and improvements are rebuilt, there could be a period of time in which assessed values within the City would be adversely affected.

On or about August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast before stalling over the Houston-Galveston region (the "Region") and producing significant flooding. Many residential and commercial and industrial properties in the Region sustained damage, some of which was severe.

Portions of the City experienced some flooding from Hurricane Harvey. While such flooding caused flood damage to residences and properties within the City affecting taxable assessed valuations within the City, the overall taxable assessed valuation within the City increased during tax year 2018. The City incurred damages to its facilities estimated at $2 million; all repairs have been completed and the Hurricane Harvey federal disaster has been closed out by FEMA. The City has completed the design for the 14th Street Pump station mitigation project and has been reimbursed the $1.8 million federal share of the project by FEMA. The City also received an additional reimbursement from Hurricane Harvey Senate Bill 7 in the amount of $400,000.

In late August 2020, Hurricane Laura made landfall near the Texas and Louisiana border as a Category 4 major hurricane, with sustained winds of 150 miles per hour. The City issued a mandatory evacuation before the hurricane made landfall, citing the uncertainty of the path and the heightened intensity of the storm as the reasons for the order. Hurricane Laura narrowly missed the Houston region and the City did not sustain wind or storm damage, nor were there power outages resulting from the hurricane. The City incurred approximately $750,000 in FEMA eligible expenses preparing for Hurricane Laura, of which approximately $635,000 was reimbursed by FEMA. The federal disaster for Hurricane Laura is closed with no remaining outstanding costs.

Hurricane Beryl made landfall in Texas on July 8, 2024. While it moved ashore south of Galveston, the City did experience some storm-related impacts including some temporary street flooding, limited wind damage, storm debris, electrical damage to lift stations, and facility damages. The City incurred approximately $6.7 million in damages for 23 projects spanning over 150 damaged sites. The 23 projects qualify for FEMA assistance under the Public Assistance federal declaration process. To date, the City has completed 18 of the 23 FEMA projects and has been reimbursed approximately $2.8 million of the estimated $5 million federal share. The remaining outstanding reimbursement of $2.2 million is anticipated within the next year as audits and remaining projects are completed.

TAX MATTERS

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

TAX EXEMPTION

In the opinion of Bond Counsel, under existing law, interest on the Bonds is (i) excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) not an item of tax preference for purposes of the alternative minimum tax on individuals.

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

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

Bond Counsel will express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Ordinance upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

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

COLLATERAL TAX CONSEQUENCES

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

An "applicable corporation" (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its "adjusted financial statement income" (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted financial statement income," ownership of the Bonds could subject certain corporations to alternative minimum tax consequences.

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

Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM BONDS

If the issue price of a maturity of the Bonds exceeds the stated redemption price payable at maturity of such Bonds, such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bonds in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bonds in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bonds by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bonds that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bonds) is determined using the yield to maturity on the Premium Bonds based on the initial offering price of such Premium Bonds.

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

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT BONDS

If the issue price of a maturity of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the "OID Bonds"), the difference between (i) the amount payable at the maturity of each OID Bond, and (ii) the initial offering price to the public of such OID Bond constitutes original issue discount with respect to such OID Bond in the hands of any owner who has purchased such OID Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such OID Bonds equal to that portion of the amount of such original issue discount allocable to the period that such OID Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the captions "TAX MATTERS - TAX EXEMPTION", " - COLLATERAL TAX CONSEQUENCES" and "- TAX LEGISLATIVE CHANGES" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

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

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

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

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

TAX LEGISLATIVE CHANGES

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

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement in Tables 1 through 6 and 8 through 15, and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2026.

The City may provide updated information in full text or may incorporate by reference other publicly available documents, as permitted by the United Stated Securities and Exchange Commission ("SEC") Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements if the City commissions an audit and the audit is completed by the required time. If audited financial statements are not available by the required time, the City will provide such financial statements on an unaudited basis within the required time and audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

EVENT NOTICES

The City will also provide the following to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. In addition, the City will provide to the MSRB, in a timely manner, notice of any failure by the City to provide the required annual financial information described above under "ANNUAL REPORTS" and any notices of events in accordance with this section.

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. As used in this section, the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. The City intends the words used in the above clauses (15) and (16) and in the definition of financial obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

LIMITATIONS AND AMENDMENTS

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

The 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 Bonds in the initial primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds 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 Bonds. 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 Bonds in the primary offering of the Bonds.

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

The City has entered into prior undertakings pursuant to which it has agreed to provide certain continuing disclosure information. Except as provided herein, the City has not failed to comply in the last five years, in any material respect, with any previous undertaking pursuant to the Rule.

The City did not timely file an event notice regarding Moody's upgrade of its rating on the City's Hotel Occupancy Tax Revenue bonds to A1 from A2 on August 1, 2023. An event notice for such Moody's ratings upgrade was filed on EMMA on July 2, 2026.

Additionally, the City did not file a notice for Fitch's upgrade of the rating on the City's Wharves and Terminal Revenue bonds to A from A- that occurred on August 28, 2025. The City filed an event notice for this Fitch ratings upgrade on July 27, 2026.

For additional information, please refer to EMMA's website at www.emma.msrb.org.

OTHER INFORMATION

RATINGS

The Bonds are rated "AA+" by Fitch, and "Aa3" by Moody's, in each case without regard to credit enhancement. An explanation of the significance of each of the ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds. Neither the Underwriters nor the City has undertaken any responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of the ratings of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds.

LITIGATION

The City is a defendant in various lawsuits and is aware of claims arising in the ordinary course of its municipal and enterprise activities. The typical claims or litigation in which the City is involved include claims for damages alleging that the City caused personal injuries and wrongful deaths, breach of contract and various claims from contractors for additional amounts under construction contracts. At this time there are no claims or cases that could impact operations of the City. Available damages from state based civil claims are limited by the Texas Tort Claims Act.

PAYMENT RECORD

A description of the City's payment record is provided under "OFFICIAL STATEMENT SUMMARY - PAYMENT RECORD" herein.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Bonds 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 Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel in substantially the form attached hereto as APPENDIX C. Bond Counsel has reviewed the statements and information appearing in the Official Statement under the captions "THE BONDS" (except the subcaptions "TAX RATE LIMITATIONS," "BOOK-ENTRY-ONLY SYSTEM" and "REMEDIES OF HOLDERS OF THE BONDS") and "CONTINUING DISCLOSURE OF INFORMATION" (except the subcaption "COMPLIANCE WITH PRIOR UNDERTAKINGS") and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Ordinance; further, Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions "TAX MATTERS," "OTHER INFORMATION - REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "- LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "- LEGAL MATTERS" (except for the last two sentences of the first paragraph) and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately describe the laws and legal issues contained therein. Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain matters will be passed upon for the City by Jackson Walker LLP, Houston, Texas, Disclosure Counsel, whose fee is contingent upon the sale and delivery of the Bonds. Certain matters will be passed upon for the Underwriters by The Bates Law Firm PLLC, Houston, Texas, Counsel for the Underwriters, whose fee is contingent upon the sale and delivery of the Bonds.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

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

AUDITED FINANCIAL STATEMENTS

Weaver, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Weaver relating to City's financial statements for the fiscal year ended September 30, 2025 is included in this Official Statement in APPENDIX B; however, Weaver has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at a price of $10,270,137.49 (representing the principal amount of the Bonds, plus an original issue premium in the amount of $568,631.65, less an underwriting discount of $63,494.16). The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

FORWARD-LOOKING STATEMENTS

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

The forward-looking statements 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.

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City is one of Texas' most historic cities and is a popular tourist and convention destination. Major tourist attractions include "the Elissa," a restored 1877 iron barque, Moody Gardens, Schlitterbahn, the Historic Galveston Island Pleasure Pier, the Strand District, Sea Wolf Park, year-round sport fishing, and miles of beautiful beaches.

HEALTH CARE

The City is home to the University of Texas Medical Branch ("UTMB"). UTMB offers the full range of primary and specialized medical care through a network of Galveston-based hospitals and clinics. The cornerstone to UTMB's future growth in the City is the new Jennie Sealy Hospital, designed to promote a team-based approach to care, offer real-world educational opportunities for students, and provide a state-of-the-art, optimal healing environment for patients and their families. The $438 million hospital opened for patients in April 2016, and has advanced medical training and patient health for the region. An adjacent Clinical Services Wing, which houses critical support services for the entire inpatient complex on Galveston Island, opened in June 2015. The combined hospital bed count is approximately 600 beds. UTMB has a $1.7 billion annual budget.

The new hospital was part of a more than $1 billion plan for the repair, renovation and new construction of UTMB. UTMB is planning to build a new clinical services wing next to the new Jennie Sealy Hospital and is renovating and modernizing John Sealy Hospital. Since Hurricane Ike (2008) UTMB has opened 25 clinics in 15 locations on the mainland for a total of 40 clinics on and off the island. The medical school also completed construction on a $90 million outpatient specialty care and surgical center in League City.

The Galveston-based Sealy & Smith Foundation has contributed $170 million to the cost of construction that will be combined with $150 million in tuition revenue bonds approved by the Legislature in its last two sessions. The remaining $118 million in constructions costs came from UTMB, along with a plan to raise $100 million in donations.

UTMB has approximately $9,627 working in the City.

EDUCATION

Primary Education: Galveston Independent School District covers 94.82 square miles and serves approximately 7,000 students in the City and on Bolivar Peninsula. During the 2022-2023 school year, it operated two high-school programs, four middle school programs and six elementary schools. There are eight private schools in the City.

Higher Education: Texas A&M University at Galveston; Galveston College; UTMB.

ECONOMY

Major employment sectors in the City are education, tourism and health care. Johnson Space Center, 30 minutes from the City, and many support industries provide opportunities in engineering, electronics and aeronautical research. Approximately 60 miles north on Highway 45 is Houston, the fourth largest city in the United States.

The restaurant business is a large employer in the City with Landry's Inc. employing 1,980 workers.

The education industry is a major employer in the City. In addition to the educators that support UTMB, Galveston Independent School District provides the third largest employment opportunity in the City with a total of approximately 1,218 employees, and Texas A&M University at Galveston has approximately 731 employees.

The City is home to various public and private maritime facilities. The public port authority, known as the Galveston Wharves, and in the maritime industry as the Port of Galveston, is a wholly-owned entity of the City. The port is located on the upper Texas coast at the mouth of Galveston Bay, just 30 minutes steaming time from the open sea. The wharves have facilities to handle all types of cargo, including containers; automobiles; project, import and export dry bulks; and a variety of break bulk commodities.

The Port of Galveston is home to several year-round home-ported cruise ships. The City is the fourth largest home port in the United States when measured by embarkations. Due to COVID-19 restrictions all cruises were halted on March 11, 2020. Cruises did not resume until July 3, 2021. Cruise revenues increased from $3.5 million in 2020 to $4.1 million in 2021. The number of cruise ship calls increased from 63 in 2020 to 127 in 2021 and the number of cruise passenger movements increased from 225,643 in 2020 to 565,090 in 2021.

Trains cross Galveston Bay on a bridge adjacent to the Causeway, the major link to the mainland. The San Luis Pass Bridge on the west end and a public ferry service at the east end provide additional access.

Major air service is available at two Houston airports-Hobby Airport, 45 minutes from the City, and Houston Intercontinental Airport, 1.5 hours from the City. The City has a municipal airport, Scholes Field, used for private flying and helicopter services.

TOP EMPLOYERS

Employer	Type of Business	Employees
University of Texas Medical Branch	Medical	10,690
Landry's Restaurants	Restaurant	2,400
Galveston ISD	Education	1,366
Moody Gardens[1]	Tourism	909
Galveston County (on Island Only)	Government	802
American National Insurance company	Insurance	586
Texas A&M University at Galveston	Education	428
Shriners	Hospital	426
USACOE	Engineering	361

Source: Galveston Economic Development Partnership.

LABOR STATISTICS

	City of Galveston				
	2026 [1]	2025	2024	2023	2022
Labor Force	25,834	25,710	25,367	25,249	24938
Employed	24,573	24,620	24,237	24,194	23884
Unemployed	1,261	1,090	1,130	1,055	1,054
Rate	4.88%	4.24%	4.45%	4.18%	4.23%

	Galveston County				
	2026 [1]	2025	2024	2023	2022
Labor Force	183,360	182,365	179,494	177,184	173,359
Employed	173,982	174,309	171,603	169,576	165,765
Unemployed	9,378	8,056	7,891	7,608	7,594
Rate	5.11%	4.42%	4.40%	4.29%	4.38%

Source: Texas Workforce Commission.
(a) As of July 2026.

APPENDIX B

CITY'S ANNUAL COMPREHENSIVE FINANCIAL REPORT

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1800 Hughes Landing Blvd, Suite 500
The Woodlands, Texas 77380
713-800-1060

Independent Auditor's Report

The Honorable Mayor City Council and City Manager of
City of Galveston, Texas
Galveston, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City of Galveston, Texas (City), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Park Board of Trustees of the City of Galveston, Texas and the Board of Trustees of Galveston Wharves, which collectively represent 99.3%, 98.7%, and 103.3%, respectively, of the aggregate discretely presented component units' total assets, revenues, and net position. Additionally, we did not audit the financial statements of the City of Galveston Employees' Retirement Plan for City Employees, the Galveston Firefighters' Pension Plan, and the City of Galveston Employees' Retirement Plan for Police, which collectively represent 38.4%, 17.9%, and 43.3%, respectively, of the aggregate remaining funds' total assets, revenues/additions, and fund balance/net position. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included as Park Board of Trustees of the City of Galveston, Texas, the Board of Trustees of Galveston Wharves, the City of Galveston Employees' Retirement Plan for City Employees, the Galveston Firefighters' Pension Plan, and the City of Galveston Employees' Retirement Plan for Police are based solely on the reports of the other auditors.

Basis for Opinions

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

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

Other Information Included in the Annual Comprehensive Financial Report (ACFR)

Management is responsible for the other information included in the ACFR. The other information comprises the introductory section and statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

The Woodlands, Texas
March 26, 2026

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Management's Discussion and Analysis
(Unaudited)

The management of the City of Galveston (the "City") offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2025.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its deferred inflows of resources and liabilities at the close of the most recent fiscal year by $579.3 million (net position). Of this amount, $91.1 million is restricted for specific purposes based on law and contractual obligations to citizens and creditors.
- Capital assets net of depreciation provide $646.7 million of the $949.8 million in total citywide assets.
- Long-term liabilities increased from $235.3 million to $248.9 million primarily due to the issuance of the Combination Tax and Revenue Certificates of Obligation, Series 2024. Also, the aggregate net pension liability decreased from $97.5 million in FY 2024 to $88.5 million in FY 2025 largely due to the market-driven positive performance of each pension fund's investment portfolio.
- The net position of governmental activities improved from $238.1 million in FY 2024 to $243.0 million in FY 2025. Current assets increased by $24.6 million from $166.8 million in FY 2024 to $191.4 million in FY 2025.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).The governmental activities of the City include general government, public safety, public works, culture and recreation, planning and community development, transportation system, and interest on long-term debt. The business-type activities of the City include utility systems, including surface water operations, and solid waste operations as well as the operations of a regional airport facility.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's eight discretely presented component units consist of the following:

Park Board of Trustees	Bayside at Waterman's - Public Improvement District
Galveston Island Redevelopment Authority	Board of Trustees of Galveston Wharves
Campeche Shores - Public Improvement District	Galveston Housing Finance Corporation
Beachside Village - Public Improvement District	Galveston Property Finance Authority

The government-wide financial statements can be found on pages 20 through 23 of this report.

Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are divided into two categories: governmental funds and proprietary funds.

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

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

The City maintains 99 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be a major governmental fund. Data from the other 98 governmental funds are combined into a single, aggregated presentation (the nonmajor governmental funds). Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* and can be found on pages 102 through 121 of this report.

The basic governmental fund financial statements can be found on pages 24 through 27 of this report.

Proprietary Funds - The City maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its waterworks system, sewer system, drainage, and sanitation operations as well as the operations of the airport. Internal service funds are used to report activities that provide supplies and services for the City's other programs and activities. The municipal garage, central service, casualty and liability insurance, construction management, workers compensation insurance, and health and life insurance funds are the City's internal service funds. Their purpose is to provide for the accumulation of money for employee benefits, as well as vehicle and equipment replacement used in City operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The combined utility system fund is considered to be a major fund of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in the annual comprehensive financial report.

The basic proprietary fund financial statements can be found on pages 28 through 31 of this report.

Fiduciary Funds - *Fiduciary funds* are used to account for resources held for the benefit of parties outside of the City. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City maintains two different types of fiduciary funds, pension trust funds and a custodial fund. The pension trust funds are used to report resources held in trust for retirees and beneficiaries covered by the Employees' Pension Plan, Firefighter's Pension Plan, and the Police Pension Plan. The custodial fund reports resources, not in a trust, that are held by the City for other parties outside of the City's reporting entity. The fiduciary fund financial statements can be found on pages 32 through 33 of this report.

Combining Component Unit Financial Statements
The City's eight discretely presented component units shown in the aggregate on the face of the government-wide financial statements have individual information presented in the form of combining statements immediately following the fund financial statements of the primary government.

Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 35.

Other Information
In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. The City adopts an annual appropriated budget for its general, debt service, capital projects and certain special revenue funds. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 83 through 95 of this report. The budget comparisons for nonmajor special revenue funds, capital projects and debt service funds can be found in the *other supplementary information* section.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $579.3 million at the close of the most recent fiscal year. The condensed statement of net position presents the financial performance that results in this amount, and shows a comparison with the prior fiscal year as well. The City's total net position for the fiscal year ended September 30, 2025 of $579.3 million is an $11.0 million increase over the prior year.

Total assets were $949.8 million at the end of the current fiscal year, a $21.7 million increase over last fiscal year. This is attributable largely to the $18.5 million of certificates of obligation issued in the current fiscal year. Total investments in capital assets decreased by $0.2 million and total current and other assets increased by $22.1 million.

Current assets for governmental activities increased by $24.6 million, largely due to the issuance of Combination Tax and Revenue Certificates of Obligation, Series 2024. The current assets for business-type activities decreased by $2.5 million, largely due to current year spending of the proceeds of the Combination Tax and Revenue Certificates of Obligation, Series 2022A, which were issued in FY 2023.

Long-term liabilities of business-type activities decreased $5.0 million due to bond principal payments and no new debt issuance in the current fiscal year.

By far the largest portion of the City's net position, 87.7 percent or $508.2 million, reflects its investment in capital assets net of depreciation/amortization (e.g., land, buildings, and infrastructure), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending as of September 30, 2025. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The total Net Pension Liability for the City's three pension funds decreased to $88.5 million in the current fiscal year compared with $97.5 million for the prior fiscal year. This was largely due to the strong performance in net investment income for all three investment portfolios (see Note 15).

City of Galveston, Texas Net Position
(September 30, 2025 and 2024)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Current and other assets	$ 191,440,237	$ 166,842,191	$ 95,812,565	$ 98,266,649	$ 287,252,802	$ 265,108,840
Capital assets	252,289,377	254,534,237	394,439,411	392,414,041	646,728,788	646,948,278
Noncurrent lease receivable	-	-	15,833,313	16,067,627	15,833,313	16,067,627
Total assets	443,729,614	421,376,428	506,085,289	506,748,317	949,814,903	928,124,745
Total deferred outflows of resources	18,534,703	27,402,404	3,487,766	5,643,176	22,022,469	33,045,580
Other liabilities	13,317,720	16,029,812	7,618,213	8,373,152	20,935,933	24,402,964
Long-term liabilities	106,810,459	88,219,972	142,078,640	147,074,546	248,889,099	235,294,518
Total OPEB liability	5,744,158	5,923,596	-	-	5,744,158	5,923,596
Net pension liability	79,214,005	86,010,959	9,241,901	11,453,587	88,455,906	97,464,546
Total liabilities	205,086,342	196,184,339	158,938,754	166,901,285	364,025,096	363,085,624
Total deferred inflows of resources	14,149,624	14,530,233	14,399,944	15,246,726	28,549,568	29,776,959
Net position (deficit):						
Net investment in capital assets	194,852,978	189,389,079	313,344,612	309,788,274	508,197,590	499,177,353
Restricted	91,082,973	89,002,968	-	-	91,082,973	89,002,968
Unrestricted (deficit)	(42,907,600)	(40,327,787)	22,889,745	20,455,208	(20,017,855)	(19,872,579)
Total net position (deficit)	$ 243,028,351	$ 238,064,260	$ 336,234,357	$ 330,243,482	$ 579,262,708	$ 568,307,742

An additional portion of the City's net position, 15.7 percent or $91.1 million, represents resources that are restricted by external authorities and requirements on how they may be used. The total negative unrestricted net position of $20.0 million results from $42.9 million negative unrestricted net position of governmental activities, that is partially offset by $22.9 million unrestricted net position of business-type activities. The governmental activities negative unrestricted net position includes almost all of the City's net pension liability because two of the three pension funds (police and fire) include public safety personnel funded strictly through the general fund. The governmental activities report $79.2 million of the total $88.5 million in net pension liabilities and $5.7 million of OPEB liabilities.

City of Galveston, Texas Change in Net Position
(September 30, 2025 and 2024)

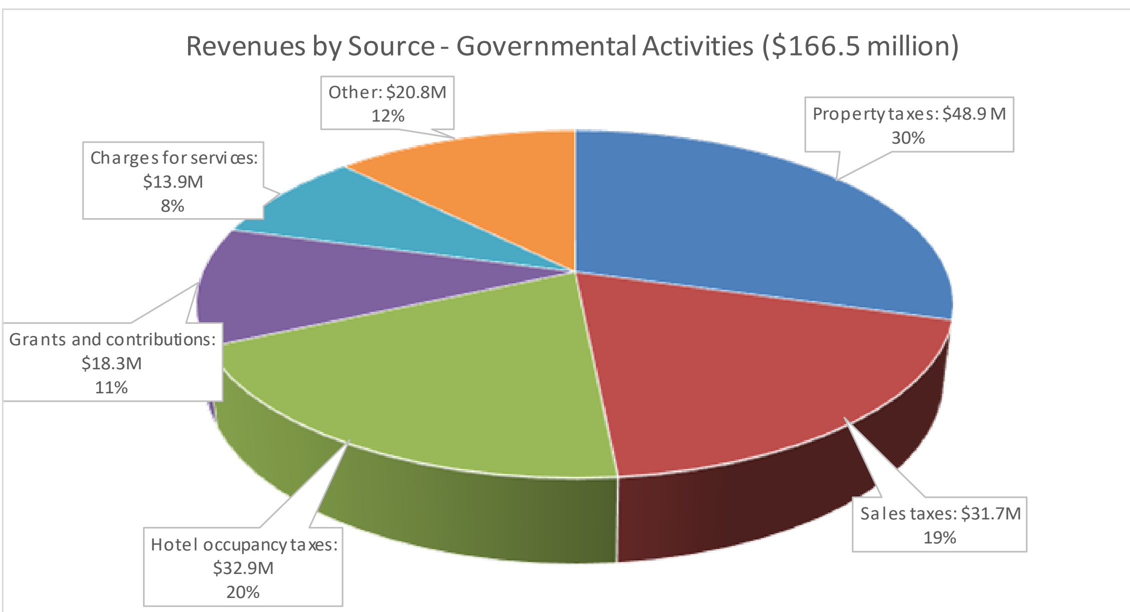
	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues:						
Charges for services	$ 13,903,663	$ 10,252,594	$ 60,573,120	$ 54,722,025	$ 74,476,783	$ 64,974,619
Operating grants and contributions	4,360,465	4,652,081	100,000	143,402	4,460,465	4,795,483
Capital grants and contributions	13,971,541	22,970,640	1,544,067	-	15,515,608	22,970,640
General revenues:						
Property taxes	48,930,525	45,814,888	-	-	48,930,525	45,814,888
Sales taxes	31,742,280	29,434,012	-	-	31,742,280	29,434,012
Mixed beverage tax	1,128,223	1,175,555	-	-	1,128,223	1,175,555
Hotel occupancy taxes	32,854,723	33,037,127	-	-	32,854,723	33,037,127
Franchise and other taxes	5,319,073	5,185,065	-	-	5,319,073	5,185,065
Payments in lieu of taxes	375,637	332,163	-	-	375,637	332,163
Unrestricted investment earnings	6,824,904	7,705,047	3,848,127	4,902,470	10,673,031	12,607,517
Gain on sale of capital assets	1,926,456	-	4,302,422	-	6,228,878	-
Other	5,130,901	7,759,607	63	139,078	5,130,964	7,898,685
Total revenues	166,468,391	168,318,779	70,367,799	59,906,975	236,836,190	228,225,754
Expenses:						
General government	19,256,112	13,804,401	-	-	19,256,112	13,804,401
Public safety	56,938,997	48,436,515	-	-	56,938,997	48,436,515
Public works	10,951,188	14,673,277	-	-	10,951,188	14,673,277
Culture and recreation	60,470,423	46,132,491	-	-	60,470,423	46,132,491
Planning and community development	4,233,289	6,819,529	-	-	4,233,289	6,819,529
Transportation system	6,401,048	6,825,261	-	-	6,401,048	6,825,261
Interest on long-term debt	4,242,138	2,253,721	-	-	4,242,138	2,253,721
Combined utility system	-	-	48,395,794	50,370,924	48,395,794	50,370,924
Sanitation	-	-	7,614,129	8,391,024	7,614,129	8,391,024
Drainage	-	-	4,439,461	4,343,915	4,439,461	4,343,915
Airport	-	-	2,938,645	2,472,092	2,938,645	2,472,092
Total expenses	162,493,195	138,945,195	63,388,029	65,577,955	225,881,224	204,523,150
Change in net position before transfers	3,975,196	29,373,584	6,979,770	(5,670,980)	10,954,966	23,702,604
Transfers	988,895	(17,578,415)	(988,895)	17,578,415	-	-
Change in net position	4,964,091	11,795,169	5,990,875	11,907,435	10,954,966	23,702,604
Net position - beginning	238,064,260	226,269,091	330,243,482	318,336,047	568,307,742	544,605,138
Net position - ending	$ 243,028,351	$ 238,064,260	$ 336,234,357	$ 330,243,482	$ 579,262,708	$ 568,307,742

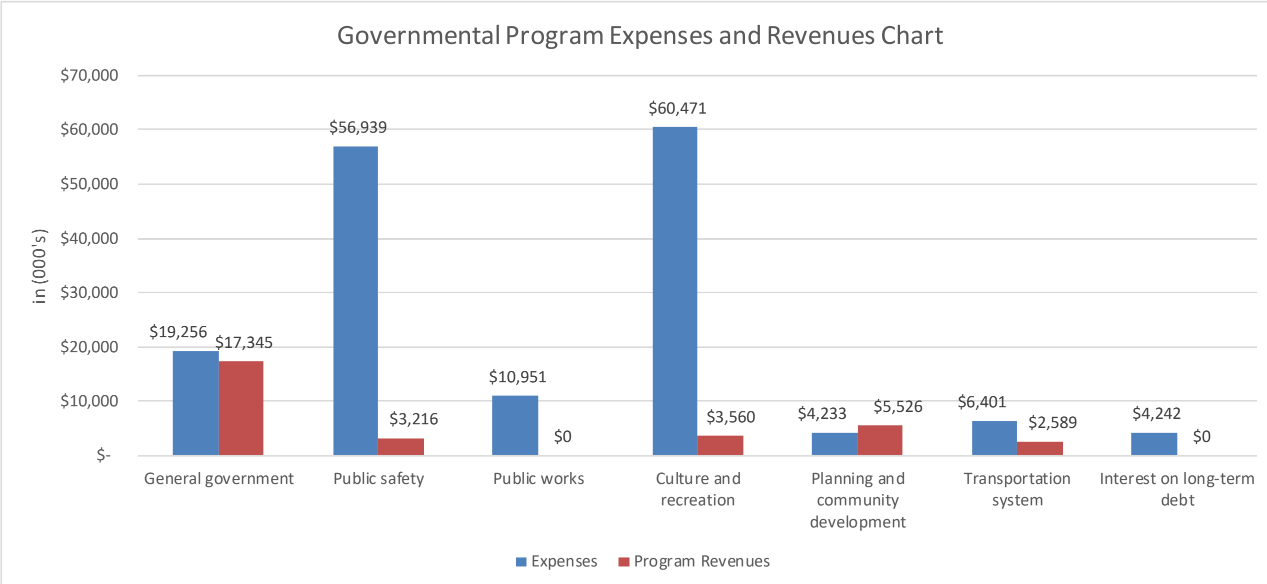
Governmental Activities

Governmental activities increased the City's net position by $5.0 million. Key elements of this net increase are as follows:

- Total revenue from governmental activities decreased by $1.9 million from FY 2024.
- Charges for services increased from $10.3 million in FY 2024 to $13.9 million in FY 2025, an increase of $3.6 million primarily due to long-term parking revenue.
- There was a decrease in capital grants and contributions of $9.0 million from $23.0 million to $14.0 million and a decrease in operating grants and contributions of $0.3 million. The large decrease in capital grants and contributions was due to a decrease in the American Rescue Plan Act grant revenue recognized in the current fiscal year.
- Virtually all of the $14.0 million in capital grants and contributions shown in governmental activities revenue is being invested in the City's infrastructure.
- The total public safety expenses increased by $8.5 million from $48.4 million in FY 2024 and $56.9 million in FY 2025. This increase resulted mainly from the decrease in net pension liabilities for public safety. The public safety portion of net pension liability is included in the governmental activities net pension liability total for FY 2025 of $79.2 million which decreased by $6.8 million from FY 2024. The overall budget and expenditures for public safety also increased (see general fund budget on page 83). Police makes up a majority of the public safety budget and expenditures. The final budget for Police expenditures increased from $28.3 million in FY 2024 to $30.2 million in FY 2025. Also, total public safety expenditures for police increased from $28.2 million in FY 2024 to $30.2 million in FY 2025.

Governmental activities are largely funded from property, sales, and other taxes. Public safety is the major public service funded with governmental revenues. Planning and community development program revenues as shown on the government-wide statement of activities on page 22 include annual federal grant allocations of CDBG grants. The grant revenues for planning and community development were transferred to business-type activities for repairs and upgrades to the water and sewer systems.

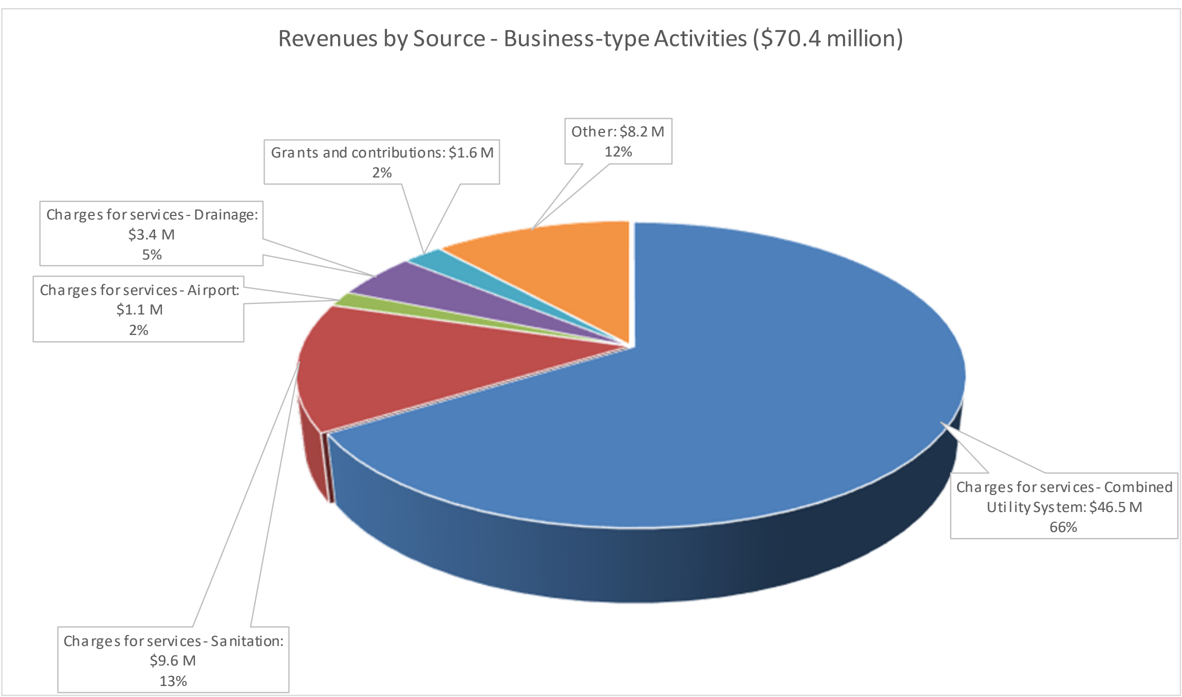




Business-type Activities

Business-type activities increased the City's net position by $6.0 million. Highlights are as follows:

- Revenues for business-type activities totaled $70.4 million, $7.0 million more than total expenses for business-type activities, which were $63.4 million. In FY 2025, the total expenses for business-type activities decreased by $2.2 million from FY 2024.
- Business-type activities generated $10.5 million more in revenue compared to prior year.



Financial Analysis of the City's Funds

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

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

In FY 2025, year to date sales tax revenue is approximately 7.8 percent or $2.3 million higher than FY 2024. This led directly to an ending fund balance in the general fund of $28.2 million, which was $3.3 million more than in FY 2024 as adjusted. This met the general fund balance reserve requirement of $20.2 million, or ninety days of budgeted operating expenses. It is about 6 days more than the preferred goal of keeping 120 days of expenditures in reserve, or $26.9 million, for use in unforeseen emergencies and for one-time expenditures as approved by the City Council. The City also maintains a $50 million emergency bridge loan (see Note 9) capacity that is available under provisions of state law for cash flow, debris removal, and infrastructure repairs in the event of a statewide and/or national emergency. If draws are made on the loan, proceeds must be repaid on a short-term basis up to two years.

FEMA grant funds for Hurricane Ike related work are complete, and the City received the final close-out letter in FY 2025. In addition, all work on Hurricane Harvey, Tropical Storm Laura, and Winter Storm Uri are completed and final closeout letter from FEMA and the Texas Division of Emergency Management was received in FY 2025. The City is moving forward with 3 FEMA mitigation projects with anticipated completion in 2028. The City received is also progressing with 2 CDBG mitigation projects for a total of approximately $15.7 million.

The City was awarded approximately $2.0 million in FY 2025 from the U.S. Department of Transportation under the Strengthening Mobility and Revolutionizing Transportation (SMART) program. The grant will be used for the implementation of a traffic management system to improve the oversight of the City's transportation system, to relieve congestion on key corridors and to aid in reducing vehicle emissions affecting air quality in the region. The design for this project is in process.

As of September 30, 2025, the City had spent all but $7.4 million from the $62 million in general obligation bond funds authorized by the voters in May 2017. Of this amount, $1.5 million was under contract for use in completing street and drainage projects underway currently. A majority of the remainder of the authorization, or $5.9 million, is committed to projects improving pilot storm water pump station 14th street and 37th street improvements from Broadway to Avenue P (see Note 8).

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

The combined utility system fund has an unrestricted net position at fiscal year end of $13.4 million which is less than the $16.1 million unrestricted net position in the previous year. The cash that is restricted includes $56.2 million to be used for capital projects. The combined utilities system fund net position increased by $0.3 million from prior year.

General Fund Budgetary Highlights

After a turbulent FY 2020, the economy continued to recover in FY 2025. Due to advance planning and conservative budgeting, the City was able to take advantage of this by building its general fund ending fund balance considerably. The ending balance of $28.2 million provides for a 126 day reserve amount.

General fund revenues ended FY 2025 $2.1 million over budget. This overall net result included increases in projected returns from sales tax revenue ($0.9 million over budget). The City also recorded $0.5 million over budget for fines and forfeitures and $0.4 million over budget for franchises and other taxes. Investment earnings for FY 2025 resulted in $0.4 million over budget. The City also recorded $0.7 million under budget from property taxes in FY 2025.

The general fund expenditure budget exceeded the FY 2025 actual expenditures by $2.7 million. A majority of this variance came from general government expenditures ($1.2 million under budget).

The general fund expenditure budget was amended four times in fiscal year 2025 using quarterly reports that provided year end projections of revenue and expenditures. These amendments were approved by the City Council in ordinance form as proposed and recommended by the City Manager. Each amendment was for municipal purposes as allowed by Section 102.010 of the Texas Local Government Code. The City Charter authorizes the City Manager to transfer budget amounts within a department's total budget as adopted or amended by City Council. A separate schedule is provided on page 83 that demonstrates compliance with this requirement. Also, the City Charter mandated transfer from the general fund to the Infrastructure and Debt Service Fund during FY 2025 equaled eight percent of the general fund revenue, or $6.5 million as required. During FY 2025, the general fund transfers out also included $1.2 million to the Separation Pay fund to cover retirements occurring in the general fund.

Capital Assets and Debt Administration

At the end of fiscal year 2025, the City's governmental activities and business-type activities held capital assets net of depreciation/amortization of $252.3 million and $394.4 million, respectively. This $646.7 million total includes a variety of capital assets and infrastructure, as reflected in the following schedule. This represents a net decrease of $2.2 million or 0.9 percent over the end of the last fiscal year for governmental activities and a net increase of $2.0 million or 0.5 percent for business-type activities.

City of Galveston, Texas Capital Assets
(net of depreciation and amortization)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Land	$ 22,519,601	$ 21,411,775	$ 2,906,705	$ 2,906,705	$ 25,426,306	$ 24,318,480
Construction in progress	50,301,398	39,939,048	75,344,097	77,058,039	125,645,495	116,997,087
Infrastructure	102,749,969	110,477,645	-	-	102,749,969	110,477,645
Buildings and improvements	54,899,703	59,125,150	117,343,711	121,182,983	172,243,414	180,308,133
Vehicles, equipment and furniture	16,482,256	17,628,093	11,939,148	12,887,746	28,421,404	30,515,839
Right-to-use assets	233,429	448,912	-	-	233,429	448,912
Improvements other than buildings	5,103,021	5,503,614	183,415,863	174,597,857	188,518,884	180,101,471
Contractual water rights	-	-	3,489,887	3,780,711	3,489,887	3,780,711
Totals	$ 252,289,377	$ 254,534,237	$ 394,439,411	$ 392,414,041	$ 646,728,788	$ 646,948,278

Additional information on capital assets can be found in Note 8 to the financial statements.

Construction in progress is at the $125.6 million level, an increase of $8.6 million from prior year, with project plans approved for appropriations in the adopted capital budget for FY 2025 of $264.6 million. Several large projects were completed in FY 2025, including the 59th Street Tank Rehab ($8.0 million), and Phase 1 Airport pump station ground storage tank ($9.8 million). The most significant major projects still in progress are listed below:

- Advanced metering ($17.2 million, remaining $0.8 million)
- HR/FIN ERP software implementation ($3.5 million, remaining $0.1 million)
- South Shore Pump Station ($4.5 million, remaining $66.6 million)
- Pirates Beach & Seawolf Park WWTP ($20.8 million, remaining $3.0 million)

Long-term Liabilities

At the end of the current fiscal year, the City had total bonds, certificates of obligation and other obligations outstanding of $226.0 million. This total included $14.8 million in discounts and premiums that were a part of bond sales that are being amortized as a part of the City's long-term debt.

City of Galveston, Texas Long-term Liabilities Outstanding

	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
General obligation bonds	$ 43,161,400	$ 45,785,298	$ 13,743,600	$ 15,749,700	$ 56,905,000	$ 61,534,998
Special obligation bonds	14,240,000	15,665,000	-	-	14,240,000	15,665,000
Certificates of obligation	17,580,000	-	116,745,000	119,210,000	134,325,000	119,210,000
Certificates of obligation - private Placement	3,250,000	4,020,000	2,275,000	3,375,000	5,525,000	7,395,000
Arbitrage liability	594,803	-	657,487	-	1,252,290	-
Leases payable	191,918	323,332	-	-	191,918	323,332
SBITA payable	5,539	37,029	-	-	5,539	37,029
Discounts and premiums	8,313,398	7,093,304	6,498,027	6,963,567	14,811,425	14,056,871
Claims payable - workers compensation	463,005	455,185	-	-	463,005	455,185
Claims payable - health insurance	1,316,000	675,000	-	-	1,316,000	675,000
Compensated absences	17,694,396	14,165,824	2,159,526	1,776,279	19,853,922	15,942,103
Total	$ 106,810,459	$ 88,219,972	$ 142,078,640	$ 147,074,546	$ 248,889,099	$ 235,294,518

During FY 2025, the City increased its long-term liabilities by approximately $13.6 million. Debt service will be paid on the City's outstanding long-term debt as shown below. Annual principal and interest payments are budgeted based on the projects actually provided with the proceeds from the borrowings.

	Property Tax Supported	Combined Utility System Revenue Supported	Sanitation Services Revenue Supported	Hotel Occupancy Tax Revenue Supported	Total
Property-Tax Supported Debt					
General obligation bonds	$ 43,161,400	$ 13,743,600	$ -	$ -	$ 56,905,000
Certificates of obligation	17,580,000	116,745,000	-	-	134,325,000
Certificates of obligation - Private Placement	3,250,000	-	2,275,000	-	5,525,000
Subtotal	63,991,400	130,488,600	2,275,000	-	196,755,000
Special obligation bonds	-	-	-	14,240,000	14,240,000
Lease Payable	191,918	-	-	-	191,918
SBITA Payable	5,539	-	-	-	5,539
Total principal payments	$ 64,188,857	$ 130,488,600	$ 2,275,000	$ 14,240,000	$ 211,192,457

Additional information on long-term debt can be found in Note 9 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Galveston's economy is tied to the national economy through tourism and trade, as well as the Texas state and Houston regional economy and the strong energy sector. For these reasons, the City has a diversified basis for its economy that profits from local, regional, national, and even international factors. The City of Galveston has shown its resiliency in the face of severe weather and economic challenges for more than a century. The latest challenges, the COVID-19 pandemic and Hurricane Beryl, presented a new challenge that would have had an enormous impact on the Island were it not for our geography, our location, and the Island's role as the playground for the nation's fourth largest city.

Post-pandemic, the Galveston economy benefited directly from the various economic stimulus programs, primarily in the form of busy tourist seasons. The reopening of our hospitality industry, including bars and restaurants, coincided with the resumption of cruises by the cruise industry in July 2022. The impact of the programs stimulating consumer behavior was continued through 2022 but tapered off to resume more normal levels in FY 2023.

In the most recent two years, the impact of the expanding cruise industry is being monitored to understand its relationship with changes in sales and hotel occupancy tax collections. The city continues to rely heavily on state and federal grants to support infrastructure and connectivity improvements throughout the community.

The FY 2025 Budget assumed that the booms in tax revenues and home construction from previous years were temporary. In FY 2025, the general fund ended the fiscal year with a fund balance of $28.2 million, or $3.3 million higher than the prior year as adjusted. This provides 126 days of operating expenses or $8.0 million more than the ordinance and charter mandated minimum of ninety days of operating cost.

The FY 2026 Amended Budget includes $233.3 million for maintenance and operations, a 12.5 percent increase from the FY 2025 Estimated Actuals. The capital budget, based on the first year of the FY 2026-2030 Capital Improvement Plan, is adopted to cover project appropriations totaling $303.8 million. This is $39.1 million, or 14.8 percent more than last year. The total budget is $537.1 million, a 4.9 percent increase over FY 2025.

The property tax rate for FY 2026 decreased from $0.40885 to $0.408687, including $0.368932 for maintenance and operations and $0.039755 for debt service. The reduction ensured that the City managed to the No New Revenue rate established by the State's rate setting rules. In accordance with the City Charter, the budget also includes a general fund transfer equal to eight percent of the budget ($6.7 million) to the Infrastructure and Debt Service Fund. This transfer can be used to pay for projects in excess of $100,000 and also to pay debt service for property tax supported bonds as required by the Charter.

Personnel costs are almost half of the FY 2026 Adopted Budget and the City's highest priority. Personnel costs are budgeted at a level $6.7 million higher than our FY 2025 Estimate for personnel spending. Civil Service employees are receiving market-based adjustments agreed to through the collective bargaining process, and cost of living adjustments are being funded for the civilian staff.

Requests for Information

This financial report is designed to provide a general overview of the City of Galveston's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Galveston, P.O. Box 779, Galveston, TX 77553, or physically located at 823 Rosenberg, Suite 300, Galveston, TX 77550.

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Basic Financial Statement

2025 Annual Comprehensive Financial Report

CITY OF GALVESTON
1839
TEXAS

GALVESTON
EST. Texas 1839
IT'S ISLAND TIME

Statement of Net Position
September 30, 2025

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	$ 48,647,897	$ 8,702,147	$ 57,350,044	$ 58,238,490
Accounts receivable, net of allowance	6,110,587	16,575,415	22,686,002	18,241,779
Lease receivable - current	-	390,385	390,385	6,837,294
Internal balances	311,998	(311,998)	-	-
Due from other governments	14,874,379	302,665	15,177,044	11,148
Due from component unit	451,970	-	451,970	-
Inventories	498,654	1,233,005	1,731,659	17,044
Prepaid items	1,799,886	9,027	1,808,913	1,123,332
Restricted cash and cash equivalents	118,744,866	68,911,919	187,656,785	149,397,954
Total current assets	191,440,237	95,812,565	287,252,802	233,867,041
Non-current assets:				
Lease receivable - non-current	-	15,833,313	15,833,313	242,555,098
Capital assets not being depreciated	72,820,999	78,250,802	151,071,801	114,846,592
Capital assets net of depreciation	179,234,949	316,188,609	495,423,558	430,265,594
Right of use asset net of amortization	233,429	-	233,429	5,743,024
Total non-current assets	252,289,377	410,272,724	662,562,101	793,410,308
Total assets	443,729,614	506,085,289	949,814,903	1,027,277,349
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding bonds	204,666	498,995	703,661	92,843
Deferred outflows relating to pension activities	13,894,565	2,988,771	16,883,336	-
Deferred outflows relating to other post employment benefits (OPEB)	4,435,472	-	4,435,472	-
Total deferred outflows of resources	18,534,703	3,487,766	22,022,469	92,843
Total assets and deferred outflows of resources	462,264,317	509,573,055	971,837,372	1,027,370,192

The Notes to the Basic Financial Statements are an integral part of this statement.

Statement of Net Position - Continued
September 30, 2025

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	5,473,901	2,060,418	7,534,319	44,223,746
Accrued liabilities	3,168,934	-	3,168,934	-
Accrued interest payable	1,238,111	2,499,709	3,737,820	8,787,541
Due to other governments	675,141	56,992	732,133	18,729,366
Deposits payable	13,067	2,987,226	3,000,293	-
Unearned revenue	2,748,566	13,868	2,762,434	4,603,618
Long-term liabilities, current	12,717,474	6,775,917	19,493,391	10,502,274
Total OPEB liability, current	80,858	-	80,858	-
Total current liabilities	26,116,052	14,394,130	40,510,182	86,846,545
Non-current liabilities:				
Long-term liabilities, non-current	94,092,985	135,302,723	229,395,708	243,755,671
Net pension liability	79,214,005	9,241,901	88,455,906	1,137,761
Total OPEB liability, non-current	5,663,300	-	5,663,300	-
Total liabilities	205,086,342	158,938,754	364,025,096	331,739,977
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding bonds	-	-	-	25,029
Deferred inflows related to pensions	1,596,470	109,937	1,706,407	258,056
Deferred inflows related to other post employment benefits (OPEB)	12,553,154	-	12,553,154	-
Deferred inflows related to leases	-	14,290,007	14,290,007	234,986,716
Total deferred inflows of resources	14,149,624	14,399,944	28,549,568	235,269,801
Total liabilities and deferred inflows of resources	219,235,966	173,338,698	392,574,664	567,009,778
NET POSITION (DEFICIT)				
Net investment in capital assets	194,852,978	313,344,612	508,197,590	395,958,374
Restricted for				
Capital projects	36,629,484	-	36,629,484	-
Grants	2,235,563	-	2,235,563	-
Advertising and tourism	8,612,841	-	8,612,841	-
Art and historical preservation	6,536,940	-	6,536,940	-
Beach preservation	8,353,914	-	8,353,914	-
Beach safety	2,945,848	-	2,945,848	-
Culture & recreation	680,695	-	680,695	-
Infrastructure and debt service	9,980,158	-	9,980,158	-
Debt service	4,470,778	-	4,470,778	20,477,989
Tourism, convention and hotel industry	10,636,752	-	10,636,752	-
Hotel occupancy taxes	-	-	-	9,108,759
Unrestricted (deficit)	(42,907,600)	22,889,745	(20,017,855)	34,815,292
TOTAL NET POSITION	$ 243,028,351	$ 336,234,357	$ 579,262,708	$ 460,360,414

The Notes to the Basic Financial Statements are an integral part of this statement.

Statement of Activities
For the Fiscal Year Ended September 30, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities				
General government	$ 19,256,112	$ 5,467,842	$ -	$ 11,876,938
Public safety	56,938,997	2,770,990	445,140	-
Public works	10,951,188	-	-	-
Culture and recreation	60,470,423	3,459,682	100,000	-
Planning and community development	4,233,289	1,887,187	1,557,571	2,081,203
Transportation system	6,401,048	317,962	2,257,754	13,400
Interest on long-term debt	4,242,138	-	-	-
Total governmental activities	162,493,195	13,903,663	4,360,465	13,971,541
Business-type activities				
Combined utility system	48,395,794	46,489,819	-	294,296
Sanitation	7,614,129	9,588,705	-	829,745
Drainage	4,439,461	3,354,713	-	416,397
Airport	2,938,645	1,139,883	100,000	3,629
Total business-type activities	63,388,029	60,573,120	100,000	1,544,067
Total primary government	$ 225,881,224	$ 74,476,783	$ 4,460,465	$ 15,515,608
COMPONENT UNITS				
Component units	104,736,183	86,627,459	-	8,285,382
Total component units	$ 104,736,183	$ 86,627,459	$ -	$ 8,285,382

GENERAL REVENUES
Taxes:
Property taxes
Sales taxes
Mixed beverage tax
Hotel occupancy taxes
Franchise fees and local taxes
Payments in lieu of taxes
Unrestricted investment earnings
Gain on sale of capital assets
Miscellaneous
Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year

NET POSITION, end of year

The Notes to the Basic Financial Statements are an integral part of this statement.

Governmental Activities	Business-type Activities	Total	Component Units
Net (Expense) Revenue and Changes in Net Position			
Primary Government			
$ (1,911,332)	$ -	$ (1,911,332)	$ -
(53,722,867)	-	(53,722,867)	-
(10,951,188)	-	(10,951,188)	-
(56,910,741)	-	(56,910,741)	-
1,292,672	-	1,292,672	-
(3,811,932)	-	(3,811,932)	-
(4,242,138)	-	(4,242,138)	-
(130,257,526)	-	(130,257,526)	-
-	(1,611,679)	(1,611,679)	-
-	2,804,321	2,804,321	-
-	(668,351)	(668,351)	-
-	(1,695,133)	(1,695,133)	-
-	(1,170,842)	(1,170,842)	-
$ (130,257,526)	$ (1,170,842)	$ (131,428,368)	$ -
-	-	-	(9,823,342)
$ -	$ -	$ -	$ (9,823,342)
48,930,525	-	48,930,525	787,987
31,742,280	-	31,742,280	-
1,128,223	-	1,128,223	-
32,854,723	-	32,854,723	17,947,681
5,319,073	-	5,319,073	838,041
375,637	-	375,637	-
6,824,904	3,848,127	10,673,031	5,366,089
1,926,456	4,302,422	6,228,878	-
5,130,901	63	5,130,964	11,415,728
988,895	(988,895)	-	-
135,221,617	7,161,717	142,383,334	36,355,526
4,964,091	5,990,875	10,954,966	26,532,184
238,064,260	330,243,482	568,307,742	433,828,230
$ 243,028,351	$ 336,234,357	$ 579,262,708	$ 460,360,414

Balance Sheet - Governmental Funds
September 30, 2025

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 23,613,873	$ 14,319,415	$ 37,933,288
Accounts receivable, net of allowance	3,595,241	2,461,683	6,056,924
Due from other funds	1,277,140	4,635,546	5,912,686
Due from other governments	4,281,513	10,573,272	14,854,785
Due from component unit	246,120	-	246,120
Inventories	-	206,728	206,728
Prepaid items	888,684	5,857	894,541
Restricted cash and cash equivalents	-	112,944,866	112,944,866
TOTAL ASSETS	$ 33,902,571	$ 145,147,367	$ 179,049,938
LIABILITIES			
Accounts payable	$ 417,072	$ 4,510,326	$ 4,927,398
Accrued liabilities	2,217,264	951,670	3,168,934
Due to other funds	-	6,025,413	6,025,413
Due to other governments	144,364	530,777	675,141
Unearned revenue	326,405	2,422,161	2,748,566
Customer deposits	-	13,067	13,067
Total liabilities	3,105,105	14,453,414	17,558,519
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	1,737,884	319,714	2,057,598
Unavailable revenue - grants	69,056	10,404	79,460
Unavailable revenue - court fines	763,854	-	763,854
Total deferred inflows of resources	2,570,794	330,118	2,900,912
FUND BALANCES			
Nonspendable:			
Inventories	-	206,728	206,728
Prepaid items	888,684	5,857	894,541
Restricted:			
Debt service	-	5,559,196	5,559,196
Advertising & tourism	-	8,612,841	8,612,841
Arts & historical preservation	-	6,536,940	6,536,940
Beach preservation	-	8,353,914	8,353,914
Beach safety	-	2,945,848	2,945,848
Culture & recreation	-	680,695	680,695
Infrastructure and debt service	-	9,980,158	9,980,158
Capital projects	-	65,730,674	65,730,674
Grants	-	2,235,563	2,235,563
Tourism, convention and hotel industry:			
Convention center operator	-	299,998	299,998
City of Galveston	-	10,336,754	10,336,754
Committed:			
Governmental projects	-	8,888,832	8,888,832
Assigned:			
Recovery and capital reserve	1,160,074	-	1,160,074
Emergency reserves	20,180,272	-	20,180,272
Unassigned	5,997,642	(10,163)	5,987,479
Total fund balances	28,226,672	130,363,835	158,590,507
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 33,902,571	$ 145,147,367	$ 179,049,938

The Notes to the Basic Financial Statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2025

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 158,590,507
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources, and therefore are not reported in the governmental funds balance sheet. This amount excludes $8,900,111 recorded in internal service funds.		
Capital assets, cost	$ 462,197,917	
Capital assets, accumulated depreciation	(218,808,651)	243,389,266
Property taxes, grants and court fines receivable, which will be collected subsequent to year-end, are not available soon enough to pay expenditures of the current period and, therefore, are deferred in the funds.		2,900,912
Deferred charge on issuance of refunding bonds is not recorded in the fund financial statements but is recorded as a deferred outflow of resources on the statement of net position.		204,666
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the fund financial statements. The components of long-term liabilities are:		
Bonds payable, par	$ (78,231,400)	
Bonds payable, premiums	(8,313,398)	
Leases payable	(191,918)	
Subscriptions payable	(5,539)	
Accrued interest payable	(1,238,111)	
Compensated absences payable (excludes $1,062,846 recorded in internal service funds)	(16,631,550)	
Arbitrage liability	(594,803)	
Net pension liability	(79,214,005)	(184,420,724)
The deferred outflows and inflows of resources related to the net pension liability and the total OPEB liability are recognized on the statement of net position:		
Deferred outflows - pensions	$ 13,894,565	
Deferred inflows - pensions	(1,596,470)	12,298,095
A portion of assets and liabilities of internal service funds are not included in the governmental fund financial statements, but are included in the governmental activities in the Statement of Net Position. For fiscal year 2025, $424,725 was excluded in the governmental activities and was included in the business-type activities.		10,065,629
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		$ 243,028,351

The Notes to the Basic Financial Statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended September 30, 2025

	General Fund	American Rescue Plan Act	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property tax	$ 38,065,191	$ -	$ 10,736,275	$ 48,801,466
Sales tax	23,806,697	-	7,935,583	31,742,280
Hotel occupancy taxes	-	-	32,854,723	32,854,723
Mixed beverage tax	1,128,223	-	-	1,128,223
Franchise and other taxes	5,319,073	-	-	5,319,073
Licenses and permits	1,689,521	-	725,568	2,415,089
Fines and forfeitures	2,032,369	-	83,569	2,115,938
Charges for services	2,475,798	-	3,419,206	5,895,004
Investment earnings	1,178,726	-	4,954,930	6,133,656
Intergovernmental	2,151,372	-	17,886,987	20,038,359
Payments in lieu of taxes	375,637	-	-	375,637
Other	1,478,098	-	4,924,739	6,402,837
Total revenues	79,700,705	-	83,521,580	163,222,285
EXPENDITURES				
Current:				
General government	9,983,490	-	2,523,498	12,506,988
Public safety	50,493,601	-	800,179	51,293,780
Highways and roads	6,073,567	-	1,329,451	7,403,018
Culture and recreation	3,771,861	-	53,229,007	57,000,868
Planning and community development	2,183,366	-	2,642,167	4,825,533
Transportation	-	-	4,344,337	4,344,337
Debt service:				
Principal	70,698	-	5,735,970	5,806,668
Interest on long-term debt	3,954	-	3,938,729	3,942,683
Capital outlay	1,095,167	-	14,956,010	16,051,177
Total expenditures	73,675,704	-	89,499,348	163,175,052
Excess (deficiency) of revenues over (under) expenditures	6,025,001	-	(5,977,768)	47,233
OTHER FINANCING SOURCES (USES)				
Issuance of certificates of obligation	-	-	18,460,000	18,460,000
Premium on issuance of debt	-	-	1,829,019	1,829,019
Proceeds from sale of capital assets	1,922,863	-	3,429	1,926,292
Transfers in	3,519,163	-	17,318,071	20,837,234
Transfers out	(8,166,510)	-	(8,911,154)	(17,077,664)
Total other financing sources (uses)	(2,724,484)	-	28,699,365	25,974,881
Net change in fund balances	3,300,517	-	22,721,597	26,022,114
Fund balance, beginning of year	23,885,781	1,697,647	106,984,965	132,568,393
Change within the financial reporting entity	1,040,374	(1,697,647)	657,273	-
Fund balance, beginning of year - adjusted	24,926,155	-	107,642,238	132,568,393
FUND BALANCE, END OF YEAR	$ 28,226,672	$ -	$ 130,363,835	$ 158,590,507

**City Charter mandated (Ordinance No 12-009) 8% of general fund budget revenues to be transferred from general fund to Infrastructure & Debt Service Fund for either capital improvements or debt service in every year. See additional transfer information in Note 7 and Infrastructure & Debt Service Fund financial statements in the Combining and Individual Fund Statements and Schedules with the nonmajor governmental funds.

The Notes to the Basic Financial Statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended September 30, 2025

Net change in fund balances - total governmental funds		$ 26,022,114
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount of capital asset additions recorded in the current period.		16,353,563
Depreciation expense on capital assets is reported in the statement of activities, but does not require the use of current financial resources. Therefore, depreciation/amortization expense is not reported as expenditures in the governmental funds.		(15,432,610)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, transfers, non-cash capital asset contributions) is not reported in the governmental funds.		(5,111,201)
Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered available and are deferred in the govermental funds. Deferred inflows increased (decreased) by this amount this year.		
Unavailable revenues - taxes		129,059
Unavailable revenues - grants		79,460
Unavailable revenues - courts		10,546
The issuance of long term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and other debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items was:		
Proceeds from issuance of certificates of obligation	$ (18,460,000)	
Premiums on bonds issued	(1,829,019)	
Amortization of premium on bonds payable	608,923	
Amortization of deferred loss on refunding	(28,963)	
Accrued interest payable increased	(339,750)	
Principal paid on bonds and other debt	5,698,900	(14,349,909)
Governmental funds report repayment of lease and SBITA principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities.		162,904
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The following long-term liabilities (increased) / decreased:		
Compensated absences	$ (3,570,557)	
Arbitrage liability	(594,803)	
Pension expense for the pension plan measurement year	(2,157,702)	(6,323,062)
An internal service fund is used by management to charge the cost of certain activites, such as fleet management and health benefits, to individual funds. A portion of the change in the net position of the internal service funds is included in governmental activities in the statement of activities.		3,423,227
Change in net position - governmental activities		$ 4,964,091

The Notes to the Basic Financial Statements are an integral part of this statement.

Statement of Net Position
Proprietary Funds
September 30, 2025

	Business-type Activities - Enterprise Funds			Governmental Activities
	Combined Utility System	Other Enterprise Funds	Total	Internal Service Funds
ASSETS				
Current assets:				
Cash and cash equivalents	$ 5,392,375	$ 3,309,772	$ 8,702,147	$ 10,714,609
Accounts receivable, net of allowance	12,750,442	3,824,973	16,575,415	53,663
Lease receivable - current	35,315	355,070	390,385	-
Due from other funds	126,543	-	126,543	-
Due from other governments	79,528	223,137	302,665	19,594
Due from component unit	-	-	-	205,850
Inventories	1,233,005	-	1,233,005	291,926
Prepaid items	6,770	2,257	9,027	905,345
Restricted cash and cash equivalents	61,537,619	7,374,300	68,911,919	5,800,000
Total current assets	81,161,597	15,089,509	96,251,106	17,990,987
Non-current assets:				
Lease receivable - non-current	385,044	15,448,269	15,833,313	-
Capital assets not being depreciated				
Land and improvements	1,360,000	1,546,705	2,906,705	-
Construction in progress	66,248,264	9,095,833	75,344,097	4,454,285
Capital assets net of depreciation				
Infrastructure	145,559,818	37,856,045	183,415,863	225,457
Building and improvements	114,200,845	3,142,866	117,343,711	3,052,291
Equipment and furniture	3,737,464	1,158,096	4,895,560	327,503
Licensed vehicles	4,155,793	2,887,795	7,043,588	815,668
Intangibles	3,489,887	-	3,489,887	-
Right of use asset net of amortization	-	-	-	24,907
Total non-current assets	339,137,115	71,135,609	410,272,724	8,900,111
Total assets	420,298,712	86,225,118	506,523,830	26,891,098
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding bonds	498,995	-	498,995	-
Deferred outflows relating to pension activities	1,876,670	1,112,101	2,988,771	-
Deferred outflows relating to OPEB	-	-	-	4,435,472
Total deferred outflows of resources	2,375,665	1,112,101	3,487,766	4,435,472
Total assets and deferred outflows of resources	422,674,377	87,337,219	510,011,596	31,326,570

The Notes to the Basic Financial Statements are an integral part of this statement.

Statement of Net Position - Continued
Proprietary Funds
September 30, 2025

	Business-type Activities - Enterprise Funds			Governmental Activities
	Combined Utility System	Nonmajor Enterprise Funds	Total	Internal Service Funds
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	1,742,848	317,570	2,060,418	546,503
Accrued interest payable	2,476,094	23,615	2,499,709	-
Due to other funds	-	13,816	13,816	-
Due to other governments	-	56,992	56,992	-
Customer deposits	2,987,226	-	2,987,226	-
Unearned revenue	-	13,868	13,868	-
Long-term liabilities, current	5,242,932	1,532,985	6,775,917	1,977,024
Total OPEB liability, current	-	-	-	80,858
Total current liabilities	12,449,100	1,958,846	14,407,946	2,604,385
Non-current liabilities:				
Long-term liabilities, non-current	133,395,703	1,907,020	135,302,723	864,827
Net pension liability	5,803,055	3,438,846	9,241,901	-
Total OPEB liability, non-current	-	-	-	5,663,300
Total non-current liabilities	139,198,758	5,345,866	144,544,624	6,528,127
Total liabilities	151,647,858	7,304,712	158,952,570	9,132,512
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows relating to leases	365,715	13,924,292	14,290,007	-
Deferred inflows relating to pension activities	69,030	40,907	109,937	-
Deferred inflows relating to OPEB	-	-	-	12,553,154
Total deferred inflows of resources	434,745	13,965,199	14,399,944	12,553,154
Total liabilities and deferred inflows of resources	152,082,603	21,269,911	173,352,514	21,685,666
NET POSITION				
Net investment in capital assets	257,238,447	56,106,165	313,344,612	8,900,111
Unrestricted	13,353,327	9,961,143	23,314,470	740,793
TOTAL NET POSITION	$ 270,591,774	$ 66,067,308	$ 336,659,082	$ 9,640,904
Reconciliation to government-wide statement of net position				
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise fund over time			(424,725)	
NET POSITION OF BUSINESS-TYPE ACTIVITIES			$ 336,234,357	

The Notes to the Basic Financial Statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds For the Fiscal Year Ended September 30, 2025

	Business-type Activities - Enterprise Funds			Governmental Activities
	Combined Utility System	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services	$ 46,450,223	$ 13,266,691	$ 59,716,914	$ 32,886,654
Lease revenue	39,596	816,610	856,206	-
Other	-	63	63	-
Total operating revenues	46,489,819	14,083,364	60,573,183	32,886,654
OPERATING EXPENSES				
Personnel services	12,785,891	7,532,012	20,317,903	5,511,524
Contractual services	5,194,874	2,276,919	7,471,793	7,608,272
Supplies and materials	1,690,938	370,705	2,061,643	2,832,933
Surface water contract	8,405,818	-	8,405,818	-
Insurance claims and premiums	-	-	-	15,259,572
Other operating expenses	2,056,169	558,883	2,615,052	602,652
Depreciation and amortization	11,767,649	3,985,596	15,753,245	967,549
Total operating expenses	41,901,339	14,724,115	56,625,454	32,782,502
Operating income (loss)	4,588,480	(640,751)	3,947,729	104,152
NONOPERATING REVENUES (EXPENSES)				
Interest and investment earnings	3,081,777	766,350	3,848,127	689,870
Insurance recoveries	-	-	-	375,747
Intergovernmental	294,296	1,349,771	1,644,067	548
Gain (loss) on disposal of capital assets	(33,378)	4,335,800	4,302,422	42,335
Interest expense	(6,505,052)	(257,246)	(6,762,298)	(29,489)
Total nonoperating revenues (expenses)	(3,162,357)	6,194,675	3,032,318	1,079,011
Income before capital contributions and transfers	1,426,123	5,553,924	6,980,047	1,183,163
Capital contributions	1,251,107	1,019,568	2,270,675	2,739,787
Transfers out	(2,412,240)	(847,330)	(3,259,570)	(500,000)
Change in net position	264,990	5,726,162	5,991,152	3,422,950
Net position, beginning of year	270,326,784	60,341,146	330,667,930	6,217,954
NET POSITION, END OF YEAR	$ 270,591,774	$ 66,067,308	$ 336,659,082	$ 9,640,904

RECONCILIATION TO GOVERNMENT-WIDE STATEMENT OF ACTIVITIES	
Change in net position	$ 5,991,152
Adjustment for the net effect of the current year activity between the internal service fund and the enterprise fund	(277)
CHANGE IN NET POSITION OF BUSINESS-TYPE ACTIVITIES	$ 5,990,875

The Notes to the Basic Financial Statements are an integral part of this statement.

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2025

	Business-type Activities - Enterprise Funds: Combined Utility System	Business-type Activities - Enterprise Funds: Nonmajor Enterprise Funds	Business-type Activities - Enterprise Funds: Total	Governmental Activities: Internal Service Funds
OPERATING ACTIVITIES				
Receipts from customers and users	$ 44,427,637	$ 13,106,126	$ 57,533,763	$ 554,367
Lease revenue	32,971	499,359	532,330	-
Miscellaneous	-	63	63	-
Receipts for interfund services	-	-	-	32,299,429
Disbursed for employee services	(12,713,540)	(7,397,553)	(20,111,093)	(5,542,285)
Disbursed for goods and services	(11,762,251)	(2,702,615)	(14,464,866)	(26,584,329)
Net cash provided by operating activities	19,984,817	3,505,380	23,490,197	727,182
NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(2,412,240)	(847,330)	(3,259,570)	(500,000)
Net cash used by noncapital financing activities	(2,412,240)	(847,330)	(3,259,570)	(500,000)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(14,621,944)	(1,056,745)	(15,678,689)	(173,150)
Proceeds from sale of capital assets	216,160	4,335,800	4,551,960	42,335
Insurance proceeds	-	-	-	375,747
Principal payments on debt	(4,471,100)	(1,100,000)	(5,571,100)	-
Interest payments on debt	(6,567,898)	(75,300)	(6,643,198)	(29,489)
Intergovernmental grants	294,296	1,349,771	1,644,067	548
Net cash provided (used) by capital and related financing activities	(25,150,486)	3,453,526	(21,696,960)	215,991
INVESTING ACTIVITIES				
Interest received	3,081,777	766,350	3,848,127	689,870
Net cash provided by investing activities	3,081,777	766,350	3,848,127	689,870
Net change in cash and cash equivalents	(4,496,132)	6,877,926	2,381,794	1,133,043
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	71,426,126	3,806,146	75,232,272	15,381,566
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 66,929,994	$ 10,684,072	$ 77,614,066	$ 16,514,609
Unrestricted cash and equivalents	$ 5,392,375	$ 3,309,772	$ 8,702,147	$ 10,714,609
Restricted cash and equivalents	61,537,619	7,374,300	68,911,919	5,800,000
	$ 66,929,994	$ 10,684,072	$ 77,614,066	$ 16,514,609
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	$ 4,588,480	$ (640,751)	$ 3,947,729	$ 104,152
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	11,767,649	3,985,596	15,753,245	967,549
(Increase) decrease in accounts receivable	(2,134,158)	(174,433)	(2,308,591)	(32,858)
(Increase) decrease in lease receivable	32,971	345,494	378,465	-
(Increase) decrease in inventory	(770,129)	46,845	(723,284)	(32,590)
(Increase) decrease in prepaid items	40,113	594	40,707	5,172
(Increase) decrease in interfund receivables and payables	7,244,523	438,095	7,682,618	(44,468)
(Increase) decrease in due from component unit	-	-	-	29,882
(Increase) decrease in deferred outflows/inflows related to pension activities	1,253,914	678,266	1,932,180	-
(Increase) decrease in deferred outflows/inflows related to OPEB	-	-	-	(496,529)
Increase (decrease) in accounts payable and accrued expenses	(835,401)	27,868	(807,533)	(200,524)
Increase (decrease) in unearned revenue	-	13,868	13,868	-
Increase (decrease) in customer deposits	111,572	-	111,572	-
Increase (decrease) in claims payable	-	-	-	648,819
Increase (decrease) in compensated absences payable	210,471	172,777	383,248	(41,985)
Increase (decrease) in net pension liablity	(1,485,592)	(726,094)	(2,211,686)	-
Increase (decrease) in total OPEB liability	-	-	-	(179,438)
Increase (decrease) in deferred inflows related to leases	(39,596)	(662,745)	(702,341)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 19,984,817	$ 3,505,380	$ 23,490,197	$ 727,182
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	$ 1,251,107	$ 1,019,568	$ 2,270,675	$ 2,739,787
Capital asset purchases on account	481,008	-	481,008	-

The Notes to the Basic Financial Statements are an integral part of this statement.

Statement of Fiduciary Net Position
Fiduciary Funds

		Pension Trust Funds as of December 31, 2024		Custodial Fund as of September 30, 2025
ASSETS				
Cash and cash equivalents	$	4,168,563	$	11,724,198
Receivables				
Accrued interest and dividends		145,769		-
Loans to participants		914,500		-
Investments				
Equity mutual funds		120,668,073		-
Bond mutual funds		2,277,060		-
Alternative investments		13,095,368		-
Domestic fixed income mutual funds		19,060,099		-
International fixed income funds		1,063,446		-
Government securities		8,329,665		-
Prepaid items		1,229		-
Total assets		169,723,772		11,724,198
LIABILITIES				
Accounts and refunds payable		1,451		-
Unearned revenue		1,852,340		-
Total liabilities		1,853,791		-
NET POSITION				
Restricted for:				
Pensions		167,869,981		-
Individuals, organizations and other governments		-		11,724,198
TOTAL NET POSITION	$	167,869,981	$	11,724,198

The Notes to the Basic Financial Statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Position
Fiduciary Funds

	Pension Trust Funds For the Year Ended December 31, 2024	Custodial Fund For the Year Ended September 30, 2025
ADDITIONS		
Contributions:		
Employer	$ 10,439,358	$ -
Plan members	6,151,781	-
Private contributions	-	11,200,000
Total contributions	16,591,139	11,200,000
Investment income		
Net change in fair value of investments	13,913,527	-
Interest and dividends	4,011,716	158,590
Less investment expenses	(412,360)	-
Total investment income	17,512,883	158,590
Other income	-	76,549
Total additions	34,104,022	11,435,139
DEDUCTIONS		
Benefits paid to members and beneficiaries	14,377,092	-
Refunds of contributions	928,931	-
Administrative expenses	492,475	-
Total deductions	15,798,498	-
Change in net position	18,305,524	11,435,139
Net position - restricted for pensions, beginning of year	149,564,457	289,059
NET POSITION - RESTRICTED FOR PENSIONS, END OF YEAR	$ 167,869,981	$ 11,724,198

The Notes to the Basic Financial Statements are an integral part of this statement.

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Notes to the Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

The City of Galveston, Texas (the City) was incorporated in March 1839, and presently is a Home Rule City under statutes of the State of Texas. The current City Charter was adopted April 19, 1960 and initiated the Council-Manager form of government. The City provides the following services: public safety (police and fire), utilities (water, sewer, drainage and sanitation), streets and storm sewers, health and social services, culture, recreation, public improvements, planning and zoning, airport and general administrative services.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles

A. Financial Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The aggregate discretely presented component units is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended Component Units Reported with the Primary Government
Blended component units provide services exclusively or almost exclusively for the City, or their board of directors are substantially the same as the City Council. The following blended component unit is reported:

Industrial Development Corporation
The Industrial Development Corporation (the IDC) was formed in 1993 to provide for street repairs, beach renourishment and sewer improvements. The IDC Board of Directors is appointed by the City Council. Its Board of Directors is substantially the same as the City Council. Its activities are funded by a special local sales tax. The City manages the fiscal affairs of the IDC. The IDC operations are devoted to providing services for the City. The IDC fund is included in the City's nonmajor governmental funds as of year-end.

Discretely Presented Component Units
Discretely presented component units are legally separate entities for which the City is not financially accountable (because it does not impose will or have a financial benefit or burden relationship, even though the City Council appoints the voting majority of the component units' governing board) and, in management's opinion, whose exclusion would render the reporting entity's financial statements incomplete or misleading.

Following are the City's discretely presented component units:

The Park Board of Trustees of the City of Galveston, Texas
The Park Board of Trustees of the City of Galveston, Texas, (the Park Board), was created by state statute to provide improvements and maintenance to City waterfront parks and beaches. The Park Board, which is fiscally dependent on the City's hotel occupancy tax and beach parking receipts, is legally separate from the City. The Park Board, which is appointed by the City Council, has a nine-member board responsible for operations. The Park Board financial records are the board's responsibility. Complete financial statements for the Park Board may be obtained at the following address:

Park Board of Trustees of the City of Galveston, Texas
601 Tremont, Suite 200
Galveston, Texas 77550

Notes to the Basic Financial Statements

Galveston Island Redevelopment Authority
Galveston Island Redevelopment Authority (GIRDA) is a local government corporation created and organized under the provisions of the Texas Transportation Corporation Act, Chapter 431, Transportation Code, and authorized and approved by the City under Resolution No. 02-071 adopted on August 22, 2002. The GIRDA is the administrator of the tax increment reinvestment zone thirteen. This tax zone was established to provide funds for development and improvement projects within a specific geographic area of the City. The GIRDA is fiscally dependent on the City's property tax receipts over undeveloped assessments (base value) to provide funding for the development and improvement projects. The City Council appoints the board members who operate and account for each tax zone activity consistent with the state statute for economic benefit of the City. The City accounts for the tax zones (consolidated into the GIRDA). Complete financial statements for the GIRDA may be obtained at the following address:

Galveston Island Redevelopment Authority
1011 Tremont Street
Galveston, Texas 77550

GIRDA had been responsible previously for zones twelve and fourteen as well. On December 12, 2019, the City Council passed Ordinance No.19-076 which closed Tax Increment Reinvestment Zones Twelve and Fourteen ("the TIRZ") effective December 31, 2019. The City entered into an Interlocal Agreement with the County of Galveston relating to the procedures for the closing of the TIRZ as well as the distribution of tax increments held by the Galveston Island Redevelopment Authority.

Public Improvement District - Campeche Shores
Campeche Shores Public Improvement District (Campeche District) was established by the City to provide funds for development and improvement projects specifically for Campeche Shores District. An agreement between GIRDA and Campeche Shores LP dated April 28, 2005, details the responsibilities between all parties, including the City. Under the authority of GIRDA, the City has established a Public Improvement District Fund for the district. The City Council appoints an advisory board who aid and assist the City in the preparation of the assessment roll, collection of assessments and the operation and management of Campeche District for the benefit of the City. Each year, following the levy and collection of assessments, the City shall transfer the amount to GIRDA. GIRDA is fiscally dependent on these funds to pay the administrative costs and to reimburse Campeche Shores LP for any and all costs associated with the public improvements which serve the citizens of the City. Separately issued financial statements are not available.

Public Improvement District - Beachside Village
Beachside Village Public Improvement District (Beachside District) was established by the City on February 11, 2010 to provide funds for street, drainage and utility public improvement projects, specifically in Beachside Village Public Improvement District. The GIRDA has an agreement with Kahala Development, Limited Partnership, which details the responsibilities between all parties, including the City. The City Council appoints an advisory board who aid and assist the City in the preparation of the assessment roll, collection of assessments and the operation and management of Beachside District for the benefit of the City. Each year, following the levy and collection of assessments levied against property within the district, the City shall transfer the amount to GIRDA. GIRDA is fiscally dependent on these funds to pay the administrative costs and to reimburse Kahala Development for the costs of constructing the public improvements which serve the citizens of the City. Separately issued financial statements are not available.

Public Improvement District - Bayside at Waterman's
Bayside at Waterman's Public Improvement District was established by the City on October 28, 2014 according to the law of the Texas Local Government Code Chapter 372 Subchapter A for the development of approximately 162 single family residences and associated rights-of-way, landscaping, and infrastructure necessary to provide roadways, drainage, and utilities within approximately 21.5 acres located in the corporate limits of the City.

Notes to the Basic Financial Statements

An agreement between Bayside at Waterman's Public Improvement District and Laffite's Harbor Development, LP was signed December 10, 2014. Wilmington Trust agreed to be the Trustee and Paying Agent/Registrar as of December 1, 2014 for bonds issued relating to the development of the district. The bonds mature September 1, 2044. The average annual interest rate for bonds is approximately 5.85%.

On November 7, 2017, Lafitte's Harbor Development I LP filed for Chapter 11 Bankruptcy at the United States Bankruptcy Court for the Southern District of Texas, Houston Division. All debt service payments were made on schedule as of March 2020 using reserves programmed for that purpose and assessments collected. The City has no financial or legal responsibility for payment of the bonds. The City's only responsibility for now is to pursue collections of assessments which is performed by a third party contractor on behalf of the City. The City's financial burden begins when the bonds are paid in full. The City's obligation will be to maintain the rights-of-way, landscaping, and infrastructure of the district. Separately issued financial statements are not available.

The Galveston Housing Finance Corporation and City of Galveston Property Finance Authority
The Galveston Housing Finance Corporation was created by state statute to provide the making of home mortgages and the making of loans to lending institutions for the purpose of making home mortgages. The City of Galveston Property Finance Authority, Inc. was created by State Statute for the purpose of acquiring, owning, holding, leasing and selling real or personal property to or for the benefit of the City of Galveston for the furtherance of its public purposes, and collecting, receiving, borrowing, lending or otherwise obtaining and lending funds to or for the use of the City or to others for the City's public purposes. These corporations are managed by the GIRDA board, which is appointed and may be removed at will by the City Council. The Galveston Housing Finance Corporation and the City of Galveston Property Finance Authority, Inc. financial records are each corporation's responsibility. The Galveston Housing Finance Corporation and the City of Galveston Property Finance Authority, Inc. have December 31 fiscal year-ends.

Complete financial statements for the Galveston Housing Finance Corporation and the City of Galveston Property Finance Authority, Inc. may be obtained at the following address:

The Galveston Housing Finance Corporation /
The City of Galveston Property Finance Authority, Inc.
2127 Broadway
Galveston, Texas 77550

The Board of Trustees of the Galveston Wharves
The Board of Trustees of the Galveston Wharves (Galveston Wharves) was created by the City Charter on October 17, 1940 to manage, control, and maintain the wharves. The Board of Trustees of the Galveston Wharves, which is appointed by the City Council, is a seven-member board, which is responsible for operating the wharves and is fiscally dependent on the City to approve the issuance of bonded debt. The Galveston Wharves financial records are the board's responsibility. The Galveston Wharves have a December 31 fiscal year-end.

Complete financial statements for the Galveston Wharves may be obtained at the following address:

Board of Trustees of the Galveston Wharves
123 Rosenberg
Galveston, Texas 77550

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Notes to the Basic Financial Statements

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

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

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

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

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

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

The City reports the following major governmental fund:

> The **General Fund** is the government's primary operating fund. The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues for the general fund are property taxes, sales and use taxes, franchise taxes, permit fees, and fines and forfeitures. Expenditures are for general government, finance, public safety, public works, culture and recreation, planning and community development and transit operations.

The City reports the following major enterprise fund:

> The **Combined Utility System Fund** (formerly the Waterworks System Fund and Sewer System Fund) accounts for the provision of water and a sewer system to the residents of the City, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Notes to the Basic Financial Statements

Additionally, the City reports the following fund types:

Nonmajor Governmental Funds consist of capital projects funds, special revenue funds and debt service funds used to account for expenditures of resources accumulated for capital improvement projects; proceeds of specific revenue resources legally restricted or committed to expenditures for specific purposes; and to account for payment of principal and interest on long-term debt, respectively.

Nonmajor Enterprise Funds are used to account for the provision of a sanitation system, municipal airport and utility drainage system.

Internal Service Funds account for central services related to mailing, printing, data processing, insurance costs, employee benefits, construction management, and garage services provided to other City departments and functions of the government on a cost reimbursement basis.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. These include the following:

The **Pension Trust Funds** account for the activities of the City Employees Retirement Plan, the Galveston Firefighters' Pension Fund and the Police Retirement Fund.

The **Custodial Funds** are used to account for assets held by the City as a custodian for individuals, private organizations and other governments. This fund is custodial in nature and uses the economic resources measurement focus. Custodial funds include fiber crete maintenance funds, cemetery trust funds, confiscated monies pending disposition, Pelican Island Bridge Project funds, etc.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

D. Cash and Investments

Cash and temporary investments include amounts in demand deposits, as well as short-term highly liquid investments with original maturities of three months or less. State statutes and the City's investment policy authorize the City to invest in obligations of the U.S. Government and its agencies or instrumentalities and state obligations, certificates of deposits or Texas Local Government Investment Pools. All investments are recorded at fair value based on quoted market prices at year-end date. TexPool, TexPool Prime, Texas Class and LOGIC are external investment pools established by an interlocal contract under state law.

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. The City pools excess cash of the various individual funds to purchase investments. These pooled investments are reported in the combined balance sheet as cash and temporary investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund based on its respective share of pooled investments.

Notes to the Basic Financial Statements

The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants.* Fair values for investment securities are provided by Hilltop Securities Asset Management, LLC. (HSAM). HSAM's source for pricing government securities (treasuries and agencies) and most commercial paper is SVC, a subsidiary of SS&C and an information aggregator. SVC uses a number of sources for their pricing data, with most government securities and commercial paper pricing provided by Interactive Data Corp (IDC), an independent third-party pricing service, which is the largest source provider of fixed income pricing. Interactive Data's evaluations are based on market data. Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information. Because many fixed income securities do not trade on a daily basis, Interactive Data's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. SVC and/or IDC provide some, but not all, of the commercial paper (CP) pricing, while HSAM estimates other CP prices based on comparable market offers of similar issuers with comparable credit ratings and maturity dates. All pricing and fair values for separately held investments are based on Level 2 inputs. These sources are deemed reliable.

E. Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” and “due to other funds,” respectively, on the balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 24.1 percent of total property taxes including the related penalty and interest accrual as of year-end. The allowance for enterprise fund charges for services is 32.1 percent of total outstanding charges as of year-end.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are payable on or before January 31. No penalties or interest shall be collected if payment in full is made by January 31. City property taxes are recognized as current receivables when levied; however, such amounts are deferred and not reported as revenues until collections are received. At year end, all property taxes receivable are classified as delinquent. Penalties and interest accrued at year end are also recognized as receivables.

F. Inventories and Prepaid Items

Inventories are valued at cost, which approximates fair value, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond September 30, 2025 are recorded as prepaid items. The prepaid expenses are recorded using the consumption method and expensed in the period in which the items are used or consumed.

G. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure and right to use assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in service concession arrangements are recorded at acquisition value rather than fair value.

Notes to the Basic Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Description	Estimated Useful Life
Buildings	25 to 75 years
Improvements	5 to 50 years
Equipment	2 to 40 years
Sewer plants	50 to 75 years
Sewer lines	40 to 75 years
Water plants, wells and hydrants	50 to 75 years
Water tanks and valves	50 years
Water meters	10 years
Infrastructure	5 to 75 years
Contractual water rights	10 to 30 years
Right-to-use assets (equipment, buildings and SBITA)	3 to 5 years

H. Leases and Subscription-Based Information Technology Arrangements (SBITA)

Lessee: The City is a lessee for a noncancellable lease of equipment, office space and land. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The City monitors changes in circumstances that would require a remeasurement of its lease and will re-measure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long- term debt on the statement of net position.

Notes to the Basic Financial Statements

Payments due under the lease contracts include fixed payments plus, for many of the City's leases, variable payments. For office space leases that include variable payments, those include payments for the City's proportionate share of the building's property taxes, insurance, and common area maintenance. For office equipment leases for which the City has elected not to separate lease and non-lease components, maintenance services are provided by the lessor at a fixed cost and are included in the fixed lease payments for the single, combined lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- amounts expected to be payable by the City under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the City exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. Extension and termination options are included in a number of property and equipment leases across the City. These are used to maximize operational flexibility in terms of managing the assets used in the City's operations. The majority of extension and termination options held are exercised only by the City and not by the respective lessor.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term.

Lessor: The City is a lessor for several noncancellable leases including but not limited to land, airport hangars and office space. The City recognizes a lease receivable and a deferred inflow of resources in the government wide and proprietary fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Subscription-Based Information Technology Arrangements (SBITA): The City is a lessee for some noncancellable lease of certain subscription-based information technology arrangements. The City recognizes a SBITA liability and an intangible right-to-use lease asset (SBITA asset) in the government-wide and proprietary fund financial statements.

Notes to the Basic Financial Statements

At the commencement of a SBITA contract, the City initially measures the SBITA liability at the present value of payments expected to be made during the subscription term. Subsequently, the SBITA liability is reduced by the principal portion of subscription payments made. The SBITA asset is initially measured as the initial amount of the SBITA liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain initial direct costs. Subsequently, the SBITA asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to SBITA arrangements include how the City determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for SBITA arrangements.
- The subscription term includes the noncancellable period of the SBITA arrangement. Subscription payments included in the measurement of the SBITA liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise. In determining the subscription term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the subscription term if the SBITA arrangement is reasonably certain to be extended (or not terminated).

The City monitors changes in circumstances that would require a remeasurement of its SBITA arrangement and will re-measure the SBITA asset and liability if certain changes occur that are expected to significantly affect the amount of the SBITA liability.

SBITA assets are reported with other capital assets and SBITA liabilities are reported with long- term debt on the statement of net position.

Payments due under the SBITA contracts include fixed payments. The City does not have any variable payment SBITA arrangements for FY 2025.

Assets and liabilities arising from a SBITA arrangement are initially measured on a present value basis. SBITA liabilities include the net present value of the following contract payments:

- fixed payments (including in-substance fixed payments), less any contract incentives receivable
- amounts expected to be payable by the City under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the subscription arrangement, if the subscription term reflects the City exercising that option.

Subscription payments to be made under reasonably certain extension options are also included in the measurement of the liability. Extension and termination options are included in some of subscription arrangements across the City.

The subscription payments are discounted using the interest rate implicit in the subscription contract. If that rate cannot be readily determined, which is generally the case for subscription arrangements in the group, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the subscription term.

Notes to the Basic Financial Statements

I. Compensated Absences

The City recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee benefit account) during or upon separation from employment. Based on the criteria listed, the following types of leave qualify for liability recognition for compensated absences – vacation, compensated time, and sick leave. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Vacation
The City's policy permits employees to accumulate earned but unused vacation benefits, with limits on accumulation. Vacation benefits are eligible for payment upon separation from employment, with limitations.

Compensated Time
The City's policy provides eligible employees with compensatory time off, rather than overtime pay, for overtime worked, with limits on accumulation. Compensated time benefits are eligible for payment upon separation from employment.

Sick Leave
The City's policy permits employees to accumulate earned but unused sick leave benefits, with limits on accumulation. Sick leave benefits are eligible for payment upon separation from employment, with limitations.

A liability for the estimated value of leave benefits that will be paid upon separation of service or used by employees as time off is included in the liability for compensated absences.

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be paid from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be paid from proprietary fund operations are accounted for in those funds.

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

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

Notes to the Basic Financial Statements

K. Fund Balances and Net Position

The governmental fund financial statements of the City will present fund balances based on classifications including a hierarchy that is based primarily on the extent to which the City is bound to honor restrictions on the specific purposes for which amounts in a particular governmental fund can be spent. The five classifications used in the governmental fund financial statements will be as follows:

Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. These amounts would include inventories and prepaid items as being non-spendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. These guidelines are used for restricted net position.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal resolution of the City Council, which has the highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. The action must be taken by the close of the reporting period. The amount of the commitment can be determined and approved by the City Council at a later date.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or by the City Council's designee, pursuant to the City's fund balance policy.

Unassigned: This classification includes the residual fund balance for the general fund. The general fund should be the only fund that reports a positive unassigned fund balance.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications are available.

In the general fund, the City shall maintain at a minimum unassigned fund balance to be used for unanticipated emergencies of approximately 90 days of the annual budgeted expenditures of the general fund of the following year.

L. Restricted Cash and Investments

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Other restricted accounts reflect money set aside by City Council action for improvements or to meet contractual obligations.

M. Interfund Transactions

Interfund services provided and received are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Notes to the Basic Financial Statements

N. Legal Compliance- Budgets

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Pursuant to City Charter, at least 45 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed operating and capital projects budget for the fiscal year commencing October 1. The proposed budget includes proposed expenditures and the means of financing them. A statement of capital projects planned for the next succeeding five fiscal years, with estimates of their costs is also submitted at this time.

The adoption of the budget shall require a favorable vote of at least a majority of all the members of the Council. In the event that the budget has not been adopted by the beginning of the fiscal year the latest budget proposed by the City Manager shall take and remain in effect until the budget is finally adopted by the Council.

The City Charter requires that no funds shall be expended nor shall any obligation for the expenditure of money be incurred unless an appropriation exists in the duly adopted budget. Annual appropriations style budgets are adopted for the general fund, special revenue funds including the island transit, Rosenberg library, and the debt service fund, and all enterprise funds. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, debt service funds and enterprise funds.

Budgets are adopted and accounted for on a modified accrual basis, with the following exceptions:

Annual budgets are not adopted for certain special revenue funds, primarily relating to grant-based projects and capital projects funds. The grant projects are controlled through project length budgets that may span multiple fiscal years. For FY 2025, annual budgets were not adopted for the Hurricane Ike, CDBG Disaster Non-Housing, Housing & Urban Development (HUD) Entitlement Grants, FEMA Disaster, Meadows Mental Health, State Hotel Occupancy Tax, Opioid Abatement Trust, Island Transit Capital Projects, General Obligation Bond 2017 Capital Projects, General Obligation Bond 2019 Capital Projects, and Industrial Development Corporation funds. Capital and planning grant activities in the Island Transit fund are not budgeted on an annual basis and are controlled in a manner similar to the grant project funds noted above. Budgeted amounts are reported herein as amended throughout the year. There were four formal ordinance approved budget amendments during FY 2025. Total appropriations remained in open compliance with the City Charter requirement limiting the total budget to a seven percent increase overall each year. Appropriation balances lapse at year-end and may be re-appropriated by City Council.

Obligations outstanding at year-end through purchase orders, contracts and other commitments are re-appropriated in the subsequent year.

During the fiscal year, the City Council may transfer any unencumbered appropriation balance or portion thereof from one department to another at any time. The City Manager has authority, without City Council approval, to transfer appropriation balances from one expenditure account to another, inclusive within a single office, department or agency of the City.

Expenditures may not exceed appropriations at the department category level, as established by policy of the City Council. The administrative level of control is at the department category level and the legal level of control is at the department level by fund.

O. Estimates

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

Notes to the Basic Financial Statements

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's three defined benefit pension plans (the "Plans") and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the individual Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. Other Postemployment Benefits

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's self-insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees. Information regarding the City's total liability for this plan is obtained through a report prepared by the City's third-party actuary in compliance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

R. Deferred Outflows/Inflows of Resources

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

- Deferred outflows of resources for pension – Reported for the City in the government-wide and proprietary fund financial statement of net position. One portion of this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and will be recognized as a reduction of the net pension liability in the next fiscal year. Other pension related deferred outflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five-year period. The final pension-related deferred outflow results from the differences between expected and actual actuarial experiences and changes in actuarial assumptions will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- Deferred outflows of resources for other postemployment benefits (OPEB) – Reported for the City in the government-wide and enterprise fund financial statement of net position. One portion of this deferred outflow results from contributions to the OPEB plan made after the measurement date of the OPEB liability. The other OPEB related deferred outflows result primarily from differences between projected and actual experience and changes of assumptions. These amounts will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with the OPEB through the OPEB plan.
- Deferred charge on refunding reported in the statement of net position – this deferred outflow results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Notes to the Basic Financial Statements

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has five items that qualifies for reporting in this category:

- Deferred gain on refunding reported in the statement of net position – This deferred inflow results from the difference in carrying value the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred inflows of resources for pension – This deferred inflow results from the differences between expected and actual actuarial experiences and changes in actuarial assumptions will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- Deferred inflows relating to OPEB - Reported for the City in the government-wide and proprietary fund financial statement of net position. The OPEB related deferred inflows result primarily from differences between projected and actual experience and changes of assumptions.
- Deferred inflows of resources for leases - The city recognizes a lease receivable and a deferred inflow of resources which is initially measured as the amount of lease receivable and adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources is recognized as a revenue over the life of the lease term.
- Deferred inflows of resources relating to unavailable revenues - Reported for the City in the governmental funds balance sheet financial statement. This deferred inflow results from property taxes, grants and court fines revenues that are not available to pay current obligations.

S. New Accounting Standards

The following standards have been issued and implemented:

- GASB Statement No. 102*, Certain Risk Disclosures* (GASB 102), improves financial reporting by providing users of financial statements with essential information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. The requirements of this statement are effective for reporting periods beginning after June 15, 2024, with earlier application encouraged. GASB 102 was implemented in the City's fiscal year 2025 financial statements with no impact to amounts or disclosures previously reported.

New standards coming up:

- GASB Statement No. 103, *Financial Reporting Model Improvements* (GASB 103), improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, with earlier application encouraged. GASB 103 will be implemented in the City's fiscal year 2026 financial statements and the impact has not yet been determined.
- GASB Statement No. 104, *Disclosure of Certain Capital Assets* (GASB 104), establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note disclosures. It also establishes requirements for capital assets held for sale, including additional disclosures for those capital assets. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, with earlier application encouraged. GASB 104 will be implemented in the City's fiscal year 2026 financial statements and the impact has not yet been determined.
- GASB Statement No. 105, *Subsequent Events* (GASB 105), improves financial reporting related to subsequent events by 1) clarifying the subsequent events time frame and the subsequent events that constitute recognized and non-recognized events and 2) specifies the information items that are required to be disclosed about subsequent events. The requirements of this statement are effective for reporting periods beginning after June 15, 2026, with earlier application encouraged. GASB 105 will be implemented in the City's fiscal year 2027 financial statements and the impact has not yet been determined.

Notes to the Basic Financial Statements

Note 2. Deposits (Cash) and Investments

Credit Risk. The primary stated objective of the City of Galveston's adopted investment policy (the Investment Policy) is the safety of principal and avoidance of principal loss. Credit risk within the City's portfolio among the authorized investments approved by the Investment Policy is represented only in time and demand deposits, municipal obligations, and non-rated U.S. Securities and Exchange Commission (SEC) registered money market mutual funds.

All other investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the U.S. Government, its agencies or instrumentalities and Local Government Investment Pools. State law and the Investment Policy restricts both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further requires full insurance and/or collateral from these depositories.

Collateral, with a 102% margin, is required and collateral is limited to obligations of the U.S. Government, its agencies or instrumentalities and municipal obligations rated no less than AA or equivalent by two nationally recognized rating agencies. Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are monitored and priced at market on a daily basis as a contractual responsibility of the bank. All bank deposits, totaling $10.3 million, were fully insured and collateralized. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

The Investment Policy restricts investment in Security and Exchange Commission registered mutual funds to money market mutual funds striving to maintain a $1 net asset value as further defined by state law. Neither state law nor the Investment Policy requires a rating.

The City invests in TexPool, which was created under the Interlocal Cooperation Act, Texas Government Code Chapter 791 and the Texas Public Funds Investment Act. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Section 404.103 for which the Texas State Comptroller is sole officer, director and shareholder. The advisory board of TexPool is composed of the State Comptroller and other members appointed pursuant to the requirements of the Texas Public Funds Investment Act.

The City also invests in TexPool Prime which is duly chartered and overseen by the State Comptroller's Office, administered and managed by Federated Investors, Inc. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; AAA rated money market mutual funds; commercial paper and certificates of deposit.

TexPool Prime transacts at a net asset value of $1.00 per share, has a weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by a nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. The investment pool has a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

The City began investing funds in Local Government Investment Cooperative (LOGIC) in FY 2019. LOGIC is a local government investment pool created by Texas local government officials who understand the specific needs and challenges of investing public funds. LOGIC is administered by Hilltop Securities and JPMorgan Chase. Together these organizations bring to the LOGIC program the two leaders in financial services with a proven track record in local government investment pool management and extensive industry resources. The City's investment in this pool is the same as the value of the pool shares, which are valued based on quoted market rates.

Notes to the Basic Financial Statements

The City began investing funds in Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) Program in January 2024 after approval by City council. Texas CLASS was created as a local government investment pool (LGIP) pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code (PFIA). Per state code, entities may pool any of their funds, or funds under their control, to preserve principal, maintain the liquidity of the funds, and maximize yield. The Texas CLASS Trust Agreement is an agreement of indefinite term regarding the investment, reinvestment, and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate in the Trust (the Participants), Public Trust Advisors, LLC (Public Trust) as Program Administrator, and UMB Bank, N.A. as Custodian.

Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency. The City Policy further restricts investments to AAAm-rated local government investment pools.

As of September 30, 2025:

- Investments in AAA-rated local government investment pools represented 68.98% of the total portfolio
- Bank deposits represented 4.21% of the total portfolio
- Total Mutual Funds in AAAm - rated represented 2.71% of the total portfolio
- Holdings in AA+-rated US Government securities represented 24.10% of the total portfolio

The City of Galveston recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The Investment Policy establishes diversification as a major objective of the investment program. The Investment Policy has established limits for concentration by market sector as shown below:

	Fair Value/	Credit Quality Rating		Percentage of
	Amortized Cost	S & P	Moody's	Investments
Bank deposits:				
Frost Bank - deposit accounts	$ 10,305,888			4.21%
Total bank deposits	10,305,888			4.21%
Investment types:				
Mutual funds:				
US Bank	6,647,898	AAAm	Aaa-mf	2.71%
Total mutual funds	6,647,898			2.71%
Local government investment pools:				
Texas CLASS	79,111,316	AAAm		32.29%
TexPool	20,163,776	AAAm		8.23%
TexPool Prime	42,453,090	AAAm		17.33%
Local Government Investment Cooperative (LOGIC)	27,278,873	AAA		11.13%
Total local government investment pools	169,007,055			68.98%
Total investment portfolio	185,960,841			75.90%
Investment securities:				
US Treasury securities	40,732,320	AA+	Aa1	16.62%
US Agency obligations	18,313,668	AA+	Aa1	7.47%
Total investment securities	59,045,988			24.10%
Total bank deposits & investment portfolio	$ 245,006,829			100.00%

Notes to the Basic Financial Statements

Interest Rate Risk. In order to limit interest and market rate risk from changes in interest rates, the City's adopted investment policy establishes a maximum maturity of 36 months for operating funds and five years for reserve funds.

A segmented time distribution analysis for the primary government portfolio by market sector is shown below.

Investment Type	Investment Maturities in Years Less than 1 year	Investment Maturities in Years 1-5 years
US Treasury securities	$ 30,478,127	$ 10,254,193
US Agency obligations	18,313,668	-
Local government investment pools	169,007,055	-
Total	$ 217,798,850	$ 10,254,193

Custodial Credit Risk. To control custody and safekeeping risk, the City's investment policy requires collateral for all time and demand deposits be transferred delivery versus payment and held in the City's name by an independent party. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of FIRREA (U.S. Financial Institutions Reform, Recovery and Enforcement Act of 1989). The counter party of each type of transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City's investments are valued at Level 2 using a market approach based on a matrix pricing technique, whereby valuation is determined in reference to benchmark prices and interest rates.

The City's local government investment pools are recorded at amortized costs as permitted by GASB Statement No.79, *Certain Investment Pools and Pool Participants.*

Quoted market prices are the basis of the fair value for the U.S. Treasury Securities. There were no changes in the valuation technique and no nonrecurring fair value measurements during the current year.

Notes to the Basic Financial Statements

Investments' fair value measurements are as follows as of September 30, 2025:

	Fair Value/ Amortized Cost	Fair Value Measurements Using Level 2 Inputs	Weighted Average Maturity (Days)
Mutual funds*	$ 6,647,898		1
Local government investment pools*	169,007,055		1
Total investment portfolio	$ 175,654,953		
Investment Securities:			
US Treasury securities	$ 40,732,320	$ 40,732,320	280
US Agency obligations	18,313,668	18,313,668	132
Total investment securities	$ 59,045,988	$ 59,045,988	
Portfolio weighted average maturity			60

*Investment pools are not subject to fair value reporting per GASB 72. The City's investments in mutual funds are measured at net asset value and are not subject to fair value level reporting.

Note 3. Property Tax

According to the Tax Code of the State of Texas, property values are established through appraisal and appeals processes administered by the Galveston County Appraisal District. As provided by law, the Galveston City Council has designated the Galveston County Tax Assessor-Collector as the City Tax Assessor-Collector. Reports and information provided in this Annual Comprehensive Financial Report for property values and collections, including current and delinquent taxes, originate with these two County agencies.

The City may levy taxes up to $2.50 per $100 of net appraised assessed value under state law; however, amendments to the City Charter approved by the voters placed additional limits on the city's total property tax rate. Approved in a charter election on January 20, 1979, language in Article VII Section 2 of the City Charter provides that the maximum property tax rate will be $0.70 per $100 of taxable valuation. This is inclusive of taxes levied to retire debt service, and the tax amount levied each year for the Rosenberg Library.

Subsequently, the voters of the City of Galveston approved language in Article VII, Section 2(b) of the City Charter that reduces the maximum tax rate each year based on sales tax collections. When the certified property tax roll is delivered by the Chief Appraiser in late July, the Tax Assessor-Collector calculates the City's effective tax rate in accordance with State law, including the sales tax collection allowance.

This allowance is based on receipts from one-fourth of the City's two percent sales tax generated for the prior July to June twelve month period. The effective tax rate calculation then requires a reduction in the total property tax rate equal to the property tax rate that would produce the same amount of sales tax collected as described. For FY 2025, the maximum property tax rate was $0.429293. Within these guidelines, the adopted tax rate per $100 of taxable valuation, for the year ended September 30, 2025, was $0.40885. The tax rate to finance general governmental services was set at $0.36864 and the tax rate for all other purposes, including debt service, was set at $0.04021 per $100 of assessed valuation.

Notes to the Basic Financial Statements

Under the Texas Property Tax Code, property taxes are certified by the Chief Appraiser on or by July 25. The County Tax Assessor-Collector, acting in that capacity for the City, then presents the certified roll to the City Council accompanied by the No-New-Revenue and Voter Approval tax rates calculated for that tax year. The City Council must adopt a budget first and then adopt a property tax rate by September 30, or within sixty days after receipt of the tax roll from the Chief Appraiser. Taxes are due on a current basis by January 31. Late penalties and interest apply thereafter, including a twenty percent delinquent attorney's collection fee on July 1 should taxes not be paid prior to that time. There is no specific date for liens to be placed on properties for nonpayment of taxes.

Note 4. Sales Tax

The City's sales tax rate is 2.0 percent for the year ended September 30, 2025. This rate includes 1.0 percent that generates receipts for general municipal operations that are deposited in the General Fund. Also deposited in the General Fund is the 0.5 percent sales tax collected for property tax rate reduction purposes (see Note 3). The remaining 0.5 percent is levied for economic development purposes and is deposited in the Industrial Development Corporation's funds.

On November 4, 2008, voters extended the economic development amount for the IDC fund for 20 years, to expire on April 1, 2029. Effective through March 31, 2029, the IDC fund collections are allocated strictly according to the language adopted by the voters. That language dedicates this economic development tax into four equal portions for beach renourishment, for streets, sewer and drainage improvement projects, for economic development programs and projects, and park improvements. Each of these portions of the tax are accounted for in what are reported in this annual report as four nonmajor governmental funds.

Note 5. Accounts Receivable

Receivables, as of September 30, 2025 for the City's individual major funds, nonmajor funds and internal service funds, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Activities

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds	Internal Service Funds
Governmental activities:				
Receivables:				
Property taxes	$ 3,222,373	$ 498,371	$ 3,720,744	$ -
Sales and use taxes	3,940,431	1,313,476	5,253,907	-
Franchise taxes	211,065	31,010	242,075	-
Court fines	3,609,057	-	3,609,057	-
Customer accounts	202,632	18,101	220,733	53,663
Hotel taxes	-	5,199,753	5,199,753	-
Intergovernmental	587,202	5,885,735	6,472,937	19,594
Other	360,943	267,166	628,109	205,850
Allowance for uncollectibles	(4,010,829)	(178,657)	(4,189,486)	-
Total	$ 8,122,874	$ 13,034,955	$ 21,157,829	$ 279,107

Notes to the Basic Financial Statements

Business-type Activities

	Combined Utility System	Airport	Drainage	Sanitation	Total
Business-type activities:					
Receivables:					
Customer accounts	$ 18,908,899	$ 15,668	$ 1,409,415	$ 4,077,998	$ 24,411,980
Other	430	-	-	-	430
Allowance for uncollectibles	(6,158,887)	-	(539,802)	(1,138,306)	(7,836,995)
Total	$ 12,750,442	$ 15,668	$ 869,613	$ 2,939,692	$ 16,575,415

Note 6. Lease Receivable

The City leases out its buildings and land. Most leases have initial terms of up to 20 years, and contain one or more renewals at the City's option, generally for three or five year periods. The City has generally included these renewal periods in the lease term when it is reasonably certain that the City will exercise the renewal option. The City's lease arrangements do not contain any material residual value guarantees. As the interest rate implicit in the City's leases is not readily determinable, the City utilizes its incremental borrowing rate to discount the lease payments.

The City has several leases with variable payments. For fiscal year 2025, the total of the variable payments was immaterial.

Although the City is exposed to changes in the residual value at the end of the current leases, the City typically enters into new operating leases and therefore will not immediately realize any reduction in residual value at the end of these leases.

Minimum lease payments receivable on leases of investment properties are as follows:

Year Ending	Business-type Activities	
September 30,	Principal	Interest
2026	$ 390,385	$ 480,193
2027	420,407	468,470
2028	449,361	544,933
2029	480,699	437,583
2030	516,331	422,971
2031-2035	2,962,941	1,866,284
2036-2040	3,642,695	1,389,365
2041-2045	4,236,035	807,923
2046-2050	3,061,816	161,437
2051-2055	40,844	6,180
2056-2060	22,184	811
Totals	$ 16,223,698	$ 6,586,150

Notes to the Basic Financial Statements

The total amount of inflows of resources relating to leases recognized in the current fiscal year are as follows:

	Business-type Activities
Lease revenue	$ 856,206
Interest revenue	482,639

Note 7. Interfund Transfers and Receivables

Interfund transfers for the primary government are as follows for the year ended September 30, 2025:

	Transfers In:		
Transfers out:	General Fund	Nonmajor Governmental Funds	Totals
General fund	$ -	$ 8,166,510	$ 8,166,510
Nonmajor governmental funds	445,163	8,465,991	8,911,154
Combined utility system fund	2,296,000	116,240	2,412,240
Nonmajor enterprise funds	778,000	69,330	847,330
Internal service funds	-	500,000	500,000
Totals	$ 3,519,163	$ 17,318,071	$ 20,837,234

The following is a detail of the interfund transfers:

Transfers in fund	Transfer out fund	Purpose
General fund	Nonmajor governmental funds	General admin charges & convention center surplus
General fund	Combined utility system fund	General admin charges & payment in lieu of taxes
General fund	Nonmajor enterprise funds	General admin charges & payment in lieu of taxes
Nonmajor governmental funds	Nonmajor governmental funds	Collection of state hotel occupancy taxes
Nonmajor governmental funds	General fund	Quartermaster operations
Nonmajor governmental funds	General fund	Charter mandated transfer (8% of general fund budgeted revenues)
Nonmajor governmental funds	General fund	Budgeted separation pay
Nonmajor governmental funds	General fund	Budgeted transfer for transit operations
Nonmajor governmental funds	Nonmajor governmental funds	Trolley system
Nonmajor governmental funds	Nonmajor governmental funds	Operational activity
Nonmajor governmental funds	Combined utility system fund	Budgeted separation pay
Nonmajor governmental funds	Nonmajor enterprise funds	Budgeted separation pay
Nonmajor governmental funds	Nonmajor governmental funds	Budget transfer for capital projects
Nonmajor governmental funds	Internal service fund	Budgeted transfer for personnel services

Note: Transfers in the government-wide statement of activities include the transfer of $2,270,675 of capital assets from governmental activities to business-type activities.

Notes to the Basic Financial Statements

The following is a detail of interfund receivables and payables for the primary government as of September 30, 2025:

	Receivable Funds: Due From			
	General Fund	Nonmajor Governmental Funds	Combined Utility System Fund	Totals
Payable Funds: Due to				
Nonmajor governmental funds	$ 1,266,778	$ 4,632,092	$ 126,543	$ 6,025,413
Nonmajor enterprise funds	10,362	3,454	-	13,816
Totals	$ 1,277,140	$ 4,635,546	$ 126,543	$ 6,039,229

The following is a detail of interfund receivables and payables:

Receivable Funds: Due From	Payable Funds: Due To	Purpose:
General fund	Nonmajor governmental funds	City's portion of sales tax & grant expenditures
General fund	Nonmajor enterprise funds	City's portion of sales tax
Nonmajor governmental funds	Nonmajor governmental funds	City's portion of sales tax, hurricane disaster recovery projects & collection of hotel occupancy
Nonmajor governmental funds	Nonmajor enterprise funds	City's portion of sales tax
Combined utility system fund	Nonmajor governmental funds	Disaster recovery projects

Notes to the Basic Financial Statements

Note 8. Capital Assets

The following is a detail of capital asset activity for the year ended September 30, 2025:

	Beginning Balance	Increases	Decreases/ Reclassifications*	Ending Balance
Governmental activities:				
Capital assets, not being depreciated/amortized:				
Land	$ 21,411,775	$ 1,107,826	$ -	$ 22,519,601
Construction in progress	39,939,048	12,677,025	(2,314,675)	50,301,398
Total capital assets, not being depreciated or amortized	61,350,823	13,784,851	(2,314,675)	72,820,999
Capital assets being depreciated or amortized:				
Infrastructure	242,275,075	-	-	242,275,075
Buildings and improvements	89,887,527	-	-	89,887,527
Licensed vehicles	35,451,980	1,163,446	(649,849)	35,965,577
Machinery and equipment	23,132,139	1,578,416	(62,083)	24,648,472
Right-to-use assets - equipment	321,656	-	-	321,656
Right-to-use assets - buildings	257,757	-	-	257,757
Right-to-use assets - SBITA	363,339	-	(205,992)	157,347
Improvements other than buildings	13,289,090	-	-	13,289,090
Total capital assets being depreciated or amortized	404,978,563	2,741,862	(917,924)	406,802,501
Less accumulated depreciation/amortization for:				
Infrastructure	(131,797,430)	(7,727,676)	-	(139,525,106)
Buildings and improvements	(30,762,377)	(4,225,447)	-	(34,987,824)
Licensed vehicles	(21,492,121)	(2,471,632)	642,644	(23,321,109)
Machinery and equipment	(19,463,905)	(1,359,328)	12,549	(20,810,684)
Right-to-use assets - equipment	(89,937)	(78,885)	-	(168,822)
Right-to-use assets - buildings	(173,086)	(50,830)	-	(223,916)
Right-to-use assets - SBITA	(230,817)	(85,768)	205,992	(110,593)
Improvements other than buildings	(7,785,476)	(400,593)	-	(8,186,069)
Total accumulated depreciation/amortization	(211,795,149)	(16,400,159)	861,185	(227,334,123)
Capital assets being depreciated or amortized, net	193,183,414	(13,658,297)	(56,739)	179,468,378
Totals	$ 254,534,237	$ 126,554	$ (2,371,414)	$ 252,289,377

* Includes current year transfers between governmental and business-type activities, see Note 7.

Notes to the Basic Financial Statements

	Beginning Balance	Increases	Decreases/ Reclassifications*	Ending Balance
Business-type activities:				
Capital assets, not being depreciated/amortized:				
Land	$ 2,906,705	$ -	$ -	$ 2,906,705
Construction in progress	77,058,039	13,826,079	(15,540,021)	75,344,097
Total capital assets, not being depreciated or amortized	79,964,744	13,826,079	(15,540,021)	78,250,802
Capital assets being depreciated or amortized:				
Improvements other than buildings	278,767,622	-	17,705,373	296,472,995
Building and system	177,230,317	-	-	177,230,317
Machinery and equipment	20,776,236	75,487	(287,744)	20,563,979
Licensed vehicles	19,633,237	1,890,985	(654,643)	20,869,579
Contractual water rights	29,970,351	-	-	29,970,351
Total capital assets being depreciated or amortized	526,377,763	1,966,472	16,762,986	545,107,221
Less accumulated depreciation/amortization for:				
Improvements other than buildings	(104,169,765)	(8,887,367)	-	(113,057,132)
Building and system	(56,047,334)	(3,839,272)	-	(59,886,606)
Machinery and equipment	(14,605,744)	(1,271,298)	208,623	(15,668,419)
Licensed vehicles	(12,915,983)	(1,464,484)	554,476	(13,825,991)
Contractual water rights	(26,189,640)	(290,824)	-	(26,480,464)
Total accumulated depreciation/amortization	(213,928,466)	(15,753,245)	763,099	(228,918,612)
Capital assets being depreciated or amortized, net	312,449,297	(13,786,773)	17,526,085	316,188,609
Totals	$ 392,414,041	$ 39,306	$ 1,986,064	$ 394,439,411

* Includes current year transfers between governmental and business-type activities, see Note 7.

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

General government	$ 7,068,746
Public safety	467,866
Public works	4,627,805
Culture and recreation	2,552,712
Planning and community development	224,504
Transportation system	490,977
Internal service funds	967,549
Total governmental activities	$ 16,400,159
Combined utility system	$ 11,767,649
Sanitation	623,361
Drainage	1,917,130
Airport	1,445,105
Total business-type activities	$ 15,753,245

Notes to the Basic Financial Statements

Construction in progress and remaining commitment, as of September 30, 2025 are as follows:

Project Description	Project Authorization	Project Cost to Date	Remaining Commitment
Governmental activities:			
Various street milling and overlay projects	$ 14,420,665	$ 12,308,794	$ 2,111,871
23rd Street Broadway to Seawall (County)	10,616,014	10,241,470	374,544
City Hall remodel & screen wall/plaza	7,240,782	4,478,779	2,762,003
Parks and Recreation	16,224,883	10,951,012	5,273,871
Technology improvements	4,604,109	4,389,391	214,718
Various Island Transit projects	3,687,554	2,826,438	861,116
Various other projects	5,517,340	5,105,514	411,826
Total governmental activities	$ 62,311,347	$ 50,301,398	$ 12,009,949
Business-type activities:			
Combined utility system fund projects:			
Advanced metering	$ 17,928,541	$ 17,166,742	$ 761,799
Fire hydrants	4,280,327	447,980	3,832,347
Lift stations	3,598,128	1,184,859	2,413,269
Pirates Beach & Seawolf Park WWTP recon & expansion	23,801,555	20,812,918	2,988,637
SCADA - Supervisory Controls & Data Acquisition	1,627,913	748,927	878,986
Waterline rehab projects	6,411,429	1,980,137	4,431,292
Sewer rehab projects	15,021,294	3,142,341	11,878,953
Tank rehab projects	1,618,340	1,583,084	35,256
Various other Combined Utility System Projects	20,327,040	19,181,276	1,145,764
Sanitation fund projects:			
Various sanitation projects	519,190	152,877	366,313
Drainage fund projects:			
Drainage improvements	2,114,750	904,801	1,209,949
Drainage pump stations	73,489,535	6,878,223	66,611,312
Airport fund projects:			
Various airport projects	1,305,362	1,159,932	145,430
Total business-type activities	$ 172,043,404	$ 75,344,097	$ 96,699,307

Notes to the Basic Financial Statements

Note 9. Long-Term Debt

Governmental Activities

Long-term liability activity for the year ended September 30, 2025, is as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 45,785,300	$ -	$ (2,623,900)	$ 43,161,400	$ 2,747,000
Certificates of obligation	-	18,460,000	(880,000)	17,580,000	575,000
Certificates of obligation - private placement	4,020,000	-	(770,000)	3,250,000	785,000
Special obligation bonds	15,665,000	-	(1,425,000)	14,240,000	1,500,000
Unamortized premiums and discounts	7,093,302	1,829,019	(608,923)	8,313,398	-
Total bonds payable	72,563,602	20,289,019	(6,307,823)	86,544,798	5,607,000
Other liabilities:					
Arbitrage liability	-	1,116,955	(522,152)	594,803	-
Lease payable	323,332	-	(131,414)	191,918	110,142
SBITA payable	37,029	-	(31,490)	5,539	5,539
Claims payable - workers compensation	455,185	538,673	(530,853)	463,005	234,756
Claims payable - health insurance	675,000	14,549,345	(13,908,345)	1,316,000	1,316,000
Compensated absences*	14,165,824	3,528,572	-	17,694,396	5,444,037
Total other liabilities	15,656,370	19,733,545	(15,124,254)	20,265,661	7,110,474
Total governmental activities	$ 88,219,972	$ 40,022,564	$ (21,432,077)	$ 106,810,459	$ 12,717,474
Long-term debt due in more than one year					$ 94,092,985

* Compensated absences are reported as a net change for the year as allowed under the provisions of GASB 101, paragraph 30.

Compensated absences are liquidated by the funds based on the department personnel to whom the claims relate. Health claims and workers' compensation claims are liquidated by the Health and Life Insurance Internal Service Fund and the Workers' Compensation Internal Service Fund which are reported as a governmental activity.

The City sponsors three (3) single employer defined benefit pension plans: the Employees Retirement Plan for Police, the Retirement Plan for City Employees and the Firefighters' Pension Plan (see Note 15).

The City also has a Texas Tax and Revenue Emergency Anticipation Note, Series 2024-E in the amount of $50 million for the purpose of providing funds to pay for any contractual obligation incurred or to be incurred as a result of or to address the effect of a statewide and/or national emergency. The City has not drawn down any funds from this note as of September 30, 2025.

Notes to the Basic Financial Statements

The following are descriptions of the governmental activities long-term obligations:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Governmental activities:				
General obligation bonds:				
Series 2016 Obligation Refunding Bonds*	$ 2,460,831	2033	3.0-5.0	$ 1,526,400
Series 2017 Public Improvement Bonds	22,600,000	2037	2.0-5.0	15,230,000
Series 2019 Public Improvement Bonds	31,205,000	2039	3.0-5.0	26,405,000
Total general obligation bonds				43,161,400
Special obligation bonds:				
Series 2012A Hotel Occupancy Tax Refunding Bonds	14,350,000	2034	2.6-5.0	7,910,000
Series 2012B Hotel Occupancy Tax Refunding Bonds	13,215,000	2032	3.1-5.0	6,330,000
Total special obligation bonds				14,240,000
Certificates of obligation:				
Series 2024 Combination Tax and Revenue	18,460,000	2044	5.0	17,580,000
Total certificates of obligation				17,580,000
Certificates of obligation - private placement:				
Series 2022 Combination Tax and Revenue	5,500,000	2029	2.23	3,250,000
Total certificates of obligation - private placement				3,250,000
Lease payable:				
Lease payable	579,413	2028	3.0	191,918
Total lease payable				191,918
SBITA payable:				
SBITA payable	157,347	2027	2.23	5,539
Total SBITA payable				5,539
Total governmental activities long-term obligations				$ 78,428,857

* The original total issue was $17,365,000 for the Series 2016 Obligation Refunding Bonds. The original issue amount represents the portion allocated to governemental activities only.

Notes to the Basic Financial Statements

Annual debt service requirements to maturity for governmental activities bonds payable are as follows:

Fiscal Year Ending September 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Special Obligation Bonds Principal	Special Obligation Bonds Interest
2026	$ 2,747,000	$ 1,927,033	$ 1,500,000	$ 494,506
2027	2,885,100	1,789,683	1,575,000	446,731
2028	2,923,200	1,645,428	1,650,000	395,544
2029	3,062,200	1,499,268	1,735,000	340,931
2030	3,206,200	1,346,158	1,825,000	282,375
2031-2035	16,972,700	4,438,061	5,955,000	486,681
2036-2040	11,365,000	1,028,400	-	-
Totals	$ 43,161,400	$ 13,674,031	$ 14,240,000	$ 2,446,768

Fiscal Year Ending September 30,	Certificates of Obligation Principal	Certificates of Obligation Interest	Certificates of Obligation - Private Placement Principal	Certificates of Obligation - Private Placement Interest
2026	$ 575,000	$ 879,000	$ 785,000	$ 72,475
2027	605,000	850,250	805,000	54,970
2028	635,000	820,000	820,000	37,018
2029	665,000	788,250	840,000	18,732
2030	700,000	755,000	-	-
2031-2035	4,060,000	3,214,000	-	-
2036-2040	5,185,000	2,091,500	-	-
2041-2045	5,155,000	660,250	-	-
Totals	$ 17,580,000	$ 10,058,250	$ 3,250,000	$ 183,195

Current Year Issuance of Debt – Governmental Activities

During fiscal year 2025, the City issued $18,460,000 of Series 2024 Combination Tax and Revenue Certificates of Obligation (the "Certificates"). The Certificates were issued to fund the design, construction and equipment of improvements to the City's drainage infrastructure, including stormwater pumpstations on South Shore Drive and 14th Street, the associated underground structure and pay for the costs of issuance. The Certificates pay interest of 5.00% and are scheduled to mature at various annual installments through 2044.

Notes to the Basic Financial Statements

Lease Payable

This note provides information for leases where the City is a lessee. For leases where the City is a lessor, see Note 6.

The City is obligated under leases covering certain machinery and IT equipment that expire at various dates during the next three fiscal years. The City has entered into various lease agreements as lessee primarily for office space and office equipment. Most leases have initial terms of up to ten years, and contain one or more renewals at the City's option, generally for three or five-year periods. The City generally included these renewal periods in the lease term when it is reasonably certain that the City will exercise the renewal option. The City's leases generally do not include termination options for either party to the lease or restrictive financial or other covenants. Certain real estate leases require additional payments for common area maintenance, real estate taxes and insurance, which are expensed as incurred as variable lease payments. For office space leases that include variable payments, those include payments for the City's proportionate share of the building's property taxes, insurance, and common area maintenance. The City's lease arrangements do not contain any material residual value guarantees. As the interest rate implicit in the City's leases is not readily determinable, the City utilizes its incremental borrowing rate to discount the lease payments.

The future principal and interest lease payments as of September 30, 2025, were as follows:

Year Ending	Governmental Activities	
September 30,	Principal	Interest
2026	$ 110,142	$ 2,863
2027	75,416	905
2028	6,360	-
Totals	$ 191,918	$ 3,768

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage legislation consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bond holders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the IRS rules and regulations. As of September 30, 2025, the City reported an arbitrage liability of $594,803 and $657,487 for governmental activities and business-type activities, respectively.

Notes to the Basic Financial Statements

SBITA Payable

The City is obligated under contracts covering certain subscription-based information technology arrangements (SBITA) that expire at various dates during the next fiscal year. The City has entered into various SBITA contracts as lessee for information technology (IT) softwares. Most SBITA contracts have initial terms of up to five years, and contain one or more renewals at the City's option, generally for one to two year periods. The City generally included these renewal periods in the subscription term when it is reasonably certain that the City will exercise the renewal option and the contract is not deemed cancellable. The City's SBITA contracts do not contain any material residual value guarantees. As the interest rate implicit in the City's leases is not readily determinable, the City utilizes its incremental borrowing rate to discount the SBITA payments.

The future principal and interest SBITA payments as of September 30, 2025, were as follows:

Year Ending	Governmental Activities	
September 30,	Principal	Interest
2026	$ 5,539	$ 31
Totals	$ 5,539	$ 31

Business-Type Activities

Long-term liability activity for the year ended September 30, 2025 is as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance	Amounts Due Within One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 15,749,700	$ -	$ (2,006,100)	$ 13,743,600	$ 2,063,000
Certificates of obligation - private placement	3,375,000	-	(1,100,000)	2,275,000	1,125,000
Certificates of obligation	119,210,000	-	(2,465,000)	116,745,000	2,575,000
Unamortized premiums and discounts	6,963,567	-	(465,540)	6,498,027	-
Total bonds payable	145,298,267	-	(6,036,640)	139,261,627	5,763,000
Other liabilities:					
Arbitrage liability	-	657,487	-	657,487	-
Compensated absences*	1,776,279	383,247	-	2,159,526	1,012,917
Total other liabilities	1,776,279	1,040,734	-	2,817,013	1,012,917
Total business-type activities	$ 147,074,546	$ 1,040,734	$ (6,036,640)	$ 142,078,640	$ 6,775,917
Long-term debt due in more than one year					$ 135,302,723

* Compensated absences are reported as a net change for the year as allowed under the provisions of GASB 101, paragraph 30.

Notes to the Basic Financial Statements

The following are descriptions of the business-type activities long-term obligations:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Business-type activities:				
General obligation bonds:				
Series 2016 Obligation Refunding Bonds*	$ 14,904,169	2033	3.0-5.0	$ 6,953,600
Series 2021 Obligation Refunding Bonds	13,545,000	2030	0.3-1.8	6,790,000
Total general obligation bonds				13,743,600
Certificates of obligation - private placement:				
Series 2022 Combination Tax and Revenue	5,500,000	2027	2.23	2,275,000
Total certificates of obligation - private placement				2,275,000
Certificates of obligation:				
Series 2017 Combination Tax and Revenue	33,330,000	2038	2.0-5.0	27,680,000
Series 2019 Combination Tax and Revenue	32,750,000	2039	2.0-5.0	29,430,000
Series 2022A Combination Tax and Revenue	62,635,000	2052	4.6-5.3	59,635,000
Total certificates of obligation				116,745,000
Total business-type activities long-term obligations				$ 132,763,600

* The original total issue was $17,365,000 for the Series 2016 Obligation Refunding Bonds. The original issue amount reported above represents the portion allocated to business-type activities only.

Annual debt service requirements to maturity for business-type activities bonds payable are as follows:

Fiscal Year Ending September 30,	Certificates of Obligation - Private Placement		Certificates of Obligation		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	$ 1,125,000	$ 50,733	$ 2,575,000	$ 5,538,826	$ 2,063,000	$ 403,800
2027	1,150,000	25,645	2,695,000	5,418,176	2,114,900	352,325
2028	-	-	2,820,000	5,291,876	2,166,800	295,491
2029	-	-	2,950,000	5,159,626	2,227,800	233,898
2030	-	-	3,100,000	5,012,125	2,288,800	167,471
2031-2035	-	-	17,975,000	22,585,025	2,882,300	228,739
2036-2040	-	-	22,790,000	17,727,425	-	-
2041-2045	-	-	28,795,000	11,787,900	-	-
2046-2050	-	-	25,445,000	4,955,100	-	-
2051-2055	-	-	7,600,000	531,181	-	-
Totals	$ 2,275,000	$ 76,378	$ 116,745,000	$ 84,007,260	$ 13,743,600	$ 1,681,724

The total net revenues of the combined utility system and sanitation funds are pledged for repayment of the business-type activities revenue bonds, general obligation bonds and certificates of obligation. The pledge will remain in force for the term of the bonds.

Notes to the Basic Financial Statements

Description	Principal	Interest	Totals
Certificates of obligation	$ 2,575,000	$ 5,538,826	$ 8,113,826
Certifcates of obligation - private placement	1,125,000	50,733	1,175,733
General obligation bonds	2,063,000	403,800	2,466,800
Total annual debt service	$ 5,763,000	$ 5,993,359	11,756,359
Operating revenues - combined utilities fund			46,489,819
Operating revenues - sanitation fund			9,588,705
Operating expenses - combined utilities fund			(41,901,339)
Operating expenses - sanitation fund			(7,334,283)
Net operating income			6,842,902
Add:			
Depreciation/amortization - combined utilities fund			11,767,649
Depreciation - sanitation fund			623,361
Total net revenues			$ 19,233,912
Debt service coverage			1.64

Current Year Issuance of Debt – Business-Type Activities

None.

Defeased Debt

As a result of refunding transactions in the current and prior years, the City defeased certain outstanding bonds issued by placing the proceeds of new bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow accounts to provide for all future bonds are not included in the City's financial statements. There were no defeased bonds outstanding as of September 30, 2025.

Discretely Presented Component Unit - Bayside at Waterman's Public Improvement District

Long-term liability activity for the year ended September 30, 2025 is as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance	Amounts Due Within One Year
Bayside at Waterman's PID:					
Special assessment revenue bonds	$ 6,135,000	$ -	$ (160,000)	$ 5,975,000	$ 160,000
Totals	$ 6,135,000	$ -	$ (160,000)	$ 5,975,000	$ 160,000

Notes to the Basic Financial Statements

The following are descriptions of the discretely presented component unit long-term obligations:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Bayside at Waterman's PID bonds:				
Series 2014 Special Assessment Revenue Bonds	$ 9,600,000	2044	5.6-6.1	$ 5,975,000
Total Bayside at Waterman's PID bonds				$ 5,975,000

Annual debt service requirements to maturity for Bayside at Waterman's Public Improvement District long-term debt are as follows:

Fiscal Year Ending September 30,	Bayside at Waterman's PID Revenue Bonds	
	Principal	Interest
2026	$ 160,000	$ 359,931
2027	175,000	350,931
2028	180,000	341,088
2029	205,000	330,963
2030	225,000	318,663
2031-2035	1,330,000	1,374,913
2036-2040	1,800,000	923,831
2041-2044	1,900,000	298,900
Totals	$ 5,975,000	$ 4,299,220

All of the special assessment revenue received by the District is obligated to pay for the special assessment revenue bonds noted above. The City has no financial or legal responsibility for payment of the bonds. The City's only responsibility is to pursue collections of assessments which is performed by a third-party consultant on behalf of the City.

Note 10. Fund Balance and Net Position

Deficit fund balances and net position reported by these funds below are the result of timing difference between the funding agency and local grantee qualifying outlays. Deficits in these funds are considered temporary and expected to be relieved during the next fiscal year.

	Fund Balance
Nonnmajor governmental funds:	
FEMA Disaster	$ (10,163)

	Net Position
Internal Service Funds:	
Worker's compensation insurance	$ (78,810)
Health and life insurance	(3,041,050)

Net position reported by the Workers' Compensation Fund above reflects the inclusion of $0.5 million of total estimated workers' compensation claims payable. Net deficit reported by the Health and Life Insurance Fund reflects the inclusion of $5.7 million of the total OPEB liability. See Note 14 for additional information on the total OPEB liability.

Notes to the Basic Financial Statements

Note 11. Commitments and Contingencies

Grants

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

Environmental Liability

The City is aware of various sites contaminated by hazardous materials. There are no significant liabilities related to these sites of which the City is aware. The City also participates in the Texas Natural Resources Underground Storage Tank registration program and has each site insured for pollution liability. The City is also actively remediating several sites with grant funds from the General Land Office.

Note 12. Risk Management

The City is exposed to various risks of loss related to torts, thefts, damage and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City has commercial insurance policies for liability and property insurance. The major insurance policies, including law enforcement and public official policies, have deductibles of $5,000 per occurrence.

The City purchases automobile and law enforcement liability insurance from the Texas Municipal League (TML) Intergovernmental Risk Pool, a self-insurance fund using members contributions to pay covered losses. Participation in the pool is affirmed when a city signs an inter-local agreement. There is no requirement for a municipality to invest funds into the risk pool other than by insurance premiums for actual policies issued by TML.

There have been no significant reductions in insurance coverage from prior years. There have been no insurance settlements exceeding insurance coverage in the past five years.

The Casualty and Liability Internal Service Fund is used to account for the accumulation of assets charged to other funds of the City for insurance premiums and all other liabilities.

Workers' Compensation

The City is self-insured for workers' compensation. The third-party administrator for the City is TML, with a per coverage retention of $500,000. TML also provides the stop loss reinsurance for excess claims with an annual aggregate retention of $1,500,000 and aggregate limit of liability of $1,000,000.

All funds of the City participate in the program and make payments to the Workers' Compensation Internal Service Fund based on estimates of the amounts needed to pay prior and current year claims. The claims liability is reported in the fund at September 30, 2025, and is based on requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

The City's long-term workers' compensation liability is recorded in the government-wide statement of net position. Current liability amounts are recorded in all funds having incurred charges. The estimates of liability are based on current claims outstanding and the estimate of reserves based on industry experience.

Notes to the Basic Financial Statements

Changes in the City's workers' compensation claims liability reserve amount for the past two fiscal years are as follows:

Year Ending September 30,	Beginning of Year Accrual	Current Year Estimates	Current Year Payments	End of Year Accrual
2024	$ 416,966	$ 511,840	$ (473,621)	$ 455,185
2025	455,185	538,673	(530,853)	463,005

Employee Health Insurance

Effective November 1, 2001, the City established a limited risk management program for health insurance by setting up an Internal Service Fund to account for its insured and self-insured risk of loss. The Health and Life Insurance Fund is principally supported by contributions from the City and its employees. The City makes contributions to cover the employees, and the employees are required to make contributions to cover their dependents. The Health and Life Insurance Fund charges the various operating funds premiums for the City's contribution. The City has obtained specific stop loss insurance through BlueCross BlueShield which limits the City's claims paid to $225,000 per individual. BlueCross BlueShield also provides aggregate stop loss coverage for the plan, which limits claims paid to approximately $1,585 per employee per month.

Incurred but not reported (IBNR) claims as of year-end are estimated by the third-party administrator based on prior claims experience. Changes in the City's IBNR health claims liability, for the past two fiscal years, are as follows:

Year Ending September 30,	Beginning of Year Accrual	Current Year Estimates	Current Year Payments	End of Year Accrual
2024	$ 845,000	$ 12,300,265	$ (12,470,265)	$ 675,000
2025	675,000	14,549,345	(13,908,345)	1,316,000

Note 13. Major Contracts and Commitments

As of year-end, the City has the following major contracts and commitments in force. The following is a summary of these commitments:

Emergency Medical Services Contract

Through agreement with the Galveston County Health District (the District), the District provides emergency medical services including trained personnel for treatment and dispatching, transport of victims to hospitals, ambulances and supplies, public education regarding medical emergencies, and management and system evaluation. Operation and management is under control of the District. The City is responsible for operating deficits of this entity for up to $225,000 per year.

Galveston County Jail

Through agreement with the County of Galveston (County), the County agrees to reserve 6 beds in the County Jail for individuals arrested by City police. The City will pay the County monthly the sum of $69.43 per City inmate per calendar day or fraction thereof. Annually this equates to a minimum of approximately $150,000 per year. The City pays the daily rate for months in which the average nightly occupancy is greater than 6.5 inmates.

Notes to the Basic Financial Statements

Gulf Coast Water Authority

The Gulf Coast Water Authority (GCWA) supplies one hundred percent of Galveston's potable water supply. GCWA holds rights and maintains access to water originating in the Brazos River basin that flows through a system of canals and reservoirs to the Thomas Mackey water purification plant in Texas City. Purified water is pumped from the plant to the island through lines that cross the old causeway and/or the bay to the island. The City then assumes responsibility for pumping, storage and customer sales. Under the most recent amendment dated May 27, 2015, the City retains the right to use up to 21 million gallons per day at a flat cost of $0.4629 per 1000 gallons. Water actually consumed is supplied to the City at the rate of $0.7825 per 1000 gallons pumped. GCWA also makes improvements to the plant and its distribution system with bond proceeds, and the City pays its proportional share of this debt service to GCWA. The City's proportional share of the debt service to GCWA was paid off in FY 2022. In FY 2025, the City paid GCWA $9.09 million for debt service, water rights and water consumption and construction.

Note 14. Postemployment Benefits Other Than Pensions

Plan Description

The City defined benefit OPEB plan provides certain postemployment retirement benefits for its qualifying employees and spouses/dependents through a single-employer defined benefit health care plan administered by the City. No assets are accumulated in a trust that meets the criteria of GASB codification P52.101 to pay related benefits for the OPEB plan.

Benefits Provided

Eligible participants, as defined by the City, may continue health care coverage during retirement by paying the total active contributions, including the City portion and the retiree portion. In the case of deferred retirement or death in service, the health care benefit is not available. However, in the case of disability retirement benefits, coverage is available if the employee is eligible for disability benefits through the City. Coverage under the health care plan ceases upon reaching Medicare eligibility. A separate, audited GAAP-basis postemployment benefit plan report is not available.

Employees covered by OPEB plan as of December 31, 2024 were as follows:

Inactive plan members or beneficiaries currently receiving benefits	21
Active plan members	759
Total plan members	**780**

Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2024. The actuarial valuation date was performed as of December 31, 2023 and update procedures were performed to roll forward the total OPEB liability to December 31, 2024. The total OPEB liability is generally liquidated by the General Fund and the Health and Life Insurance Fund.

Notes to the Basic Financial Statements

Changes in Total OPEB Liability

Changes in the City's OPEB liability presented below are calculated for the year ended December 31, 2024 (measurement year):

Total OPEB Liability:		
Service cost	$	302,044
Interest on the total OPEB liability		201,638
Difference between expected and actual experience		(69,386)
Changes of assumptions		(532,874)
Benefit payments		(80,860)
Net change in total OPEB liability		(179,438)
Total OPEB liability - beginning		5,923,596
Total OPEB liability - ending	$	5,744,158
Covered employee payroll	$	53,194,102
Total OPEB liability as a percentage of covered employee payroll		10.80%

Changes of assumption reflects a change in discount rate from 3.26% in 2023 to 4.08% in 2024. Contributions made after measurement date but before the end of employer's reporting period will be recognized as a reduction of net OPEB liability in subsequent fiscal period.

OPEB Expense

For the year ended September 30, 2025, the City recognized total OPEB income of $563,598.

Service cost	$	302,044
Interest on the total OPEB liability		201,638
Changes in assumptions or other inputs		318,575
Difference between expected and actual experience		(1,385,855)
Total OPEB expense (income)	$	(563,598)

Notes to the Basic Financial Statements

Deferred Outflows of Resources

At September 30, 2025, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 12,167	$ 9,114,152
Changes in actuarial assumptions	4,325,145	3,439,002
Contributions subsequent to the measurement date	98,160	-
Totals	$ 4,435,472	$ 12,553,154

The $98,160 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30,	OPEB Expense
2026	$ (1,067,280)
2027	(1,067,280)
2028	(1,067,280)
2029	(1,084,750)
2030	(1,105,419)
Thereafter	(2,823,833)
Totals	$ (8,215,842)

Under the reporting parameters, the City's retiree health care plan is 0.0% funded with the actuarial accrued liability exceeding the actuarial assets by $5,744,158 at December 31, 2024. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered employee payroll is 10.80%.

Actuarial Methods and Assumptions

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Discount Rate

The discount rate for plans that do not have formal assets equals the tax-exempt municipal bond rate on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. The municipal bond rate is based on the daily rate closest to, but not later than, the measurement date, December 31, 2024. Source: Bond Buyer GO 20 Municipal Bond Index.

Notes to the Basic Financial Statements

Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions	
Inflation rate	2.70% per annum
Discount rate	4.08% as of Dec. 31, 2024
Actuarial cost method	Entry-age normal
Amortization method	Straight line amortization
Amortization period	Expected remaining service of all employees eligible for or currently receiving OPEB through the OPEB plan.
Payroll growth	2.75% for general employees 2.75% for police 3.50% for firefighters
Health care costs trend rates	Initial medical trend rate of 7.75% for retirees declining to an ultimate rate of 4.00% in the year 2043.

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 4.08% as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is 1- percentage-point lower or 1-percentage-point higher than the current rates used:

	1% Decrease (3.08%)	Current Discount Rate (4.08%)	1% Increase (5.08%)
Total OPEB liability	$ 6,430,000	$ 5,744,158	$ 5,146,000

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Total OPEB liability	$ 4,994,000	$ 5,744,158	$ 6,651,000

Notes to the Basic Financial Statements

Note 15. Employee Retirement System

Plan Descriptions

The City has three single employer defined benefit pension plans which provide pension benefits for substantially all of its full-time employees:

- City of Galveston Employees' Retirement Plan for City Employees
- City of Galveston Employees' Retirement Plan for Police
- Galveston Firefighters' Pension Fund

These pension plans were established under the authority of Title 8, Subchapter A of the Texas Government Code, Texas statutes (Vernon's Texas Civil Statutes, Articles 6243p and 6243e respectively) which establish the various benefit provisions. Independent Boards of Trustees administer each plan. The fiscal year of each pension fund ends December 31. The most recent available stand-alone financial statements of the pension funds are for the year ended December 31, 2024. The specific summary plan description for each Plan and the financial statements are available at the respective plan offices.

Benefits Provided

The City of Galveston Employees' Retirement Plan for City Employees ("ERP") provides retirement benefits for non-civil service employees, service-connected disability and death benefits to eligible members and surviving spouses and/or dependents. The normal retirement benefit under the Plan equals 2.80% of average monthly compensation multiplied by a participant's years of benefit service. The maximum normal retirement benefit is $6,250 per month. Service retirement benefits are payable for the participant's lifetime. In the event the Participant's death precedes that of his or her spouse, one half of the participant's pension will be continued to the spouse for his or her lifetime or until remarried. The City of Galveston Employees' Pension Plan audit reports can be found at https://www.galvestontx.gov/819/Financial-Transparency.

City of Galveston Employees' Retirement Plan for Police ("PRP") provides retirement benefits for police officers in two groups: *Group A* consists of members with 15 or more years of service as of January 1, 2006, who were members as of June 30, 2008. *Group B* consists of members who either (a) had less than 15 years of service as of January 1, 2006, and who were members as of June 30, 2008, or (b) were employed on or after July 1, 2008. The City of Galveston Police's Pension Plan audit reports can be found at https://www.galvestontx.gov/819/Financial-Transparency.

Normal and Late Retirement - Eligibility attainment age is sixty-five (65). Benefits for Group A members shall be the greater of (i) the monthly amount determined as 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, and (ii) the sum of the preserved benefit and post transition accrued benefit payable after the member reaches the eligible attainment age. Benefits for Group B members will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years.

Early Retirement - Eligibility for an early pension is: (i) on or after the member's 55th birthday and before normal retirement date with between ten and twenty years of vested service, or (ii) after the member has reached the attainment age of sixty-two (62). Reduced early pension benefits will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, reduced by 1/180th for each of the first 60 months and 1/360th for each of the next 60 months and shall commence either on the member's normal retirement date or on the first day of any month following his early retirement and before his normal retirement date.

Notes to the Basic Financial Statements

Special Early Retirement - Eligibility for a special early pension benefits for Group A members is either (i) completion of at least twenty years, but less than twenty five years, of vested service and attainment of age forty-five (45) or (ii) twenty five or more years of service regardless of age. Benefits will be equal to the members choice of (i) 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, (ii) the sum of his preserved benefit and his post transition accrued benefit, with one sum payable prior to age sixty-five (65) and a lower sum payable after age sixty-five (65), or (iii) a level monthly pension that is the actuarial equivalent of the leveling option. The leveling option would maintain the same benefit payment throughout retirement. Eligibility for Group B members is completion of 20 or more years of service and attainment of age forty-five (45), but before attainment of age fifty (50). Benefits will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, reduced by 1/180th for each month by which the starting date of payments commences on the first of the month immediately following the latter of the member's fiftieth (50th) birthday or the date of retirement.

Galveston Firefighters' Pension Fund ("GFPF") provides retirement and incidental benefits for all civil service members of the City of Galveston, Texas Fire Department under the age of 35 at the date of entering service. The Galveston Firefighters' Pension Plan audit reports can be found at www.galvestonfirepension.com.

A member is eligible for service retirement upon completion of 20 years of service and attainment age of fifty (50). Benefits are calculated at 3% of the highest 60-month average salary times years of service. Benefits are payable for the member's lifetime; if the member's death precedes the death of the member's spouse, two-thirds of the member's pension will be continued for the spouse for his or her lifetime. However, benefits cease if the spouse remarries.

A member who has attained age 51.5 and 21.5 years of service may elect to receive benefits under the Retro Deferred Retirement Option Plan (DROP) option. This option is equal to the amount of monthly contributions that the member made to the fund during participation in the fund plus the total monthly retirement benefits the member would have received between the time the member entered DROP and the time the member retired under the plan.

Employees covered by the three plans as of September 30, 2025 were as follows:

	Employees' Pension Plan	Fire Fighters Pension Plan	Police Pension Plan
Retirees and beneficiaries currently receiving benefits	545	98	146
Terminated employees entitled to but not receiving benefits	62	1	43
Terminated employees entitled to only a refund of contributions	95	-	-
Active employees	403	117	154
Total participants	1,105	216	343

Contributions

Contribution rates for the City and employees for the fiscal year ended September 30, 2025 were as follows:

	Employees Pension Plan	Fire Fighters Pension Plan	Police Pension Plan
Participant contribution	6.00%	19.50%	12.00%
City contribution	13.35%	21.70%	18.00%

Notes to the Basic Financial Statements

Pension contribution rates are determined by ordinance with respect to the employee plan. In January 2024, Employee Pension Board approved an increase in the City contribution rate from 12.15% to 13.35% effective January 2024. Collective bargaining agreements establish minimum contribution levels with respect to the Police and Firefighters Plans. The City increased their contribution rate from 20.2% to 21.7% for Firefighters in September 2024.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The plans' fiduciary net position is determined on the same basis used by the pension plans.

	Employees Pension Plan	Fire Fighters Pension Plan	Police Pension Plan
Total pension liability	$ 99,526,844	$ 92,372,902	$ 64,426,141
Fiduciary net position	78,034,049	59,276,713	30,559,219
Net pension liability	$ 21,492,795	$ 33,096,189	$ 33,866,922
Fiduciary net position as a percentage of total pension liability	78.4%	64.2%	47.4%

Net pension liability is generally liquidated by the General Fund, Pension Reform Fund, proprietary funds and the pension fund's investments.

On May 2, 2019, the Legislature of the State of Texas passed House Bill No 2763 ("HB 2763") relating to the police pension fund in certain municipalities. HB 2763 establishes requirements that a municipality must offset any negative financial impact to the fund, as determined by the actuary, caused solely by an action taken by the municipality, including a reduction in the number of police officers. The municipality will be required to provide additional funding to the police pension fund by making contribution increases until the negative impact is eliminated, as determined by the actuary. The bill also provides that current contribution rates (18 percent by the City and 12 percent by active plan members) will remain in place until January 1, 2025. After that time, City and member contributions will be determined based on the greater of 30 percent of payroll and the actuarially determined contribution. If the actuarially determined contribution rate exceeds 30 percent of payroll, then the member and City contributions will increase as described in Texas Statue 6243p.

Notes to the Basic Financial Statements

HB 2763 also establishes minimum contribution levels. The City must contribute to the police pension fund 18 percent of payroll based on authorized staffing levels, as approved by the City Council and Collective Bargaining Agreement at the start of each fiscal year. The City shall calculate the difference between the actual payroll and the payroll in which the initial contribution was based and make a contribution to the police pension fund to cover the deficiency of the initial contribution. Furthermore, the rate of contributions to the police pension fund may not be reduced, nor shall a new benefit payable be established, if the change results in an increase to the amortization period of the unfunded actuarial liability that exceeds 25 years.

Changes in Net Pension Liability

Changes in the City's net pension liability presented below are calculated on the same basis as each of the plans for the year ended December 31, 2024 (measurement year):

	Employees' Retirement Plan for City Employees	Galveston Firefighters' Pension Fund	Employees' Retirement Plan for Police
	2024	2024	2024
Total pension liability:			
Service cost	$ 3,357,125	$ 2,082,121	$ 1,539,446
Interest	6,858,039	6,697,011	4,372,730
Effect of plan changes	-	135,735	-
Difference between expected and actual experience	867,197	(1,117,376)	(189,124)
Benefit payments, including refunds of employee contributions	(5,584,063)	(5,271,894)	(4,450,066)
Net change in total pension liability	5,498,298	2,525,597	1,272,986
Total pension liability - beginning	94,028,546	89,847,305	63,153,155
Total pension liability - ending (a)	$ 99,526,844	$ 92,372,902	$ 64,426,141
Plan fiduciary net position:			
Contributions - employer	$ 4,788,969	$ 2,377,605	$ 3,272,784
Contributions - employee	2,159,702	1,995,220	1,996,859
Net investment income	8,808,916	5,809,979	2,893,989
Benefit payments, including refunds of employee contributions	(5,584,063)	(5,271,894)	(4,450,066)
Administrative expense	(137,137)	(206,257)	(149,082)
Net change in plan fiduciary net position	10,036,387	4,704,653	3,564,484
Plan fiduciary net position - beginning	67,997,662	54,572,060	26,994,735
Plan fiduciary net position - ending (b)	78,034,049	59,276,713	30,559,219
Net pension liability - ending (a) - (b)	$ 21,492,795	$ 33,096,189	$ 33,866,922

Notes to the Basic Financial Statements

Pension Expense

For the year ended September 30, 2025, the City recognized total pension expense by plan is as follows:

	Employees' Pension Plan	Fire Fighters Pension Plan	Police Pension Plan	Total
Service cost	$ 3,357,125	$ 2,082,121	$ 1,539,446	$ 6,978,692
Interest on total pension liability	6,858,039	6,697,011	4,372,730	17,927,780
Effect of plan changes	-	135,735	-	135,735
Adminstrative expenses	137,137	206,257	149,082	492,476
Member contributions	(2,159,702)	(1,995,220)	(1,996,859)	(6,151,781)
Expected investment return net of investment expenses	(4,974,326)	(4,056,991)	(1,855,825)	(10,887,142)
Recognition of economic/demographic gains or losses	217,327	251,673	1,040,781	1,509,781
Recognition of assumption changes or inputs	690,601	530,263	(53,658)	1,167,206
Differences between projected and actual earnings on plan investments	346,170	756,360	112,025	1,214,555
Pension expense	$ 4,472,371	$ 4,607,209	$ 3,307,722	$ 12,387,302

Schedule of Deferred Outflows and Inflow of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the City at September 30, 2025 for each plan are as follows:

	Employees' Pension Plan		Fire Fighters Pension Plan		Police Pension Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,448,304	$ 255,667	$ 2,157,186	$ 1,137,163	$ 558,357	$ 126,082	$ 4,163,847	$ 1,518,912
Changes in actuarial assumptions	1,685,066	-	1,166,279	-	-	-	2,851,345	-
Difference between projected and actual investment earnings	24,656	-	1,601,883	-	-	187,495	1,626,539	187,495
Contributions subsequent to the measurement date	3,792,602	-	1,878,944	-	2,570,059	-	8,241,605	-
Totals	$ 6,950,628	$ 255,667	$ 6,804,292	$ 1,137,163	$ 3,128,416	$ 313,577	$ 16,883,336	$ 1,706,407

The $8,241,605 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Employees' Pension Plan	Fire Fighters Pension Plan	Police Pension Plan	Total
2026	$ 1,744,233	$ 1,998,836	$ 504,163	$ 4,247,232
2027	2,928,220	2,462,930	483,236	5,874,386
2028	(1,090,869)	(628,178)	(534,986)	(2,254,033)
2029	(679,225)	(118,403)	(207,633)	(1,005,261)
2030	-	205,253	-	205,253
Thereafter	-	(132,253)	-	(132,253)
Totals	$ 2,902,359	$ 3,788,185	$ 244,780	$ 6,935,324

Notes to the Basic Financial Statements

Actuarial Assumptions and Other Data

The total pension liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Employees Pension Plan	Fire Fighters Pension Plan	Police Pension Plan
Inflation	2.75% per annum	2.75% per annum	3.50% per annum
Investment rate of return	7.25%, net of pension plan investment expenses	7.50%, net of pension plan investment expenses	7.00%, net of pension plan investment expenses
Salary increases	2.75%, plus promotion, step and longevity increases that vary by service	2.75%, plus promotion, step and longevity increases that vary by service	The total annual assumed salary increase for wage inflation plus longevity and promotion based on years of service ranging from 3.50% -10%.
Mortality rates	PubG-2010 below-median income mortality tables for employees and retirees, projected for mortality improvement generationally using the projection scale MP-2021.	PubS-2010 (public safety) total dataset mortality tables for employees and retirees, projected for mortality improvement generationally using the projection scale MP-2019.	Society of Acturaries (SOA) Public Saftey mortality tables projected generationally with Scale MP-2021.

Discount Rate

The discount rates reported are based on certified actuarial reports and are used to measure the total pension liability as of December 31, 2024 which is 7.25% for the Employees Pension Plan, 7.50% for the Firefighters Pension Plan and 7.00% for the Police Pension Plan. The discount rate is an assumption that generally is not required to be updated between actuarial valuations dates.

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

The following presents the net pension liability of the City, calculated using the discount rate of each plan 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 or 1-percentage-point higher than the current rates used:

	1% Decrease	Current Discount Rate	1% Increase
	(6.25%)	(7.25%)	(8.25%)
Employees pension plan	$ 32,866,814	$ 21,492,795	$ 11,897,354
	(6.50%)	(7.50%)	(8.50%)
Fire fighters pension plan	$ 44,212,163	$ 33,096,189	$ 23,786,273
	(6.00%)	(7.00%)	(8.00%)
Police pension plan	$ 41,829,100	$ 33,866,922	$ 27,279,191

Notes to the Basic Financial Statements

Note 16. Changes within Reporting Entity

The changes within the reporting entity consists of : (1) the reclassification of American Rescue Plan, a major fund from last year to a nonmajor fund this year and (2) the removal of Recovery & Capital Reserve Fund, a nonmajor fund, the balances of which were transferred to the general fund, have been reported as required by GASB 100 as follows:

Changes within Reporting Entity

	General Fund	Nonmajor Governmental	American Rescue Plan Act
Fund balance, as previously reported	$ 23,885,781	$ 106,984,965	$ 1,697,647
Changes from major to nonmajor fund	-	1,697,647	(1,697,647)
Removal of a fund	1,040,374	(1,040,374)	-
Fund balance, as adjusted	$ 24,926,155	$ 107,642,238	$ -

Note 17. Litigation/Contingency

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its activities, some of which seek damages that could impact the operations of the City. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; breach of contract and various claims from contractors for additional amounts under construction contracts. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City.

The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. Some cases in federal court for deprivation of civil rights do not have similar limitations.

Typically, the City is covered for claims under a policy through the Texas Municipal League Risk Pool. The City intends to defend itself vigorously against all suits; however, no prediction can be made, as of the date thereof, with respect to the liability of the City for such claims or the final outcome of such suits. The City typically utilizes its Risk Pool funds or the General Fund to liquidate claims and judgments; however, the City is authorized under Texas law to issue judgment bonds to pay final judgments against the City under appropriate circumstances.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

BRACEWELL

[CLOSING DATE]

$9,765,000
CITY OF GALVESTON, TEXAS
(Galveston County, Texas)
PUBLIC IMPROVEMENT BONDS, SERIES 2026

We have represented the City of Galveston, Texas (the "City"), as its bond counsel in connection with an issue of bonds described below:

> CITY OF GALVESTON, TEXAS, PUBLIC IMPROVEMENT BONDS, SERIES 2026, dated September 24, 2026, in the aggregate principal amount of $9,765,000 (the "Bonds").

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Bond Ordinance") and the pricing certificate executed pursuant thereto (the "Pricing Certificate," and together with the Bond Ordinance, the "Ordinance").

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

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

In providing the opinions set forth herein, we have relied on representations and certifications of the City and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the City and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance, including, but not limited to, covenants relating to the tax-exempt status of the Bonds.

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bracewell.com

Based upon such examination and in reliance on such representations, certifications and assumptions, it is our opinion that:

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

2. A continuing ad valorem tax upon all taxable property within the City of Galveston, Texas, necessary to pay the interest on and principal of the Bonds, has been levied and pledged irrevocably for such purposes, within the limits prescribed by law.

3. Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals, but we observe that such interest is taken into account in computing the alternative minimum tax on certain corporations.

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

We express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of the Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations of the City and other parties upon which we have relied are determined to be inaccurate or incomplete or the City fails to comply with the covenants of the Ordinance, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

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

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