

**NOTICE OF SALE
AND
BIDDING INSTRUCTIONS
ON**

\$1,300,000*
CITY OF SOMERVILLE, TEXAS
(A political subdivision of the State of Texas located in Burleson County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

Sealed Bids Due Tuesday, January 14, 2025 at 9:30 AM, CST

THE CERTIFICATES ARE EXPECTED TO BE DESIGNATED AS “QUALIFIED TAX-EXEMPT
OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.

THE SALE

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BIDDING . . . The City of Somerville, Texas (the “City”), is offering for sale its \$1,300,000* Combination Tax and Revenue Certificates of Obligation, Series 2025 (the “Certificates”).

ADDRESS OF BIDS . . . Signed sealed bids, plainly marked “Bid for Certificates,” should be addressed to “Mayor and City Council, City of Somerville, Texas,” and delivered to Jennifer Ritter, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, prior to 9:30 AM, CST, on the date of the sale. All bids must be submitted on the Official Bid Form, without alteration or interlineation.

ELECTRONIC BIDDING PROCEDURE . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY. Bidders must submit, prior to 9:30 AM, CST, on the date of the sale, SIGNED Official Bid Forms to Jennifer Ritter, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746. Subscription to the i-Deal LLC’s BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

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

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

For purposes of both the written sealed bid process and the electronic bidding process, the time as maintained by PARITY shall constitute the official time. For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the City, as described under “Basis for Award” below. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and Bidding Instructions and the Official Bid Form.

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

Telephone bids will be accepted at (512) 275-7300, between 9:00 AM and 9:30 AM, CST.

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

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

PLACE AND TIME OF BID OPENING . . . The bids for the Certificates will be publicly opened and read at the City Council meeting at the Somerville Senior Center located at 17510 State Highway 36 at 6:15 PM, CST on Tuesday, January 14, 2025.

AWARD OF THE CERTIFICATES . . . The City Council will take action to award the Certificates (or reject all bids) at a meeting scheduled to convene at 6:15 PM, CST, on the date of the sale, and adopt an ordinance authorizing the Certificates and approving the Official Statement (the “Certificate Ordinance”).

*Preliminary, subject to change. See “CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts.”

THE CERTIFICATES

DESCRIPTION . . . The Certificates will be dated February 18, 2025 (the “Dated Date”). Interest will accrue from the date of initial delivery and will be due on February 15, 2026, and each August 15 and February 15 thereafter until the earlier of maturity or prior redemption. The Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. The Certificates will mature on February 15 in each year as follows:

MATURITY SCHEDULE*

Maturity (February 15)	Principal Amount	Maturity (February 15)	Principal Amount
2027	\$ 40,000	2037	\$ 70,000
2028	45,000	2038	75,000
2029	45,000	2039	75,000
2030	50,000	2040	80,000
2031	50,000	2041	85,000
2032	55,000	2042	90,000
2033	55,000	2043	95,000
2034	60,000	2044	100,000
2035	60,000	2045	105,000
2036	65,000		

*Preliminary, subject to change. See “CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts.”

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2035, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES . . . Bidders may provide that all of the Certificates be issued with serial maturities or may provide that any two or more consecutive annual principal amounts be combined into one or more term certificates (the “Term Certificates”).

If the successful bidder designates principal amounts to be combined into a Term Certificate, such Term Certificate will be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Certificate and continuing on February 15 in each year thereafter until the stated maturity date of the Term Certificate. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table under the caption “MATURITY SCHEDULE” above. Certificates to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par plus accrued interest to the redemption date and will be selected by lot from among the Certificates then subject to such mandatory sinking fund redemption.

At least forty-five (45) days prior to each mandatory redemption date for the Term Certificates, the Paying Agent/Registrar shall select by lot, or by any other customary method that results in random selection, a principal amount of Term Certificates equal to the aggregate principal amount of such Term Certificates to be redeemed, shall call such Term Certificates for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided in the Certificate Ordinance.

The principal amount of the Term Certificates for a stated maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the City, by the principal amount of Term Certificates of like stated maturity which, at least forty-five (45) days prior to the mandatory redemption date, (1) shall have been acquired by the City, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions set forth above under “MATURITY SCHEDULE – Optional Redemption” and not previously credited against a mandatory redemption requirement.

The final Official Statement will incorporate the mandatory redemption provisions for the Certificates in the event the successful bidder elects to convert serial maturities into a Term Certificate.

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Certificate Ordinance authorizing the issuance of the Certificates to be adopted by the City Council. See “THE CERTIFICATES – Authority for Issuance” in the Official Statement.

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

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

SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City, payable from (i) the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City and (ii) a limited pledge (not to exceed \$1,000) of net revenues of the City’s water, sewer and sanitation system, all as provided in the Certificate Ordinance. See “THE CERTIFICATES – Security and Source of Payment” in the Official Statement.

Further details regarding the Certificates are set forth in the Official Statement.

CONDITIONS OF THE SALE

TYPE OF BIDS AND INTEREST RATES . . . **The Certificates will be sold in one block on an “All or None” basis, and at a price of not less than 105.5% of their par value and not more than 114% of their par value.** Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/100 of 1% and the net effective interest rate must not exceed 15%. The highest rate bid may not exceed the lowest rate bid by more than 2.5% in rate. **For Certificates having stated maturities on and after February 15, 2035, no reoffering yield producing a dollar price less than 97% for any individual maturity will be accepted.** The high bidder will be required to submit reoffering yields and dollar prices prior to award. No limitation is imposed upon bidders as to the number of rates or changes which may be used. All Certificates of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS FOR AWARD . . . Subject to the City’s right to reject any or all bids and to waive any irregularities except time of filing, the sale of the Certificates will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form (the “Purchaser”) making a bid that conforms to the specifications herein and which produces the lowest true interest cost rate to the City (the “True Interest Cost”). The True Interest Cost rate is that rate which, when used to compute the total present value as of the date of initial delivery of all debt service payments on the Certificates on the basis of semiannual compounding, produces an amount equal to the sum of the par value of the Certificates plus any premium bid, if any. In the event of a bidder’s error in interest cost rate calculations, the interest rates and premium, if any, set forth in the Official Bid Form will be considered as the intended bid. Awards will be made, if at all, based on bids prior to any adjustment under “Post Bid Modifications of Principal Amounts.”

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

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

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

OBLIGATION OF THE CITY TO RECEIVE INFORMATION FROM WINNING BIDDER . . . Pursuant to Texas Government Code, Section 2252.908 (the “Interested Party Disclosure Act”), unless a bidder represents and verifies that the bidder is a publicly traded business entity, or a wholly owned subsidiary of a publicly traded business entity (an “Exempt Entity”), the City may not award the Certificates to a bidder unless the bidder submits a Certificate of Interested Parties Form 1295 (the “Disclosure Form”) to the City as prescribed by the Texas Ethics Commission (“TEC”) at the time the bidder submits its Official Bid Form.

In the event that the bidder’s bid for the Certificates conforms to the specifications herein and is the best bid received, the City, acting through its financial advisor, will promptly notify the bidder. That notification will serve as the conditional verbal acceptance

of the bid and the winning bidder must promptly file the materials described below. The apparent winning bidder and each syndicate member listed on the Official Bid Form must have submitted either (1) a completed Disclosure Form, as described below, or (2) a written representation that it is an Exempt Entity, not later than one hour after the deadline for the submission of bids in order for City to complete the formal award. If the apparent winning bidder and each syndicate member listed on the Official Bid Form fails to file the Disclosure Form or written representation that it is an Exempt Entity within the time period described in the previous sentence, the City reserves the right to notify the apparent winning bidder that their bid has been rejected and award the sale to the next lowest bidder.

WRITTEN REPRESENTATION REGARDING EXEMPTION . . . If a bidder is claiming an exemption from the filing requirement under Section 2252.908(c)(4), such bidder must deliver to the City and its bond counsel a written representation that states that such bidder is publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity and identify the publicly traded business entity that allows them to utilize the exception.

ESTABLISHING THE ISSUE PRICE FOR THE CERTIFICATES

GENERAL . . . In order to provide the City with information that enables it to comply with certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”), relating to the excludability of interest on the Certificates from gross income for federal income tax purposes, the winning bidder will be required to complete, execute, and deliver to the City or to the Financial Advisor, at least five business days before the delivery date of the Certificates, a certification as to the Certificates’ “issue price” (the “Issue Price Certificate”) substantially in one of the forms and to the effect attached hereto or accompanying this Notice of Sale. In the event the winning bidder will not reoffer any maturity of the Certificates for sale to the Public (as defined herein) by the delivery date of the Certificates, the Issue Price Certificate may be modified in a manner approved by the City and Bracewell LLP, Houston, Texas, as Bond Counsel for the City (“Bond Counsel”). Each bidder, by submitting its bid, agrees to complete, execute, and timely deliver prior to delivery of the Certificates the appropriate Issue Price Certificate, if its bid is accepted by the City. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts as are necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

DEFINED TERMS . . . For purposes of this section of this Notice of Sale:

- (i) “Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.
- (ii) “Underwriter” means (A) any person that agrees pursuant to a written contract with the City (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Certificates to the Public).
- (iii) “Related Party” means any two or more persons who are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).
- (iv) “Sale Date” means the date that the Certificates are awarded by the City to the winning bidder.

All actions to be taken by the City under this Notice of Sale to establish the issue price of the Certificates may be taken on behalf of the City by the Financial Advisor, and any notice or report to be provided to the City may be provided to the Financial Advisor. The City will consider any bid submitted pursuant to this Notice of Sale to be a firm offer for the purchase of the Certificates, as specified in the bid.

THREE BID REQUIREMENT . . . The City intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) for purposes of establishing the issue price of municipal bonds, which requires, among other things, that the City receives bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (the “Three Bid Requirement”). In the event that the Three Bid Requirement is not satisfied, Treasury Regulations permit the issue price for any maturity of the Certificates to be determined based upon either (i) the first price at which 10% of such maturity is sold to the Public (the “10% Test”) or (ii) if the requirements of the “Hold-the-Offering-Price Rule” described below are met, the initial offering price to the Public as of the Sale Date. For purposes hereof, if different interest rates apply within a maturity, each separate CUSIP number will be treated separately.

In the event that the Three Bid Requirement is satisfied, the sale of the Certificates will be awarded to the bidder making a bid that conforms to the specifications herein. In the event that the Three Bid Requirement is not satisfied, the City will notify the

prospective winning bidder to that effect, and the prospective winning bidder will advise the City any maturity of the Certificates that satisfies the 10% Test. For any maturity of the Certificates that does not meet the 10% Test, it is the City's intention to apply the "Hold-the-Offering-Price Rule" to any maturity of the Certificates, as described below.

HOLD-THE-OFFERING-PRICE RULE . . . If the "Hold-the-Offering-Price Rule" is applied to any maturity of the Certificates (each, a "Held Maturity"), the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Certificates, that each Underwriter will neither offer nor sell any Held Maturity to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of the following:

- (1) the close of the fifth business day after the Sale Date; or
- (2) the date on which the Underwriters have satisfied the 10% Test with respect to that Held Maturity at a price that is no higher than the initial offering price to the Public.

The winning bidder shall promptly advise the City when the Underwriters have satisfied the 10% Test with respect to each Held Maturity at a price that is no higher than the initial offering price to the Public, if that occurs prior to the close of the fifth business day after the Sale Date. On or after the sixth business day after the Sale Date, if requested by the City, the winning bidder will confirm that the Underwriters have complied with the Hold-the-Offering-Price-Rule. If at any time the winning bidder becomes aware of any noncompliance by an Underwriter with respect to the Hold-the-Offering-Price Rule, the winning bidder will promptly report such noncompliance to the City.

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

ADDITIONAL CONDITIONS OF AWARD

DISCLOSURE OF INTERESTED PARTY FORM . . . Pursuant to Texas Government Code, Section 2252.908 (the "Interested Party Disclosure Act"), unless a bidder is exempt from the filing requirements of Section 2252.908, the City may not award the Certificates to a bidder unless the bidder submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the City as prescribed by the Texas Ethics Commission ("TEC") at the time the bidder submits its Official Bid Form. Publicly traded business entities (including wholly owned subsidiaries of a publicly traded business entity) are not required to file Form 1295 as provided in Section 2252.908(c)(4).

In the event that the bidder's bid for the Certificates is the best bid received, the City, acting through its financial advisor, will promptly notify the bidder. That notification will serve as the conditional verbal acceptance of the bid and the winning bidder must promptly file the materials described below. The apparent the winning bidder and each syndicate member listed on the Official Bid Form must have submitted either (1) a completed Disclosure Form, as described below, or (2) a written representation that it is exempt from the requirement to file the Disclosure Form pursuant to Section 2252.908(c)(4), not later than one hour after the deadline for the submission of bids in order for the City to complete the formal award. If the apparent the winning bidder and each syndicate member listed on the Official Bid Form fails to file the Disclosure Form or the written representation regarding the exemption from the filing requirement within the time period described in the previous sentence, the City reserves the right to notify the apparent winning bidder that their bid has been rejected and award the sale to the next highest ranked bidder.

If a bidder is claiming an exception to the filing requirement under Section 2252.908(c)(4), the written representation that the bidder is not required to file a Disclosure Form must state that it is publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity and identify the publicly traded business entity that allows the bidder to utilize the exception.

The Disclosure Form can be found at <https://www.ethics.state.tx.us/forms/1295.pdf>, and reference should be made to the following information in order to complete it: (a) item 2 – Name of entity ("City of Somerville, Texas"), (b) item 3 – the identification number ("Somerville 2025 CO"), and (c) item 3 – description of the goods or services assigned to this contract by the entity ("Purchase of Certificates").

If completing the Disclosure Form, the Bidder must (i) complete the Disclosure Form electronically at the TEC's "electronic

portal,” and (ii) print, sign and deliver to the City a copy of the Disclosure Form that is generated by the TEC’s “electronic portal.”

The completed Disclosure Form or the written representation regarding the exemption from the Disclosure Form filing requirements must be delivered electronically to the City, at managercos@somervilletx.gov and Bond Counsel, at jonathan.frels@bracewell.com **no later than one hour after the deadline for the submission of bids on the Sale Date.**

Time will be of the essence in submitting the completed Disclosure Form or written representation regarding the exemption from the filing requirements to the City, and no bid will be accepted by the City unless a completed Disclosure Form is received on time.

Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form or written representation, and neither have an obligation nor undertake responsibility for advising any bidder with respect to the proper completion of the Disclosure Form or the written representation. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form or written representation promptly upon notification from the City that its bid is the conditional winning bid.

GOOD FAITH DEPOSIT . . . The winning bidder will be required to provide a deposit in the amount of \$26,000 to the City as bid security by 5:00 PM, CST on January 14, 2025. The bid security may be provided to the City (i) via wire transfer (the City or its financial advisor, Specialized Public Finance Inc., will provide wire instructions to the winning bidder), or (ii) in the form of a certified or cashier’s check made payable to the order of City in the amount of the deposit set forth above. If wire option is used, the wire will be retained by the City and: (a) will be applied, without allowance for interest, against the purchase price when the Certificates are delivered to and paid for by such winning bidder or (b) will be retained by the City as liquidated damages if the winning bidder defaults with respect to the terms of its bid or does not provide the “Standing Letter” (as defined below) in a form acceptable to the Texas Office of the Attorney General, or (c) will be returned to the winning bidder if the Certificates are not issued by the City for any reason which does not constitute a default by the winning bidder. If check option is used, the check will be returned upon closing.

VERIFICATIONS OF STATUTORY REPRESENTATIONS AND COVENANTS . . . By submission of a bid for the Certificates, each bidder makes the following representations and covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code (the “Government Code”), as heretofore amended (the “Covered Verifications”). As used herein, “affiliate” means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. If the bidder’s bid is accepted, then liability for breach of any Covered Verification during the term of the contract for purchase and sale of the Certificates created thereby (the “Agreement”) shall survive until barred by the applicable statute of limitations and shall not be liquidated or otherwise limited by any provision of the bid or this Notice of Sale, notwithstanding anything herein or therein to the contrary.

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

No Boycott of Israel . . . Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, if its bid is accepted, will not boycott Israel during the term of the Agreement. As used in the foregoing verification, “Boycott Israel” has the meaning provided in Section 808.001, Government Code.

No Discrimination Against Firearm Entities . . . Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and, if its bid is accepted, will not discriminate against a firearm entity or firearm trade association during the term of the Agreement. As used in the foregoing verification, “discriminate against a firearm entity or firearm trade association” has the meaning provided in Section 2274.001(3), Government Code.

No Boycott of Energy Companies . . . Each bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and, if its bid is accepted, will not boycott energy companies during the term of the Agreement. As used in the foregoing verification, “boycott energy companies” has the meaning provided in Section 2276.001(1), Government Code.

REPRESENTATION REGARDING TEXAS ATTORNEY GENERAL STANDING LETTER AND BRINGDOWN VERIFICATION . . . By submission of a bid for the Certificates, each bidder represents and verifies that it is aware of the Office of the Texas Attorney General’s (the “Texas Attorney General”) All Bond Counsel Letter, dated November 1, 2023, that is available on the website of the Texas Office of the Texas Attorney General using the following link:

<https://www.texasattorneygeneral.gov/sites/default/files/files/divisions/public-finance/ABCLetter-11-01-2023.pdf>

and the Texas Attorney General’s supplemental All Bond Counsel Letter, dated November 16, 2023, that is available on the website of the Texas Attorney General using the following link:

Each bidder represents and verifies that the bidder has (i) on file a standing letter (“Standing Letter”) acceptable to the Texas Attorney General addressing the representations and verifications described under the heading “Verifications of Statutory Representations and Covenants,” and (ii) will, upon request of the City or Bond Counsel on behalf of the City, provide the City and Bond Counsel with a copy of its Standing Letter. Each bidder further represents and verifies that its Standing Letter remains in effect as of the date of the Agreement and that the Texas Attorney General has not notified the bidder that a determination has been made that the bidder boycotts energy companies or has a policy that discriminates against firearm entities or firearm trade associations under the laws of the State of Texas. Upon request of the City or Bond Counsel on the City’s behalf, each bidder shall provide additional written certifications to the City and Bond Counsel (which may be by email) to the effect that the Texas Attorney General may continue to rely on the Standing Letter and the statutory representations and covenants contained in the Agreement through the closing date (currently scheduled for February 18, 2025) (the “Bringdown Verification”). The City reserves the right, and each bidder hereby expressly authorizes the City, to provide such Bringdown Verification to the Texas Attorney General.

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

DELIVERY OF THE CERTIFICATES AND ACCOMPANYING DOCUMENTS

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

DELIVERY OF CERTIFICATES . . . Delivery will be accomplished by the issuance of one Initial Certificate either in typed or printed form, in the aggregate principal amount of \$1,300,000*, payable in stated installments to the Purchaser, signed by the Mayor and City Secretary, approved by the Attorney General of Texas, and registered and manually signed by the Texas Comptroller of Public Accounts. Upon delivery of the Initial Certificate, it shall be immediately cancelled and one definitive Certificate for each maturity will be registered and delivered only to Cede & Co., and deposited with DTC in connection with DTC’s book-entry-only system. Delivery will be at the designated office of the Paying Agent/Registrar. Payment for the Certificates must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days’ notice of the time fixed for delivery of the Certificates. It is anticipated that delivery of the Certificates can be made on or about February 18, 2025, and it is understood and agreed that the Purchaser will accept delivery and make payment for the Certificates by 10:00 AM, CST, on February 18, 2025, or thereafter on the date the Certificates are tendered for delivery, up to and including March 3, 2025. If for any reason the City is unable to make delivery on or before March 3, 2025, the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend its offer for an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates.

CONDITIONS TO DELIVERY . . . The obligation of the Purchaser to take up and pay for the Certificates is subject to the Purchaser’s receipt of (a) the legal opinion of Bracewell LLP, Houston, Texas, Bond Counsel for the City (“Bond Counsel”) and (b) the no-litigation certificate, all as further described in the Official Statement. In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986 relating to the excludability of interest on the Certificates from the gross income for federal tax law purposes, the Purchaser will be required to complete, execute, and deliver the Issue Price Certificate to the City as described above under “CONDITIONS OF SALE – Establishment of Issue Price for the Certificates.” In the event the successful bidder will not reoffer the Certificates for sale, such certificate may be modified in a manner approved by the City. In no event will the City fail to deliver the Certificates as a result of the Purchaser’s inability to sell a substantial amount of the Certificates at a particular price prior to delivery. Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate not later than the close of business on the business day following the award of the bid, if its bid is accepted by the City. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

*Preliminary, subject to change. See “CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts.”

LEGAL OPINION . . . The Certificates are offered for delivery when, as and if issued, subject to the approval of the Attorney General of the State of Texas. Delivery of and payment for the Certificates is subject to the receipt by the Purchaser of an opinion of Bond Counsel to the effect that the Certificates are valid and binding obligations of the City and that the interest on the Certificates is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” in the Official Statement.

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

NO-LITIGATION CERTIFICATE . . . On the date of delivery of the Certificates to the Purchaser, the City will deliver to the Purchaser a certificate, as of the same date, to the effect that no litigation is pending or, to the certifying officials’ knowledge, threatened against the City, to restrain or enjoin the issuance or delivery of the Certificates, the levy or the collection of the ad valorem taxes pledged to pay the principal of and interest on the Certificates, or the pledge thereof, or in any way contesting or affecting the validity of the Certificates, the Certificate Ordinance, the powers of the City or contesting the authorization of the Certificates or the Certificate Ordinance.

CERTIFICATION OF OFFICIAL STATEMENT . . . At the time of payment for and delivery of the Initial Certificate, the City will execute and deliver to the Purchaser a certificate in the form set forth in the Official Statement.

RULE G-32 REQUIREMENTS . . . It is the responsibility of the Purchaser to comply with the Municipal Securities Rulemaking Board’s Rule G-32 within the required time frame. The Purchaser must send two copies of the Official Statement along with two complete Form G-32’s to the appropriate address.

GENERAL

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

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

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

ISSUANCE OF ADDITIONAL DEBT . . . The City does not anticipate issuing additional ad valorem tax supported debt within the next six months.

MUNICIPAL BOND RATING AND INSURANCE . . . The Certificates have been rated “A1” by Moody’s Investors Service (“Moody’s”) without regard to credit enhancement. In the event the Certificates are qualified for municipal bond insurance, and the Purchaser desires to purchase such insurance, the cost therefor will be paid by the Purchaser. It will be the responsibility of the Purchaser to disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Certificates. Any downgrade by a rating agency of the bond insurance provider shall not relieve the Purchaser of its obligation under the heading “DELIVERY AND ACCOMPANYING DOCUMENTS.”

THE PRELIMINARY OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15C2-12 . . . The City has prepared the accompanying Preliminary Official Statement and, for the limited purpose of complying with Rule 15c2-12 of the United States Securities and Exchange Commission (the “Rule”), deems such Preliminary Official Statement to be final as of its date within the meaning of the Rule for the purpose of review prior to bidding. To the knowledge and belief of the City, the Preliminary Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates.

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

CONTINUING DISCLOSURE UNDERTAKING . . . The City will agree in the Certificate Ordinance to provide certain periodic information and notices of material events in accordance with the Rule and more specifically, exemption (d)(2) to the Rule, which applies to certain small issuers such as the City, as described in the Official Statement under “CONTINUING DISCLOSURE OF INFORMATION.” The Purchaser’s obligation to accept and pay for the Certificates is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Certificate Ordinance containing the undertaking described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The City has not previously made a continuing disclosure agreement in accordance with the Rule.

On the date of the sale, the City Council will, in the Certificate Ordinance authorizing the issuance of the Certificates, approve the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Certificates by the Purchaser.

/s/ Tommy Thompson
Mayor, City of Somerville, Texas

ATTEST:

/s/ Rose Rosser
City Secretary, City of Somerville, Texas

January 6, 2025

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OFFICIAL BID FORM

Honorable Mayor and City Council
 City of Somerville, Texas
 150 8th Street
 Somerville, Texas 77879

January 14, 2025

Members of the City Council:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated January 6, 2025, of \$1,300,000* City of Somerville, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2025, both of which constitute a part hereof.

For your legally issued Certificates, as described in said Notice of Sale and Bidding Instructions and Official Statement, we will pay you a price of \$ _____, representing approximately _____% of the par value for Certificates maturing and bearing interest as follows:

Maturity (February 15)	Principal Amount*	Interest Rate	Maturity (February 15)	Principal Amount*	Interest Rate
2027	\$ 40,000	%	2037	\$ 70,000	%
2028	45,000	%	2038	75,000	%
2029	45,000	%	2039	75,000	%
2030	50,000	%	2040	80,000	%
2031	50,000	%	2041	85,000	%
2032	55,000	%	2042	90,000	%
2033	55,000	%	2043	95,000	%
2034	60,000	%	2044	100,000	%
2035	60,000	%	2045	105,000	%
2036	65,000	%			

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

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

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

TRUE INTEREST COST _____ %

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

*Preliminary, subject to change. See "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts."

A wire transfer or a cashiers or certified check to the City in the amount of \$26,000 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Certificates in accordance with the terms and conditions set forth in the Notice of Sale or fail or refuse to provide the Standing Letter (as defined below) in a form acceptable to the Texas Office of the Attorney General, the proceeds of this deposit shall be retained by the City as complete liquidated damages against us.

We are having the Certificates insured by _____ at a premium of \$ _____, said premium to be paid by the Purchaser. Any fees to be paid to the rating agency as a result of said insurance will be paid by the Purchaser.

We agree to accept delivery of the Certificates utilizing the book-entry-only system through DTC and make payment for the Initial Certificate in immediately available funds in the Corporate Trust Division, BOKF, NA, Dallas, Texas, not later than 10:00 AM, CST, on February 18, 2025, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions. It will be the obligation of the purchaser of the Certificates to complete the DTC Eligibility Questionnaire.

In accordance with Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the City may not award the Certificates to a bidder unless the winning bidder either: (i) submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the City as prescribed by the Texas Ethics Commission ("TEC"), or (ii) certifies below that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

Unless the bidder certifies that it is exempt from filing a Disclosure Form with the City, upon notification of conditional verbal acceptance, the undersigned will complete an electronic form of the Disclosure Form through the TEC's electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed and sent by email to the City at managercos@somervilletx.gov and Bond Counsel at jonathan.frels@bracewell.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the City from providing final written award of the enclosed bid.

The bidder (mark one): (i) agrees to timely make a filing of a completed Disclosure Form with the City [] or (ii) hereby certifies that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity []. If the bid is accepted by the City, this bid shall thereupon become a contract of purchase for the City under the terms contained in this Official Bid Form and in the Notice of Sale and Bidding Instructions. We hereby acknowledge that we have received and read the Notice of Sale and Bidding Instructions and Preliminary Official Statement referred to above.

Through submittal of this executed Official Bid Form, the undersigned makes the Covered Verifications provided in the Notice of Sale and Bidding Instructions under the heading "ADDITIONAL CONDITIONS OF AWARD – VERIFICATION OF STATUTORY REPRESENTATIONS AND COVENANTS" and "— REPRESENTATION REGARDING TEXAS ATTORNEY GENERAL STANDING LETTER AND BRINGDOWN VERIFICATION."

By submitting this bid, the Purchaser understands and agrees that the liability of the Purchaser for breach of any of the Covered Verifications shall survive until barred by the statute of limitations and shall not be liquidated or otherwise limited by any provision of this Official Bid Form or the Notice of Sale and Bidding Instructions. Additionally, the Purchaser acknowledges and agrees that the City reserves and retains all rights and remedies at law and in equity for pursuit and recovery of damages, if any, relating to the Covered Verifications.

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

Respectfully submitted,

Name of Purchaser or Manager

Authorized Representative

Phone Number

Signature

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Somerville, Texas, this the 14th day of January, 2025.

ATTEST:

City Secretary
City of Somerville, Texas

Mayor
City of Somerville, Texas

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ISSUE PRICE CERTIFICATE
[THREE BID REQUIREMENT SATISFIED]

I, the undersigned officer of _____ (the "Purchaser"), acting on behalf of itself and any underwriting syndicate, make this certification in connection with the \$1,300,000* Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") issued by the City of Somerville, Texas (the "City").

1. I hereby certify as follows in good faith as of the date hereof:

(a) I am the duly chosen, qualified and acting officer of the Purchaser for the office shown below my signature; as such, I am familiar with the facts herein certified and I am duly authorized to execute and deliver this certificate on behalf of the Purchaser and any underwriting syndicate. I am the officer of the Purchaser charged, along with other officers of the Purchaser and any underwriting syndicate, with responsibility for the Certificates.

(b) The reasonably expected initial offering prices of the Certificates to the Public by the Purchaser as of the Sale Date are the prices set forth on the inside cover of the Official Statement prepared in connection with the Certificates (the "Initial Offering Prices"). The Initial Offering Prices are the applicable prices for the Certificates used by the Purchaser in formulating its bid to purchase the Certificates. Attached hereto as Attachment I is a true and correct copy of the bid provided by the Purchaser to purchase the Certificates.

(c) The Purchaser was not given the opportunity to review other bids prior to submitting its bid.

(d) The bid submitted by the Purchaser constituted a firm offer to purchase the Certificates.

(e) The aggregate of the Initial Offering Prices of all maturities of the Certificates is \$ _____. The Certificates were sold with pre-issuance accrued interest in the amount of \$ _____. The sum of these two amounts is \$ _____.

(f) Please choose the appropriate statement:

The Purchaser will not purchase bond insurance for the Certificates.

The Purchaser will purchase bond insurance from _____ (the "Insurer") for a fee/premium of \$ _____ (the "Fee"). The Fee is a reasonable amount payable solely for the transfer of credit risk for the payment of debt service on the Certificates and does not include any amount payable for a cost other than such guarantee, e.g., a credit rating or legal fees. The Purchaser represents that the present value of the Fee for each obligation constituting the Certificates to which such Fee is properly allocated and which are insured thereby is less than the present value of the interest reasonably expected to be saved as a result of the insurance on each obligation constituting the Certificates. The Fee has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Certificates. In determining present value for this purpose, the yield of the Certificates (determined with regard to the payment of the guarantee fee) has been used as the discount rate. No portion of the Fee is refundable upon redemption of any of the Certificates in an amount which would exceed the portion of such Fee that has not been earned. The Purchaser will also be responsible for payment of any rating fees on the Certificates, if and as required by the Insurer to be obtained in connection with the purchase of insurance.

2. For purposes of this Issue Price Certificate, the following definitions apply:

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

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

(c) "Sale Date" means the first day on which there is a binding contract in writing for the sale or exchange of the Certificates. The Sale Date of the Certificates is _____, 2025.

(d) "Underwriter" means (i) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this definition to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Certificates to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Purchaser's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the City with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by Bracewell LLP in connection with rendering its opinion that the interest on the Certificates is excludable from gross income for federal income tax purposes, the preparation of Internal Revenue Service Form 8038-G, and other federal income tax advice it may give to the City from time to time relating to the Certificates.

EXECUTED as of this _____ day of _____, 2025.

[NAME OF PURCHASER OR MANAGER OF PURCHASING SYNDICATE]

By: _____

Name: _____

Title: _____

ISSUE PRICE CERTIFICATE
[THREE BID REQUIREMENT NOT SATISFIED – HOLD-THE-OFFERING-PRICE RULE]

I, the undersigned officer of _____ (the “Purchaser”), acting on behalf of itself and any underwriting syndicate, make this certification in connection with the \$1,300,000* Combination Tax and Revenue Certificates of Obligation, Series 2025 (the “Certificates”) issued by the City of Somerville, Texas (the “City”).

1. I hereby certify as follows in good faith as of the date hereof:

(a) I am the duly chosen, qualified and acting officer of the Purchaser for the office shown below my signature; as such, I am familiar with the facts herein certified and I am duly authorized to execute and deliver this certificate on behalf of the Purchaser and any underwriting syndicate. I am the officer of the Purchaser charged, along with other officers of the Purchaser and any underwriting syndicate, with responsibility for the Certificates.

(b) For the Certificates maturing in _____, the first price at which at least 10% of each maturity was sold to the Public is the price for each such maturity set forth on the inside cover of the Official Statement prepared in connection with the Certificates (each, an “Actual Sales Price”).

(c) For the Certificates maturing in _____ (each, a “Held Maturity”), the Purchaser on or before the Sale Date offered for purchase each such maturity to the Public at the applicable initial offering price set forth on the inside cover of the Official Statement prepared in connection with the Certificates (each, an “Initial Offering Price”). A copy of the pricing wire evidencing the Initial Offering Prices is attached hereto as Attachment I. In connection with the offering of the Certificates, the Purchaser and each member of any underwriting syndicate agreed in writing that (i) during the Hold Period, it would neither offer nor sell any Held Maturity to any person at a price higher than the applicable Initial Offering Price (the “Hold-the-Offering-Price Rule”) and (ii) any selling group agreement would contain the agreement of each dealer who is a member of the selling group, and any third-party distribution agreement would contain the agreement of each broker-dealer who is a party to the third-party distribution agreement, that, during the Hold Period, such party would comply with the Hold-the-Offering-Price Rule. In accordance with such agreements, no Underwriter offered or sold any of the Held Maturities at a price higher than the applicable Initial Offering Price for such Held Maturity during the Hold Period.

(d) The aggregate of the Actual Sales Prices and the Initial Offering Prices is \$ _____. The Certificates were sold with pre-issuance accrued interest in the amount of \$ _____. The sum of these two amounts is \$ _____.

(e) Please choose the appropriate statement:

The Purchaser will not purchase bond insurance for the Certificates.

The Purchaser will purchase bond insurance from _____ (the “Insurer”) for a fee/premium of \$ _____ (the “Fee”). The Fee is a reasonable amount payable solely for the transfer of credit risk for the payment of debt service on the Certificates and does not include any amount payable for a cost other than such guarantee, e.g., a credit rating or legal fees. The Purchaser represents that the present value of the Fee for each obligation constituting the Certificates to which such Fee is properly allocated and which are insured thereby is less than the present value of the interest reasonably expected to be saved as a result of the insurance on each obligation constituting the Certificates. The Fee has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Certificates. In determining present value for this purpose, the yield of the Certificates (determined with regard to the payment of the guarantee fee) has been used as the discount rate. No portion of the Fee is refundable upon redemption of any of the Certificates in an amount which would exceed the portion of such Fee that has not been earned. The Purchaser will also be responsible for payment of any rating fees on the Certificates, if and as required by the Insurer to be obtained in connection with the purchase of insurance.

2. For purposes of this Issue Price Certificate, the following definitions apply:

(a) “Hold Period” means, with respect to a Held Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date or (ii) the date on which the Underwriters have sold at least 10% of such Held Maturity to the Public at a price no higher than the applicable Initial Offering Price.

(b) “Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to an Underwriter.

*Preliminary, subject to change. See “CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts.”

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

(d) "Sale Date" means the first day on which there is a binding contract in writing for the sale or exchange of the Certificates. The Sale Date of the Certificates is _____, 2025.

(e) "Underwriter" means (i) any person that agrees pursuant to a written contract with the City (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this definition to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Certificates to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Purchaser's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the City with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by Bracewell LLP in connection with rendering its opinion that the interest on the Certificates is excludable from gross income for federal income tax purposes, the preparation of Internal Revenue Service Form 8038-G, and other federal income tax advice it may give to the City from time to time relating to the Certificates.

EXECUTED as of this _____ day of _____, 2025.

[NAME OF PURCHASER OR MANAGER OF PURCHASING SYNDICATE]

By: _____

Name: _____

Title: _____

PRELIMINARY OFFICIAL STATEMENT

Dated January 6, 2025

Rating:
Moody's: "A1"
(See "OTHER INFORMATION
- Rating" herein)

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Certificates (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is 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.

THE CERTIFICATES ARE EXPECTED TO BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



\$1,300,000*
CITY OF SOMERVILLE, TEXAS
(A political subdivision of the State of Texas located in Burtleson County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

Dated Date: February 18, 2025

Due: February 15, as shown on page 2

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

PAYMENT TERMS . . . Interest on the \$1,300,000* City of Somerville, Texas Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates") will accrue from the Date of Initial Delivery, will be payable on February 15 and August 15 of each year until maturity or prior redemption commencing February 15, 2026, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the book-entry-only system described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – Book-Entry-Only System"). The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "THE CERTIFICATES – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended (the "Certificate of Obligation Act of 1971"), Chapter 1502, Texas Government Code, as amended, and an ordinance (the "Certificate Ordinance") to be adopted by the City Council of the City of Somerville, Texas (the "City"). The Certificates are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Certificate Ordinance. The City has also pledged to the payment of the Certificates net revenues of the City's water, sewer and sanitation system as described in the Certificate Ordinance, such pledge being limited to \$1,000 (see "THE CERTIFICATES – Authority for Issuance" and "THE CERTIFICATES – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purposes of (i) the design, construction, and equipment of a municipal building to house municipal court facilities, administrative offices, and a senior center; and (ii) the costs of professional services incurred in connection with the Certificates (see "THE CERTIFICATES – Purpose").

CUSIP PREFIX: _____
MATURITY SCHEDULE
See Page 2 Hereof

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

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser of the Certificates (the "Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Bond Counsel, Houston, Texas (see "APPENDIX C – Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Certificates will be available for initial delivery through DTC on February 18, 2025 (the "Date of Initial Delivery").

BIDS DUE ON TUESDAY, JANUARY 14, 2025, AT 9:30 AM, CST

*Preliminary, subject to change. See "CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts" in the Notice of Sale and Bidding Instructions.

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

MATURITY SCHEDULE*

<u>Maturity (February 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield⁽¹⁾</u>	<u>CUSIP Numbers⁽²⁾</u>
2027	\$ 40,000			
2028	45,000			
2029	45,000			
2030	50,000			
2031	50,000			
2032	55,000			
2033	55,000			
2034	60,000			
2035	60,000			
2036	65,000			
2037	70,000			
2038	75,000			
2039	75,000			
2040	80,000			
2041	85,000			
2042	90,000			
2043	95,000			
2044	100,000			
2045	105,000			

(Interest accrues from the Date of Initial Delivery)

*Preliminary, subject to change. See “CONDITIONS OF THE SALE – Post Bid Modification of Principal Amounts” in the Notice of Sale and Bidding Instructions.

- (1) Initial reoffering yields on the Certificates are established by, and are the sole responsibility of the Initial Purchaser, as defined herein, and may subsequently be changed.
- (2) 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 Certificates. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, or the Purchaser is responsible for the selection or correctness of the CUSIP Numbers set forth herein.

[The remainder of this page intentionally left blank.]

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the “Rule”), this document constitutes an “official statement” of the City with respect to the Certificates that has been “deemed final” by the City as of its date except for the omission of the information permitted by Subsection (b)(1) of the Rule.

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

The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinion or that they will be realized.

THE CERTIFICATES 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 CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE CITY, THE PURCHASERS, NOR ITS FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

THIS OFFICIAL STATEMENT CONTAINS “FORWARD-LOOKING” STATEMENTS. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

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 websites and the information and hyperlinks contained therein are not incorporated into and not part of this offering document.

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

OFFICIAL STATEMENT SUMMARY

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

THE CITY	The City of Somerville, Texas (the “City”), is a political subdivision located in Burleson County operating as a Type A general law city under the laws of the State of Texas. The City operates under the council/manager form of government in which the Mayor and five aldermen are elected for staggered two-year terms. Policy making and supervisory functions are the responsibility of, and are vested in, the City Council. The City Council delegates the responsibility of daily operations of the City to the City Manager who is the chief executive of the City. The City is approximately 2.5 square miles in area (see “INTRODUCTION – Description of the City”).
THE CERTIFICATES	The Certificates are being issued as \$1,300,000* Combination Tax and Revenue Certificates of Obligation, Series 2025. The Certificates are issued as serial Certificates maturing on February 15 in the years 2027 through 2045 unless the Purchaser elects to aggregate two or more consecutive maturities as Term Certificates (see “THE CERTIFICATES – Description of the Certificates”).
PAYMENT OF INTEREST	Interest on the Certificates accrues from the Date of Initial Delivery, and will be payable on February 15, 2026, and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE CERTIFICATES – Description of the Certificates”).
AUTHORITY FOR ISSUANCE	The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended (the “Certificate of Obligation Act of 1971”), Chapter 1502, Texas Government Code, as amended, and an ordinance to be adopted by the City Council on January 14, 2025 (the “Certificate Ordinance”) (see “THE CERTIFICATES – Authority for Issuance”).
SECURITY	The Certificates are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Certificate Ordinance. The City has also pledged to the payment of the Certificates net revenues of the City’s water, sewer and sanitation system as described in the Certificate Ordinance, such pledge being limited to \$1,000 (see “THE CERTIFICATES – Security and Source of Payment”).
REDEMPTION	The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2035, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see “THE CERTIFICATES – Optional Redemption”). Additionally, the Certificates may be subject to mandatory redemption in the event the Purchasers elect to aggregate two or more consecutive maturities as Term Certificates.
TAX EXEMPTION	In the opinion of Bond Counsel, under existing law, interest on the Certificates (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is 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.
MUNICIPAL BOND RATING	The Certificates have been rated “A1” by Moody’s Investors Service (“Moody’s”) without regard to credit enhancement (see “OTHER INFORMATION – Rating”).
QUALIFIED TAX-EXEMPT OBLIGATIONS	The Certificates are expected to be designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Purchase of Tax-Exempt Obligations by Financial Institutions.”

*Preliminary, subject to change.

- USE OF PROCEEDS** Proceeds from the sale of the Certificates will be used for the purposes of (i) the design, construction, and equipment of a municipal building to house municipal court facilities, administrative offices, and a senior center; and (ii) the costs of professional services incurred in connection with the Certificates (see “THE CERTIFICATES – Purpose”).
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the book-entry-only system described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES – Book-Entry-Only System”).
- PAYMENT RECORD** The City has never defaulted in the payment of its outstanding debt obligations.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Funded Tax Debt	Per Capita Funded Tax Debt	Ratio Funded Debt to Taxable Assessed Valuation	% of Total Tax Collections
2021	1,312	\$ 110,593,983	\$ 84,294	\$ 2,056,000	\$ 1,567	1.86%	96%
2022	1,332	119,408,825	89,646	1,938,000	1,455	1.62%	96%
2023	1,366	148,790,067	108,924	1,819,000	1,332	1.22%	98%
2024	1,419	161,620,368	113,897	1,698,000	1,197	1.05%	98%
2025	1,454	187,470,140	128,934	2,875,000 ⁽³⁾	1,977 ⁽³⁾	1.53% ⁽³⁾	N/A ⁽³⁾

- (1) Source: The City’s Annual Financial Report.
- (2) Valuations shown are certified taxable assessed values reported by the Burleson County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.
- (3) Projected; includes the Certificates. Preliminary, subject to change.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Term Expires</u>
Tommy Thompson Mayor	May 2025
Delfino Orozco Mayor Pro-Tem	May 2025
Jeff Schoppe Alderman	May 2026
Kyle Hill Alderman	May 2025
Mark Sager Alderman	May 2026
Laura Hoover Alderwoman	May 2026

CITY OFFICIALS

<u>Name</u>	<u>Position</u>
David J. Resendiz	City Administrator
Rose Rosser	City Secretary
David Olson	City Attorney

CONSULTANTS AND ADVISORS

Auditors	Seidel Schroeder Brenham, Texas
Bond Counsel	Bracewell LLP Houston, Texas
Financial Advisor.....	Specialized Public Finance Inc. Austin, Texas

For additional information regarding the City, please contact:

David Resendiz City Administrator City of Somerville 150 8 th Street Somerville, Texas 77879 (979) 596-1122 (979) 596-1931 Fax	or	Jennifer Ritter Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 (512) 275-7300 (512) 275-7305 Fax
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**OFFICIAL STATEMENT
RELATING TO

\$1,300,000*
CITY OF SOMERVILLE, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2025**

INTRODUCTION

This Official Statement, which includes the cover page and Appendices hereto, provides certain information regarding the issuance of \$1,300,000* City of Somerville, Texas Combination Tax and Revenue Certificates of Obligation, Series 2025 (the "Certificates"). The Certificates are being issued pursuant to an ordinance (the "Certificate Ordinance") to be adopted by the City Council on January 14, 2025. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Certificate Ordinance, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Specialized Public Finance Inc., Austin, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and a Type A general law municipal corporation of the State of Texas (the "State") located in Burtleson County, duly organized and existing under the laws of the State. The City was incorporated in 1913. The City operates under the council/manager form of government with a City Council comprised of the Mayor and five Aldermen. The term of office is two years with the terms of Mayor and two Aldermen expiring in odd-numbered years and the terms of the other three Aldermen expiring in even-numbered years. The City Administrator is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police, EMS and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements and general administrative services. The City's 2020 Census population was 1,312. The City covers approximately 2.5 square miles. For more information regarding the City, see "APPENDIX A – General Information Regarding the City."

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated February 18, 2025, and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Certificates will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2026. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the book-entry-only system described herein ("Book-Entry-Only-System"). **No physical delivery of the Certificates will be made to the owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Certificate Ordinance to be adopted by the City Council.

SECURITY AND SOURCE OF PAYMENT . . . The Certificates are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Certificate Ordinance. The City has also pledged to the payment of the Certificates net revenues of the City's water, sewer and sanitation system as described in the Certificate Ordinance, such pledge being limited to \$1,000.

TAX RATE LIMITATION . . . Article XI, Section 4, of the Texas Constitution limits the maximum ad valorem tax rate for general law cities to \$1.50 per \$100 taxable assessed valuation for all purposes. Administratively, the Attorney General of the State of Texas will permit \$1.00 of the \$1.50 maximum tax rate for all tax-supported debt calculated at 90% tax collections.

*Preliminary, subject to change.

REDEMPTION . . . *Optional Redemption:* The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2035, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

MANDATORY SINKING FUND REDEMPTION . . . In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedule on the inside cover page hereof are combined to create Term Certificates, each such Term Certificate shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Certificate and continuing on February 15 in each year thereafter until the stated maturity date of such Term Certificate. The Paying Agent/Registrar will select by lot or by any other customary method that results in a random selection the specific Term Certificates (or with respect to Term Certificates having a denomination in excess of \$5,000, each \$5,000 portion thereof) to be redeemed by mandatory redemption. The principal amount of Term Certificates required to be redeemed on any redemption date pursuant to the foregoing mandatory sinking fund redemption provisions hereof shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least forty-five (45) days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

NOTICE OF REDEMPTION . . . Not less than thirty (30) days prior to a redemption date for the Certificates, the Paying Agent/Registrar shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Owners of the Certificates to be redeemed at the address of the Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

In the Certificate Ordinance, the City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Certificates 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 on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Certificates subject to conditional redemption and such redemption has been rescinded will remain Outstanding, and the rescission of such redemption will not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

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 AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE CITY IN THE NOTICE, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

DEFEASANCE . . . The Certificate Ordinance provide that the Certificates may be defeased, discharged or refunded in any manner permitted by applicable law. Under current State law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Certificates to maturity or redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Certificates; provided that such deposits may be invested and reinvested only in (a) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of

refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Certificates. If any of such Certificates are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Certificate Ordinance.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Certificates are registered in its nominee name. The information in this section concerning DTC and the book-entry-only system (the “Book-Entry-Only System”) has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

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

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

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

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

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

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

All payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Certificates held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Certificate Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid. 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 Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

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

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

In the event of a non-payment of interest on a scheduled interest payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the

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

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purposes of (i) the design, construction, and equipment of a municipal building to house municipal court facilities, administrative offices, and a senior center; and (ii) the costs of professional services incurred in connection of with the Certificates.

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

Sources:

Principal	\$
[Net] Reoffering Premium	
Total Sources	\$ _____

Uses:

Deposit to Construction Fund	\$
Deposit to Interest and Sinking Fund	
Bidder’s Discount	
Costs of Issuance	
Total Uses	\$ _____

CERTIFICATEHOLDERS’ REMEDIES

The Certificate Ordinance provides that each of the following occurrences or events will be an Event of Default under the Certificate Ordinance: (i) the failure to make payment of the principal of or interest on any of the Certificates when the same becomes due and payable; or (ii) default in the performance or observance of any other covenant, agreement, or obligation of the City, which default materially and adversely affects the rights of the owners of the Certificates, including but not limited to their prospect or ability to be repaid in accordance with the Certificate Ordinance, and the continuation thereof for a period of sixty (60) days after notice of such default is given by any owner of the Certificates to the City.

Upon the happening of any Event of Default, any owner of the Certificates or an authorized representative thereof, including but not limited to a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the owners of the Certificates under the Certificate Ordinance by mandamus or other suit, action or special proceeding in equity or at law in any court of competent jurisdiction for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the owners of the Certificates hereunder or any combination of such remedies. All such proceedings shall be instituted and maintained for the equal benefit of all owners of the Certificates then outstanding.

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

In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-160, 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 municipalities and relates to contracts entered into by municipalities for providing goods or services to municipalities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

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

TAX INFORMATION

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

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

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

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

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

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

LOCAL OPTION HOMESTEAD EXEMPTIONS . . . The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

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.

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.

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER . . . The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster area on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code. The Texas Legislature recently amended Section 11.35, Property Tax Code, to clarify that “damage” for the purpose of the statute is limited to “physical damage.”

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.

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.

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 “TAX INFORMATION – City Application of Tax Code” for descriptions of the City’s tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the City, see “TAX INFORMATION – City Application of Tax Code” herein.

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

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount,” as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$57.2 million for the 2023 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 “TAX INFORMATION – Public Hearing and Maintenance and Operations Tax Rate Limitations”). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

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

PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS . . . The following terms as used in this section have the meanings provided below:

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

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

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

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

“unused increment rate” means the cumulative difference between a city’s voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city’s tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

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

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

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

If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

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

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

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

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

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

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

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

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

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, up to 20% attorney’s collection fee is added to the total tax penalty and interest charge. A taxpayer who is 65 years of age or older or is disabled may defer the collection of delinquent property taxes on his or her residence homestead and prevent the filing of a lawsuit to collect delinquent taxes until the 181st day after the taxpayer no longer owns and occupies the property as a residence homestead. However, taxes and interest continue to accrue against the property, and the delinquent taxes incur a penalty of 5% per annum with no additional penalties or interest assessed. The lien securing such taxes and interest remains in existence during the deferral or abatement period. 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.

DEBT TAX RATE LIMITATIONS . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt, within the limits prescribed by law. Article XI, Section 4, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$1.50 per \$100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance.

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

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

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

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

CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000.

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

The City does not grant a local option freeze on taxes for persons 65 years of age or older or disabled persons.

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

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; and the Burselson County Tax Assessor-Collector collects taxes for the City.

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

The City has not taken action to tax freeport property.

The City does not collect a one-half cent sales tax for economic development.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

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TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2024/25 Market Valuation Established by Burluson County Appraisal District (excluding totally exempt property and exempt agricultural use value)	\$	216,110,677
Less Exemptions/Reductions		<u>28,640,537</u>
2024/25 Taxable Assessed Valuation	\$	187,470,140
Debt Payable from Ad Valorem Taxes (as of 10/1/2024)		
General Obligation Debt	\$	1,698,000
The Certificates ⁽¹⁾		<u>1,300,000</u>
Debt Payable from Ad Valorem Taxes ⁽¹⁾⁽²⁾	\$	2,998,000
Interest and Sinking Fund (as of 10/1/2024)	\$	146,763
Ratio Tax Supported Debt to Taxable Assessed Valuation		1.60%

2025 Estimated Population - 1,454
Per Capita Taxable Assessed Valuation - \$128,934
Per Capita Debt Payable from Ad Valorem Taxes - \$2,062

- (1) Preliminary, subject to change.
(2) Projected, includes the Certificates. Preliminary, subject to change.

TABLE 2 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End Of Year	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2021	1,312	\$ 110,593,983	\$ 84,294	\$ 2,056,000	1.86%	\$ 1,567
2022	1,332	119,408,825	89,646	1,938,000	1.62%	1,455
2023	1,366	148,790,067	108,924	1,819,000	1.22%	1,332
2024	1,419	161,620,368	113,897	1,698,000	1.05%	1,197
2025	1,454	187,470,140	128,934	2,875,000 ⁽³⁾	1.53% ⁽³⁾	1,977 ⁽³⁾

- (1) Source: The City’s Annual Financial Report.
(2) Valuations shown are certified taxable assessed values reported by the Burluson County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.
(3) Projected; includes the Certificates. Preliminary, subject to change.

TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2021	\$ 0.6620	\$ 0.5681	\$ 0.0939	\$ 732,132	92%	96%
2022	0.6792	0.5449	0.1343	811,025	92%	96%
2023	0.6770	0.5659	0.1111	1,007,309	94%	98%
2024	0.6770	0.5759	0.1010	1,094,170	94% ⁽¹⁾	98% ⁽¹⁾
2025	0.6770	0.5900	0.0870	1,269,079	In Process of Collection	

- (1) Unaudited collections as of September 30, 2024.

TABLE 4 – TEN LARGEST TAXPAYERS

Name of Taxpayer	2024/25	% of Total
	Taxable Assessed Valuation	Taxable Assessed Valuation
BNSF Railway Company ⁽¹⁾	\$ 47,555,330	25.37%
Citizens State Bank Somerville	6,266,496	3.34%
Koppers Industries Inc.	6,028,270	3.22%
Fifth Third Equipment Finance	2,924,397	1.56%
Entergy Texas Inc.	2,851,540	1.52%
Koppers Recovery Resources LLC	2,528,900	1.35%
JK Investment Partners LLC	2,360,265	1.26%
Brookshire Investment Co.	1,066,937	0.57%
The BN & SF Railway Co.	914,762	0.49%
Howery Investments Limited Liability Co.	889,318	0.47%
	<u>\$ 73,386,215</u>	<u>39.15%</u>

(1) The City’s tax base is heavily concentrated in its largest taxpayer, BNSF Railway Company (“BNSF”). Adverse developments in BNSF’s businesses or general economic conditions or changes in the regulatory environment affecting its business could adversely affect its ability to pay taxes resulting in a decrease in tax revenues available to the City or requiring an increase in tax rates in order to maintain current revenue levels.

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law (see “THE CERTIFICATES – Tax Rate Limitation”).

ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Total	Estimated %	City's
	G.O. Tax Debt	Applicable	Overlapping G.O. Tax Debt as of 12/31/2024
City of Somerville	\$ 2,998,000 ⁽¹⁾	100.00%	\$ 2,998,000 ⁽¹⁾
Burleson County	2,295,000	6.69%	153,536
Somerville Independent School District	10,781,000	26.80%	<u>2,889,308</u>
Total Direct and Overlapping Net Funded Debt			\$ 6,040,844 ⁽¹⁾
Ratio of Direct and Overlapping Net Funded Debt to Taxable Assessed Valuation			3.22%
Per Capita Direct and Overlapping Net Funded Debt			\$ 4,155

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

DEBT INFORMATION

TABLE 5 – PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Total Outstanding Debt			The Certificates ⁽¹⁾			Total Tax- Supported Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
2025	\$ 123,000	\$ 33,649	\$ 156,649	\$ -	\$ -	\$ -	\$ 156,649
2026	130,000	30,509	160,509	-	104,000	104,000	264,509
2027	132,000	27,174	159,174	40,000	64,000	104,000	263,174
2028	135,000	23,667	158,667	45,000	61,875	106,875	265,542
2029	138,000	19,983	157,983	45,000	59,625	104,625	262,608
2030	140,000	16,878	156,878	50,000	57,250	107,250	264,128
2031	145,000	14,399	159,399	50,000	54,750	104,750	264,149
2032	145,000	11,876	156,876	55,000	52,125	107,125	264,001
2033	150,000	9,309	159,309	55,000	49,375	104,375	263,684
2034	150,000	6,699	156,699	60,000	46,500	106,500	263,199
2035	155,000	4,046	159,046	60,000	43,500	103,500	262,546
2036	155,000	1,349	156,349	65,000	40,375	105,375	261,724
2037	-	-	-	70,000	37,000	107,000	107,000
2038	-	-	-	75,000	33,375	108,375	108,375
2039	-	-	-	75,000	29,625	104,625	104,625
2040	-	-	-	80,000	25,750	105,750	105,750
2041	-	-	-	85,000	21,625	106,625	106,625
2042	-	-	-	90,000	17,250	107,250	107,250
2043	-	-	-	95,000	12,625	107,625	107,625
2044	-	-	-	100,000	7,750	107,750	107,750
2045	-	-	-	105,000	2,625	107,625	107,625
	<u>\$ 1,698,000</u>	<u>\$ 199,535</u>	<u>\$ 1,897,535</u>	<u>\$ 1,300,000</u>	<u>\$ 821,000</u>	<u>\$ 2,121,000</u>	<u>\$ 4,018,535</u>

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

TABLE 6 – INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated Debt Service Requirements, Fiscal Year Ending 9-30-25 ⁽¹⁾		\$ 156,649
Interest and Sinking Fund, 9-30-24	\$ 146,763	
Interest and Sinking Fund Tax Levy at 98% Collection	<u>163,087</u>	<u>309,850</u>
Estimated Balance, 9-30-25		\$ 153,201

(1) Preliminary, subject to change.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . After the issuance of the Certificates, the City does not anticipate the issuance of additional tax-supported debt within the next six months.

OTHER OBLIGATIONS . . . The City has no unfunded obligations as of October 1, 2024.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (“TMRS”), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. For more detailed information concerning the retirement plan, see Note 11 in the City’s Fiscal Year 2023 Audited Financial Statement in “APPENDIX B – Excerpts from the City’s Annual Financial Report.”

OTHER POST-EMPLOYMENT BENEFITS . . . In addition to the contributions made to TMRS, the City provides other post-employment benefits to its retirees and dependents. For more detailed information, see Note 12 in the City’s Fiscal Year 2023 Audited Financial Statement in “APPENDIX B – Excerpts from the City’s Annual Financial Report.”

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FINANCIAL INFORMATION

TABLE 7 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended September 30,				
	2023	2022	2021	2020	2019
Revenues:					
Taxes	\$ 1,281,762	\$ 1,083,723	\$ 1,001,862	\$ 956,377	\$ 835,592
Licenses and Permits	52,359	32,773	15,014	13,812	14,207
Fines and Court Costs	80,567	106,064	114,044	135,867	199,853
Investment Income	2,867	4,872	3,595	2,692	4,080
Grant Revenue	387,373	-	179,376	453,596	77,135
Donation	24,216	4,242	4,013	7,779	5,563
Other	39,289	57,836	49,999	67,504	49,952
Total Revenues	\$ 1,868,433	\$ 1,289,510	\$ 1,367,903	\$ 1,637,627	\$ 1,186,382
Expenditures:					
General Government	\$ 600,767	\$ 545,790	\$ 543,465	\$ 421,324	\$ 550,054
Public Safety	525,295	609,257	546,479	580,741	374,637
Highway and Streets	31,567	38,486	59,844	61,186	36,475
Culture and Recreation	1,854	14,416	5,315	39	4,600
Debt Service	88,239	97,266	16,661	13,877	752
Capital Outlay	653,828	336,952	369,790	463,790	103,426
Total Expenditures	\$ 1,901,550	\$ 1,642,167	\$ 1,541,554	\$ 1,540,957	\$ 1,069,944
Excess (Deficiency) of Revenues Over Expenditures	\$ (33,117)	\$ (352,657)	\$ (173,651)	\$ 96,670	\$ 116,438
Transfers In	\$ 49,123	\$ 46,492	\$ 54,720	\$ 46,135	\$ 55,786
Other Sources	-	308,525	58,083	21,784	48,510
Transfers Out	(587,919)	-	(7,823)	-	-
Total Transfers	\$ (538,796)	\$ 355,017	\$ 104,980	\$ 67,919	\$ 104,296
Net Increase (Decrease)	\$ (571,913)	\$ 2,360	\$ (68,671)	\$ 164,589	\$ 220,734
Beginning Fund Balance	1,205,736	1,203,376	1,272,047	1,107,458	886,724
Ending Fund Balance⁽¹⁾	\$ 633,823	\$ 1,205,736	\$ 1,203,376	\$ 1,272,047	\$ 1,107,458

Source: City's audited financial statements.

(1) The unaudited General Fund Balance as of September 30, 2024 was \$1,142,084. The unaudited information reported herein has not been prepared or reviewed by the City's independent auditor. The unaudited information is derived from internal account balances of the City calculated by the City and is subject to revision upon completion of the City's annual audit.

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TABLE 8 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1.0% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the debt obligations. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, which remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2020	\$ 297,425	40.59%	\$ 0.2695	\$ 227
2021	313,908	38.71%	0.2838	239
2022	361,617	44.59%	0.3028	271
2023	378,656	37.59%	0.2545	277
2024	364,842 ⁽²⁾	10.96%	0.2257	257

(1) Excludes amounts collected for economic development and roadway maintenance.

(2) Unaudited collections as of September 30, 2024.

The Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem property taxes, if approved by a majority of the voters in a local option election. Subject to the approval of a majority of the voters in a local option election, State law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic development, municipal street maintenance and repair, and sports and community venues.

The City imposes an additional 0.25% sales and use tax for economic development.

State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the State sales and use tax rate of 6¼%).

INVESTMENTS

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

AUTHORIZED INVESTMENTS . . . Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are

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

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

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

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

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

INVESTMENT POLICIES . . . Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

ADDITIONAL PROVISIONS . . . Under State law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (5) provide specific investment training for the treasurer, chief financial officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City’s monthly average fund balance, excluding certificate proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of certificate proceeds, reserves and funds held for debt service and to no more than 15% of the entity’s monthly average fund balance, excluding certificate proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

TABLE 9 – CURRENT INVESTMENTS

As of December 1, 2024, the City’s investable funds (unaudited) were invested in the following categories:

<u>Investments</u>	<u>Market Value</u>	<u>% of Total</u>
Interest Bearing Checking	\$ 1,562,945	100.00%
	<u>\$ 1,562,945</u>	<u>100.00%</u>

As of such date, 100% of the City’s investment portfolio will mature within one year. The market value of the investment portfolio was approximately 100% of its purchase price. No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

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TAX MATTERS

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

TAX EXEMPTION . . . In the opinion of Bond Counsel, under existing law, interest on the Certificates (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, (the “Code”) and (ii) is 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 Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of 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 Certificate Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Certificate Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Certificates from gross income for federal income tax purposes and, in addition, will rely on representations by the City, and other parties involved with the issuance of the Certificates 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 Certificate Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Certificates could become includable in gross income from the date of delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

Bond Counsel will express no opinion as to the amount or timing of interest on the Certificates 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 Certificates. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Certificate 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 Certificates 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 bonds is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates regardless of the ultimate outcome of the audit.

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

The Certificates have been designated as “qualified tax-exempt obligations” based, in part, on the City's representation that the amount of the Certificates, when added to the amount of all other tax-exempt obligations (not including “private activity bonds” other than “qualified 501(c)(3) bonds” or any obligations issued to currently refund any obligation to the extent that the amount of the refunding obligation do not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the City during 2025, is not expected to exceed \$10,000,000. Further, the City and entities aggregated with the City under the Code have not designated more than \$10,000,000 in “qualified tax-exempt obligations” (including the Certificates) during 2025.

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

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

COLLATERAL TAX CONSEQUENCES . . . Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore,

prospective purchasers of the Certificates should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Certificates.

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 Certificates, is included in a corporation’s “adjusted financial statement income,” ownership of the Certificates 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 Certificates.

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

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

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

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

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

The foregoing discussion assumes that (i) the Underwriters have purchased the Certificates for contemporaneous sale to the public and (ii) all of the OID Certificates have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the page 2 of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the OID Certificates will be offered and sold in accordance with such assumptions.

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

compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Certificate.

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

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

CONTINUING DISCLOSURE OF INFORMATION

The City is exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule"), pursuant to the exemption under subsection (d)(2) thereof, which applies to certain small issuers, such as the City, who are not "obligated persons" (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Certificates) in an aggregate principal amount exceeding \$10,000,000.

In the Certificate Ordinance, the City has made the following agreement for the benefit of the registered and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to timely file with the Municipal Securities Rulemaking Board (the "MSRB") updated financial information and operating data of the City that is included in this Official Statement that is customarily prepared by the City and that is publicly available, as well as notice of specified events. The City will provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB. All documents provided to the MSRB are described in this section and will be accompanied by identifying information as prescribed by the MSRB.

ANNUAL REPORTS . . . In the Certificate Ordinance, the City has made the following agreement for the benefit of the registered owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates.

Under the agreement, the City agrees to provide to the MSRB, in electronic format, accompanied by identifying information as prescribed by the MSRB, within twelve (12) months after the end of each fiscal year, financial information and operating data with respect to the City which is customarily prepared by the City and is publicly available, being information of the general type included in "APPENDIX B – Excerpts from the City's Annual Financial Report." Any financial statements so to be provided shall be prepared in accordance with the accounting principles the City may be required to employ from time to time pursuant to State law or regulation. If the audit of such financial statements is not complete within such period, then the City will provide unaudited financial statements within such twelve-month period to the MSRB, and audited financial statements if and when the audit report on such statements becomes available. All such information and operating data shall be provided to the MSRB, in an electronic format, accompanied by identifying information, as prescribed by the MSRB, and will be available via the Electronic Municipal Market Access ("EMMA") System at www.emma.msrb.org.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by September 30 of the next 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) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

NOTICE OF CERTAIN EVENTS . . . The City shall provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner and not more than 10 business days after the occurrence of the event:

- (i) principal and interest payment delinquencies;
- (ii) nonpayment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;
- (vii) modifications to rights of Owners, if material;
- (viii) certificate calls, if material and tender offers;
- (ix) defeasance;
- (x) release, substitution, or sale of property securing repayment of the Certificates, if material;

- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material.
- (xv) 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
- (xvi) 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

For these purposes, (a) any event described in clause (xii) in the 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, and (b) the City intends the words used in clauses (xv) and (xvi) in the preceding paragraph and the definition of “Financial Obligation” in this section to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with its agreement by the required time.

AVAILABILITY OF INFORMATION FROM MSRB . . . The City has agreed to provide the foregoing information only to the MSRB. All documents provided by the City to the MSRB described above under “Annual Reports” and “Notice of Certain Events” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria VA 22314, and its telephone number is (703) 797-6600.

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

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

If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The City has not previously made a continuing disclosure agreement in accordance with the Rule.

LEGAL MATTERS

LEGAL OPINIONS . . . The City will furnish the Purchasers with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under “TAX MATTERS,” the interest on the Certificates is excludable from the gross income of the owners thereof for federal income tax purposes under existing law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Certificates. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Certificate Ordinance. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it 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 Bond Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates.

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

OTHER INFORMATION

RATING . . . The Certificates have been rated “A1” by Moody’s Investor Service (“Moody’s”) without regard to credit enhancement. The City also has various issues outstanding which are insured by various commercial insurance companies. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective views of such organizations and the City makes no representation as to the appropriateness of the rating. 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 one or more of such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the Certificates.

LITIGATION . . . It is the opinion of the City’s staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

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

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

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

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

AUDITED FINANCIAL STATEMENTS . . . Seidel Schroeder, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Seidel Schroeder relating to the City's financial statements for the fiscal year ended September 30, 2023 is included in this Official Statement in APPENDIX B; however, Seidel Schroeder has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation, any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

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 obligation to update any such forward-looking statements.

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

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

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

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

NO LITIGATION CERTIFICATE . . . The City will furnish the Initial Purchaser a certificate, dated as of the Date of Delivery, executed by an appropriate official of the City, to the effect that no litigation of any nature is then pending or threatened in any court, restraining or enjoining the issuance or delivery of the Certificates; affecting the provisions made for the payment of or security for

the Certificates; in any manner questioning the authority or proceeding for the issuance, execution or delivery of the Certificates; or affecting the validity of the Certificates.

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

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY . . . The City of Somerville (the “City”) is located in the east central Texas county of Burleson on either side of State Highway 36 and the main line of the Atchison, Topeka and Santa Fe Railway. The City is located approximately seventeen (17) miles south of the City of Caldwell, the county seat, and two miles north of Yegua Creek, which forms the boundary between Burleson and Washington counties. The City’s economy is based on agriculture and mineral production. The City’s 2020 census population was 1,312.

COUNTY CHARACTERISTICS . . . Burleson County (the “County”), which consists of 659.1 square miles, is located in east central Texas and is traversed by State Highways 21, 36 and 50 and sixteen farm-to-market and park roads. The County’s economy is based on agribusiness, manufacturing and mineral production. The City of Caldwell is the County seat and principal commercial center of the County. Minerals produced in the County include oil, gas, sand and gravel. A manufacturer of aluminum furniture is located in the City of Caldwell. The County’s 2020 census population was 17,312.

Agriculture is an important part of the County’s economy. The County averages over \$25 million in annual income from agriculture. Approximately 85% of that total can be attributed to livestock production, principally beef cattle, hogs and horses. Crops produced include corn and grain sorghums.

LABOR MARKET PROFILE

Burleson County		
	November 2024	November 2023
Total Civilian Labor Force	9,734	9,400
Total Employment	9,363	9,091
Total Unemployment	371	309
Percent Unemployed	3.8%	3.3%

State of Texas		
	November 2024	November 2023
Total Civilian Labor Force	15,621,025	15,207,323
Total Employment	14,965,515	14,670,562
Total Unemployment	655,510	536,761
Percent Unemployed	4.2%	3.5%

Source: Texas Employment Commission, Austin, Texas

EDUCATION . . . The Somerville Independent School District provides public school facilities for approximately 544 students from kindergarten level through the twelfth grade. The system consists of a senior high school, a junior high school and an elementary school. All campuses in the District are fully accredited by the Texas Education Agency.

Higher education needs of the area can be met at Texas A&M University, located 35 miles northeast of the City of College Station. The University is a major research institution and ranks in the top ten universities in the United States for National Merit scholars enrolled. The University had a Fall 2024 enrollment of approximately 79,105 students.

RECREATION . . . Lake Somerville State Park is located near the City and provides camping, swimming, boating and other water related activities. The Area Museum, along with Heritage Square, is sponsored by the Somerville Historical Society, and contains exhibits and artifacts from the area’s past. The museum is housed in an early 1900’s saloon, which was refurbished and opened in 1983.

APPENDIX B

**EXCERPTS FROM THE
CITY OF SOMERVILLE, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2023**

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



CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Texas, (the "City") as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Texas, as of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10, the Texas Municipal Retirement System ("TMRS") schedule of changes in net pension liability (asset) and related ratios on page 45, the TMRS schedule of contributions on page 46, and the schedule of changes in total OPEB liability and related ratios on page 47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 13, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the 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 City's internal control over financial reporting and compliance.

Seidel Schreder

Brenham, Texas
May 13, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Somerville, we offer readers of the City of Somerville's financial statements this narrative overview and analysis of the financial activities of the City of Somerville for the fiscal year ended September 30, 2023. Please read it in conjunction with the independent auditors' report and the City's basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Somerville exceeded its liabilities and deferred inflows of resources at the close the most recent fiscal year by \$7,930,260 (*net position*). Of this amount, \$1,357,289 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$511,408.
- The City's governmental funds reported ending fund balances of \$836,565, which was a decrease of \$114,518 from the prior year.
- The City's proprietary funds reported combined net position of \$5,957,097, which was a decrease of \$35,590 from the prior year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental funds, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For the proprietary fund, the financial statements tell how goods or services of the City were sold to customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

Our analysis of the City as a whole begins with the government-wide financial statements. Their primary purpose is to show whether the City is better off as a result of the year's activities. The Statement of Net Position includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Activities report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Position and the Statement of Activities, we report the activities of the City as follows:

- Governmental activities - Most of the City's basic services are reported here. Property and sales taxes and state and federal grants finance most of these activities.
- Business-type activities - The City charges a fee to "customers" to help cover all or most of the cost of services it provides for water, sewer, and garbage services.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. The City establishes funds to help control and manage money for particular purposes. The City's two types of funds, governmental and proprietary, use different accounting approaches.

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.
- Proprietary funds - The City reports the activities for which it charges users in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The City's proprietary fund is included in the business-type activities reported in the government-wide statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the Statement of Net Position (Table 1) and Changes in Net Position (Table 2) of the City's governmental and business-type activities.

As seen in Table 1, net position of the City's governmental activities increased by \$546,998 from \$1,426,165 in 2022 to \$1,973,163 in 2023. The increase in the governmental activities net position was primarily due to an increase in capital grants. Current assets decreased by \$655,862 primarily due to bond proceeds spent in the current year related to the City's street, water and sewer improvement project. Capital assets increased by \$593,951 primarily due to the completion of the street, water and sewer improvement projects. Total liabilities decreased by \$488,268 primarily due to a decrease in accounts payable related to the street improvement project and a decrease in unearned revenue related to COVID-19 grant funding received in prior years and expended in the current year.

Table 1
City of Somerville, Texas
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 1,295,600	\$ 1,951,462	\$ 808,412	\$ 791,913	\$ 2,104,012	\$ 2,743,375
Capital assets	3,019,916	2,425,965	5,417,702	5,504,068	8,437,618	7,930,033
Total Assets	<u>4,315,516</u>	<u>4,377,427</u>	<u>6,226,114</u>	<u>6,295,981</u>	<u>10,541,630</u>	<u>10,673,408</u>
Deferred outflows of resources	106,376	24,667	44,658	6,547	151,034	31,214
Current liabilities	466,823	485,564	161,069	140,446	627,892	626,010
Non-current liabilities	1,919,166	2,388,693	145,244	142,769	2,064,410	2,531,462
Total Liabilities	<u>2,385,989</u>	<u>2,874,257</u>	<u>306,313</u>	<u>283,215</u>	<u>2,692,302</u>	<u>3,157,472</u>
Deferred inflows of resources	62,740	101,672	7,362	26,626	70,102	128,298
Net Position:						
Net investment in capital assets	2,105,586	1,459,791	5,293,776	5,365,593	6,338,026	5,653,234
Restricted	234,945	221,291	-	-	234,945	221,291
Unrestricted (deficit)	(367,368)	(254,917)	663,321	627,094	1,357,289	1,544,327
Total Net Position	<u>\$ 1,973,163</u>	<u>\$ 1,426,165</u>	<u>\$ 5,957,097</u>	<u>\$ 5,992,687</u>	<u>\$ 7,930,260</u>	<u>\$ 7,418,852</u>

As can be seen in Table 2 on the next page, total revenues (excluding transfers) from governmental activities increased by \$537,083 from \$1,520,328 in 2022 to \$2,057,411 in 2023 primarily due to an increase in grant revenues and an increase in property tax revenue.

Total revenues (excluding transfers) from business-type activities decreased by \$93,079 from \$1,134,138 in 2022 to \$1,041,059 in 2023. The decrease in revenue was primarily due to a decrease in capital grant revenue. Total expenses from business-type activities increased by \$65,785 from \$1,047,610 in 2022 to \$1,113,395 in 2023. The increase in expense was primarily due to an increase in supplies and repairs and maintenance expenses.

Table 2
City of Somerville, Texas
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues						
Program Revenues						
Charges for services	\$ 108,209	\$ 169,934	\$ 923,575	\$ 864,597	\$ 1,031,784	\$ 1,034,531
Operating grants and contributions	31,216	10,075	-	-	31,216	10,075
Capital grants and contributions	393,647	7,541	73,060	245,925	466,707	253,466
General Revenues						
Property taxes	1,019,020	821,876	-	-	1,019,020	821,876
Sales taxes	378,656	361,617	-	-	378,656	361,617
Gross receipts	55,086	53,370	-	-	55,086	53,370
Hotel occupancy	24,099	21,443	-	-	24,099	21,443
Other	4,952	4,714	-	-	4,952	4,714
Transfers in (out)	(36,746)	(802,208)	36,746	802,208	-	-
Miscellaneous revenues	39,289	57,601	2,557	21,549	41,846	79,150
Gain on sale of capital assets	-	6,596	40,835	-	40,835	6,596
Investment earnings	3,237	5,561	1,032	2,067	4,269	7,628
Total Revenues	2,020,665	718,120	1,077,805	1,936,346	3,098,470	2,654,466
Expenses						
General government	643,331	570,966	-	-	643,331	570,966
Public safety	620,169	646,791	-	-	620,169	646,791
Highways and streets	119,963	95,300	-	-	119,963	95,300
Culture and recreation	43,409	70,590	-	-	43,409	70,590
Interest/cost on long-term debt	46,796	58,763	4,518	529	51,314	59,292
Water, sewer and sanitation	-	-	1,108,877	1,047,081	1,108,877	1,047,081
Total Expenses	1,473,668	1,442,410	1,113,395	1,047,610	2,587,063	2,490,020
Change in Net Position	546,998	(724,290)	(35,590)	888,736	511,408	164,446
Net Position, Beginning of Year	1,426,165	2,150,455	5,992,687	5,103,951	7,418,852	7,254,406
Net Position, End of Year	\$ 1,973,163	\$ 1,426,165	\$ 5,957,097	\$ 5,992,687	\$ 7,930,260	\$ 7,418,852

THE CITY'S FUNDS

As of September 30, 2023, the governmental funds reported a fund balance of \$836,565. This is a decrease of \$114,518 from \$951,083 on September 30, 2022.

General Fund Budgetary Highlights

The City's Council annually adopts an operating budget. Total actual revenues were \$574,033 more than budgeted, primarily due to higher than anticipated property and sales tax revenues and unbudgeted grant revenue. Actual expenditures were over budget by \$345,686, primarily due to drainage and street improvements, a portion of which was funded by grants. Transfers out to close the capital projects fund were unbudgeted.

In total, the actual net decrease in fund balance was \$571,913 compared to a budgeted decrease of \$229,264 for 2023.

Capital Assets

As of September 30, 2023, the City had \$8,437,618 invested in capital assets.

Table 3
City of Somerville, Texas
Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land	\$ 350,465	\$ 195,662	\$ -	\$ -	\$ 350,465	\$ 195,662
Buildings and improvements	251,523	251,523	17,298	17,298	268,821	268,821
Machinery and equipment	1,184,359	1,184,359	861,270	837,170	2,045,629	2,021,529
Streets and improvements	2,383,675	828,387	-	-	2,383,675	828,387
Software	28,318	28,318	-	-	28,318	28,318
Utility Plants	-	-	9,506,361	8,529,745	9,506,361	8,529,745
Construction in Progress	46,750	1,042,262	41,174	895,930	87,924	1,938,192
	4,245,090	3,530,511	10,426,103	10,280,143	14,671,193	13,810,654
Accumulated Depreciation	(1,225,174)	(1,104,546)	(5,008,401)	(4,776,075)	(6,233,575)	(5,880,621)
Net Capital Assets	\$ 3,019,916	\$ 2,425,965	\$ 5,417,702	\$ 5,504,068	\$ 8,437,618	\$ 7,930,033

This year’s major additions included:

Drainage and street improvements	\$ 559,775
Purchase of land for City Hall	154,804
Sanitary and water improvements	148,390

Debt

At year-end, the City had \$2,099,591 in notes and general obligation bonds payable with \$181,157 of long-term debt due within one year. More detailed information about the City’s long-term liabilities is presented in the notes to the financial statements.

Table 4
City of Somerville Texas
Outstanding Debt at Year-end

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Notes payable	\$ 156,665	\$ 200,323	\$ 123,926	\$ 138,475	\$ 280,591	\$ 338,798
Bonds payable	1,819,000	1,938,000	-	-	1,819,000	1,938,000
Total	\$ 1,975,665	\$ 2,138,323	\$ 123,926	\$ 138,475	\$ 2,099,591	\$ 2,276,798

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at the City of Somerville, 600 Memory Lane, Somerville, TX 77879.

City of Somerville, Texas
Statement of Net Position
September 30, 2023

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 746,967	\$ 612,417	\$ 1,359,384
Receivables (net)	244,278	164,235	408,513
Lease receivable, current	10,537	-	10,537
Lease receivable, long term	32,158	-	32,158
Restricted assets:			
Cash and cash equivalents	198,177	-	198,177
Internal balances	(17,294)	17,294	-
Prepays	8,986	-	8,986
Other assets	7,022	-	7,022
Due from other governments	19,125	-	19,125
Right to use leased asset, net of amortization	45,644	14,466	60,110
Capital assets			
Non-depreciable	397,215	41,174	438,389
Depreciable, net	2,622,701	5,376,528	7,999,229
Total assets	4,315,516	6,226,114	10,541,630
Deferred Outflows of Resources			
Deferred amounts related to pensions	103,738	43,697	147,435
Deferred amounts related to OPEB	2,638	961	3,599
Total deferred outflows	106,376	44,658	151,034
Liabilities			
Accounts payable	39,461	61,034	100,495
Accrued liabilities	24,939	5,548	30,487
Accrued interest payable	8,946	-	8,946
Customer deposits	-	68,788	68,788
Unearned revenue	191,626	-	191,626
Bonds and note payable, due within one year	166,195	14,962	181,157
Lease liability, current	32,428	10,737	43,165
Other long-term payable, current	3,228	-	3,228
Other long-term payable, long-term	3,228	-	3,228
Bonds and note payable, long-term	1,809,471	108,964	1,918,435
Lease liability, long-term	9,995	3,646	13,641
Post employment benefits	46,779	17,050	63,829
Net pension liability	26,412	11,125	37,537
Compensated absences, long-term	23,281	4,459	27,740
Total liabilities	2,385,989	306,313	2,692,302
Deferred inflows of resources			
Deferred amounts related to pensions	986	415	1,401
Deferred amounts related to OPEB	19,059	6,947	26,006
Deferred amounts related to leases	42,695	-	42,695
Total deferred inflows	62,740	7,362	70,102
Net Position			
Net investment in capital assets	2,105,586	5,293,776	6,338,026
Restricted for:			
Debt service	166,463	-	166,463
Hotel/Motel	3,952	-	3,952
Municipal court	64,176	-	64,176
Somerville Parks Association	354	-	354
Unrestricted (deficit)	(367,368)	663,321	1,357,289
Total net position	\$ 1,973,163	\$ 5,957,097	\$ 7,930,260

The notes to the financial statements are an integral part of this statement.

City of Somerville, Texas
Statement of Activities
For the Year Ended September 30, 2023

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Primary Government Business-type Activities	
			Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-type Activities
Primary government							
Governmental activities							
General government	\$ 643,331	\$ 52,359	\$ 3,396	\$ 6,273	\$ (581,303)	\$ -	\$ (581,303)
Public safety	620,169	55,850	-	-	(564,319)	-	(564,319)
Highways and streets	119,963	-	-	387,374	267,411	-	267,411
Culture and recreation	43,409	-	27,820	-	(15,589)	-	(15,589)
Interest and costs on long-term debt	46,796	-	-	-	(46,796)	-	(46,796)
Total governmental activities	1,473,668	108,209	31,216	393,647	(940,596)	-	(940,596)
Business-type activities							
Proprietary fund	1,113,395	923,575	-	73,060	-	(116,760)	(116,760)
Total business-type activities	1,113,395	923,575	-	73,060	-	(116,760)	(116,760)
Total primary government	2,587,063	1,031,784	31,216	466,707	(940,596)	(116,760)	(1,057,356)
General revenues							
Taxes							
Property					1,019,020	-	1,019,020
Sales					378,656	-	378,656
Gross receipts					55,086	-	55,086
Hotel occupancy					24,099	-	24,099
Other					4,952	-	4,952
Investment income					3,237	1,032	4,269
Miscellaneous revenues					39,289	2,557	41,846
Gain on capital assets					-	40,835	40,835
Transfers					(36,746)	36,746	-
Total general revenues and transfers					1,487,593	81,170	1,568,763
Change in net position					546,998	(35,590)	511,408
Net position, beginning					1,426,165	5,992,687	7,418,852
Net position, ending					\$ 1,973,163	\$ 5,957,097	\$ 7,930,260

The notes to the financial statements are an integral part of this statement.

City of Somerville, Texas
Balance Sheet
Governmental Funds
September 30, 2023

	General	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Fund
Assets					
Cash and cash equivalents	\$ 746,967	\$ -	\$ -	\$ -	\$ 746,967
Receivables (net of allowances for uncollectibles)					
Property tax	84,668	-	20,075	-	104,743
Sales tax	64,281	-	-	-	64,281
Municipal court	10,155	-	-	-	10,155
Grants	65,099	-	-	-	65,099
Lease receivable, current	10,537	-	-	-	10,537
Lease receivable, long term	32,158	-	-	-	32,158
Due from other governments	15,567	-	3,558	-	19,125
Due from other funds	52,232	-	-	15,767	67,999
Other assets	-	-	-	7,022	7,022
Cash, restricted	-	-	142,830	55,347	198,177
Total assets	\$ 1,081,664	\$ -	\$ 166,463	\$ 78,136	\$ 1,326,263
Liabilities, deferred inflows of resources and fund balances					
Liabilities:					
Accounts payable	\$ 38,509	-	-	\$ 952	\$ 39,461
Accrued liabilities	24,877	-	-	62	24,939
Unearned revenue	277,610	-	19,700	-	297,310
Due to other funds	64,150	-	-	21,143	85,293
Total liabilities	405,146	-	19,700	22,157	447,003
Deferred inflows of resources:					
Deferred amounts related to leases	42,695	-	-	-	42,695
Total deferred inflows of resources	42,695	-	-	-	42,695
Fund balances:					
Restricted for:					
Debt service	-	-	146,763	-	146,763
Hotel/Motel	-	-	-	3,952	3,952
Municipal court	-	-	-	64,176	64,176
Somerville Parks Association	-	-	-	354	354
Unassigned (deficit)	633,823	-	-	(12,503)	621,320
Total fund balances	633,823	-	146,763	55,979	836,565
Total liabilities, deferred inflows of resources and fund balances	\$ 1,081,664	\$ -	\$ 166,463	\$ 78,136	\$ 1,326,263
Reconciliation of the balance sheet to the statement of net position:					
Fund balances of governmental funds					\$ 836,565
Amounts reported for governmental activities in the statements 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.					
Governmental capital assets			\$ 4,245,090		
Less accumulated depreciation			(1,225,174)		3,019,916
Leased assets and liabilities are not current financial resources.					3,221
Unavailable revenues reported in the governmental funds are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					105,684
Prepaid assets in governmental activities are not financial resources and therefore are not reported in the governmental funds.					8,986
Deferred outflows are not receivable and deferred inflows, net pension liability, and OPEB are not payable in the current period and, therefore, are not reported in the governmental funds.					13,140
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.					
Notes and bonds payable			\$ (1,975,666)		
Other long term payable			(6,456)		
Accrued interest payable			(8,946)		
Compensated absences			(23,281)		(2,014,349)
Net position, governmental activities					\$ 1,973,163

The notes to the financial statements are an integral part of this statement.

City of Somerville, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2023

	General	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes					
Property	\$ 843,068	\$ -	\$ 166,156	\$ -	\$ 1,009,224
Sales	378,656	-	-	-	378,656
Gross receipts	55,086	-	-	-	55,086
Hotel/motel occupancy	-	-	-	24,099	24,099
Other	4,952	-	-	-	4,952
Licenses and permits	52,359	-	-	-	52,359
Fines and court costs	80,567	-	-	2,614	83,181
Investment income	2,867	-	276	94	3,237
Grant revenue	387,373	-	-	7,000	394,373
Donations	24,216	-	-	6,274	30,490
Other	39,289	-	-	-	39,289
Total revenues	1,868,433	-	166,432	40,081	2,074,946
Expenditures:					
Current:					
General government	600,767	-	-	2,009	602,776
Public safety	525,295	-	-	-	525,295
Highways and streets	31,567	928	-	-	32,495
Culture and recreation	1,854	-	-	29,086	30,940
Debt service:					
Principal	79,179	-	119,000	-	198,179
Interest	9,060	-	39,394	-	48,454
Capital outlay:					
General government	653,828	-	-	-	653,828
Highways and streets	-	60,751	-	-	60,751
Total expenditures	1,901,550	61,679	158,394	31,095	2,152,718
Excess (deficiency) of revenues over (under) expenditures	(33,117)	(61,679)	8,038	8,986	(77,772)
Other financing sources:					
Transfers in	49,123	587,919	-	-	637,042
Transfers out	(587,919)	(81,669)	-	(4,200)	(673,788)
Total other financing sources	(538,796)	506,250	-	(4,200)	(36,746)
Net change in fund balance	(571,913)	444,571	8,038	4,786	(114,518)
Fund balance, beginning	1,205,736	(444,571)	138,725	51,193	951,083
Fund balance, ending	\$ 633,823	\$ -	\$ 146,763	\$ 55,979	\$ 836,565

Reconciliation of the statement of revenues, expenditures and changes in fund balances of the governmental funds to the statement of activities:

Net change in fund balances - total governmental funds	\$ (114,518)
Amounts reported for the governmental activities in the statement of activities are different because:	
Depreciation expense on capital assets and amortization on right of use assets are reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation and amortization expense are not reported as expenditures in governmental funds.	(154,558)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of these assets are depreciated and amortized over their estimated useful lives.	714,579
The repayment of the principal of long-term debt consumes current financial resources of governmental funds, yet has no effect on net position.	198,179
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(79,149)
Some revenues in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the fund statements.	(17,535)
Change in net position, governmental activities	\$ 546,998

The notes to the financial statements are an integral part of this statement.

City of Somerville, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended September 30, 2023

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes				
Property	\$ 758,500	\$ 758,500	\$ 843,068	\$ 84,568
Sales	300,000	300,000	378,656	78,656
Gross receipts	64,700	64,700	55,086	(9,614)
Other	4,500	4,500	4,952	452
Licenses and permits	12,500	12,500	52,359	39,859
Fines and court costs	108,450	108,450	80,567	(27,883)
Investment income	1,000	1,000	2,867	1,867
Grant revenue	-	-	387,373	387,373
Donations	450	450	24,216	23,766
Other	44,300	44,300	39,289	(5,011)
Total revenues	<u>1,294,400</u>	<u>1,294,400</u>	<u>1,868,433</u>	<u>574,033</u>
Expenditures:				
Current:				
General government	606,686	689,134	600,767	88,367
Public safety	575,680	572,517	525,295	47,222
Highways and streets	60,000	81,600	31,567	50,033
Culture and recreation	750	750	1,854	(1,104)
Debt service:				
Principal	46,675	52,400	79,179	(26,779)
Interest	5,000	4,050	9,060	(5,010)
Capital outlay				
General government	-	155,413	653,828	(498,415)
Total expenditures	<u>1,294,791</u>	<u>1,555,864</u>	<u>1,901,550</u>	<u>(345,686)</u>
Excess (deficiency) of revenues over (under) expenditures	(391)	(261,464)	(33,117)	228,347
Other financing sources (uses):				
Transfers in	32,200	32,200	49,123	16,923
Transfers out	-	-	(587,919)	(587,919)
Total other financing sources and uses	<u>32,200</u>	<u>32,200</u>	<u>(538,796)</u>	<u>(570,996)</u>
Net change in fund balance	31,809	(229,264)	(571,913)	(342,649)
Fund balance, beginning	1,205,736	1,205,736	1,205,736	-
Fund balance, ending	<u>\$ 1,237,545</u>	<u>\$ 976,472</u>	<u>\$ 633,823</u>	<u>\$ (342,649)</u>

The notes to the financial statements are an integral part of this statement.

City of Somerville, Texas
Statement of Net Position
Proprietary Fund
September 30, 2023

	Business Type Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 612,417
Receivables, net of allowance for uncollectibles	164,235
Due from other funds	17,294
Total current assets	793,946
Noncurrent assets:	
Right to use leased asset, net of amortization	14,466
Capital assets:	
Equipment and furniture	834,200
Water and wastewater distribution	9,533,431
Buildings and improvements	17,298
Construction in progress	41,174
Accumulated depreciation	(5,008,401)
Capital assets (net of accumulated depreciation)	5,417,702
Total noncurrent assets	5,432,168
Total assets	\$ 6,226,114
Deferred Outflows of Resources	
Deferred amounts related to pensions	43,697
Deferred amounts related to OPEB	961
Total deferred outflows	44,658
Liabilities	
Current liabilities:	
Accounts payable	\$ 61,034
Accrued liabilities	5,548
Note payable, due within one year	14,962
Lease liability, current	10,737
Customer deposits	68,788
Total current liabilities	161,069
Noncurrent liabilities:	
Net pension liability	11,125
Post employment benefits	17,050
Note payable, long-term	108,964
Lease liability, long-term	3,646
Compensated absences, long-term	4,459
Total noncurrent liabilities	145,244
Total liabilities	306,313
Deferred Inflows of Resources	
Deferred amounts related to pensions	415
Deferred amounts related to OPEB	6,947
Total deferred inflows	7,362
Net position	
Net investment in capital assets	5,293,776
Unrestricted	663,321
Total net position	\$ 5,957,097

The notes to the financial statements are an integral part of this statement.

City of Somerville, Texas
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
September 30, 2023

	Business Type Activities
Operating revenues:	
Charges for water services	\$ 401,339
Charges for sewer services	265,766
Charges for solid waste services	256,470
Other revenue	2,557
Total operating revenue	926,132
Operating expenses:	
Salaries and wages	245,409
Purchased professional and technical services	317,717
Repairs and maintenance	103,070
Other operating expenses	81,829
Supplies	101,677
Depreciation and amortization	259,175
Total operating expenses	1,108,877
Operating income (loss)	(182,745)
Nonoperating revenues (expenses)	
Gain (loss) on capital assets	40,835
Grant proceeds	73,060
Interest income	1,032
Interest expense	(4,518)
Total nonoperating revenue	110,409
Change in net position before transfers	(72,336)
Transfers in	81,669
Transfers out	(44,923)
Total transfers	36,746
Change in net position	(35,590)
Net position, beginning	5,992,687
Net position, ending	\$ 5,957,097

The notes to the financial statements are an integral part of this statement.

City of Somerville, Texas
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2023

	Business Type Activities
Cash flows from operating activities:	
Cash received from customers	\$ 923,094
Cash payments to suppliers for goods and services	(645,914)
Cash payments to employees for services	(230,436)
Net cash provided by (used in) operating activities	46,744
Cash flows from non-capital financing activities:	
Transfers in	81,669
Transfers out	(44,923)
Total transfers	36,746
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(178,717)
Proceeds from disposal of capital assets	16,757
Grant proceeds	73,060
Principal paid on long-term debt	(14,548)
Interest paid	(4,518)
Principal paid on leases	(10,444)
Net cash provided (used) by capital and related financing activities	(118,410)
Cash flows from investing activities:	
Interest on cash and investments	1,032
Net increase (decrease) in cash and equivalents	(33,888)
Cash and equivalents, beginning of year	646,305
Cash and equivalents, end of year	\$ 612,417
Unrestricted cash	\$ 612,417
Restricted cash	-
	\$ 612,417

The notes to the financial statements are an integral part of this statement.

City of Somerville, Texas
Statement of Cash Flows
Proprietary Fund
September 30, 2023

	Business Type Activities
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (182,745)
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation and amortization	259,175
Bad debt expense (recovery)	(611)
Increase (decrease) in cash resulting from changes in assets and liabilities:	
Accounts receivable	(10,448)
Net pension asset/ net pension liability	74,843
Post employment benefits	(2,094)
Deferred outflows related to pensions	(39,359)
Deferred outflows related to OPEB	1,248
Accounts payable	31,439
Accrued liabilities	(401)
Deferred inflows related to pensions	(23,980)
Deferred inflows related to OPEB	4,716
Customer deposits	8,021
Due from other funds	(17,294)
Due to other funds	(55,766)
Net cash provided by (used in) operating activities	\$ 46,744

The notes to the financial statements are an integral part of this statement.

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
September 30, 2023

1. Summary of Significant Accounting Policies

The City of Somerville, Texas, is a municipal corporation incorporated under Article XI, Section 4 of the Constitution of the State of Texas. The City provides the following services: public safety (police and fire), public works, community services, water and sewer services, solid waste and general administrative services.

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

A. Financial Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 61. As defined by GASB 61, component units are legally separate entities that are included in the City's reporting entity because the City is financially accountable or closely related.

In 2016, Somerville Parks Association, a non-profit organization was formed as a 501(c)(3) organization to support the City of Somerville in implementing and conducting its charitable and educational projects to raise funds for community projects. For financial reporting purposes, Somerville Parks Association is reported as a blended component unit and non-major special revenue fund in the governmental funds.

B. Basis of Presentation

Government-wide financial statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
September 30, 2023

grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund. It accounts for all financial resources of the general government, except those legally or administratively required to be accounted for in other funds.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

Capital Projects Fund

The Capital Projects fund is used to account for the acquisition and construction of capital assets financed with general obligation debt.

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Proprietary Fund

Water, Sewer and Sanitation Fund

The Water, Sewer, and Sanitation Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Special Revenue Funds

The Special Revenue Funds are used to account for revenue sources that are legally restricted to expenditures for specific purposes. The City's non-major special revenue funds include Senior Citizens Center, Hotel/Motel, Court Technology, Court Security, and Senior Citizens Activity.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item "b." below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of

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available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used.

D. Budgets

Annual appropriated budgets are adopted for the general and enterprise funds. The budget for the general fund is prepared and adopted on a basis consistent with generally accepted accounting principles, which is the same basis of accounting used for financial reporting in these financial statements. Budgets are adopted by passage of a budget ordinance. All annual budget appropriations lapse at fiscal year-end.

Encumbrance accounting is a system under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. The City does not

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employ encumbrance accounting as it feels its current system is adequate to assure effective budgetary control and accountability and to facilitate effective cash planning and control.

E. Cash and Investments

For the purpose of the Statement of Net Position and the Statement of Cash Flows, "Cash and cash equivalents" consists of cash on hand, amounts in demand deposit accounts and interest-bearing checking accounts, as well as certificates of deposits with maturities of three months or less.

State statutes authorize the City to invest in time deposits of its designated depositories, U.S. Government Securities, and investment pools managed by the state. Investments are carried at fair value which is based on quoted market prices. Interest income and changes in fair value are reported as investment income.

F. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Any residual balances are classified as "due from other funds" and "due to other funds," respectively, on the balance sheet and statement of Net Position.

G. Restricted Assets

Amounts in governmental funds which are legally identified for specific purposes either by City ordinance or contractual obligation are reflected as restricted assets. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, restricted resources are used first to fund the expense.

H. Capital Assets

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide statements

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Interest incurred during construction is not capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

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Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	20 - 50 years
Utility lines/water wells	40 years
Infrastructure	40 - 50 years
Machinery and equipment	5 - 10 years

When capital assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and the appropriate gain or loss is recognized.

Fund financial statements

In the fund financial statements, capital assets used in governmental operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

I. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide financial statements.

J. Long-term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable, notes payable, leases payable, and compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

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K. Fund Equity

Government-wide statements

Equity is classified as Net Position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted Net Position - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted Net Position - all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Classification of fund balances

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include supplies inventories and prepaid items, long-term advances to other funds net of deferred interest revenue, long-term receivable net of deferred interest revenue, nonfinancial assets held for resale, and unrealized change in the fair value of investments.

Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation. The City's revenue generated through enabling legislation includes certain municipal court fees.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Council actions, no later than the close of the fiscal year. Those constraints remain binding unless

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removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the City Council or its designated officials to assign amounts to be used for specific purposes, but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council actions. The assigned fund balance is only reported in the General Fund.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

Spending Prioritization in Using Available Resources

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted resources to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

L. Interfund Transfers

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions in expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Pensions

For purposes of measuring the net pension liability/asset, deferred outflows of resources and deferred inflows of resources related to pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, when contributions are legally due. Benefit payments and refunds are

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recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Leases

Right-of-use asset and lease obligations are recognized upon lease commencement based on the present value of lease payments expected to be made during the remaining lease term. The incremental borrowing rate is used in determining the present value of lease payments unless an implicit rate is provided in the lease. Subsequent amortization of the right to-use asset is recognized as lease expense on a straight-line basis over the lease term, and accretion of the lease liability is recognized as interest expense using the effective interest method.

Right-of-use assets and lease liabilities are not recognized for leases with an initial term of twelve months or less. For these leases, lease expense is recognized on a straight-line basis over the lease term.

O. Subscription-Based Information Technology Arrangements

Effective October 1, 2022, the City implemented GASB Statement No. 96, Subscription-Based Information Technology Arrangements, which required the recognition of certain subscription assets and liabilities for subscriptions that previously were classified as operating expenses and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The City's subscription-based information technology arrangements are short-term, and as a result there are no assets or liabilities reported. The adoption of GASB No. 96 had no impact on the City's net position and no restatement of net position was made.

2. Legal Compliance - Budgets

The City's Mayor has ultimate responsibility for the budget and formulates the budget goals for the City under the direction of the City Council. In compliance with the state's uniform budget law, the Mayor files the proposed budget with the City Secretary and City Council before the 30th day prior to the date the City adopts its tax levy for the fiscal year. The City is required to publish a notice of a public hearing regarding the proposed budget and then hold that public hearing not less than 15 days after the budget is filed with the City Secretary and prior to the date the Council makes the tax levy. Once the hearing is concluded and before adoption of the proposed budget, the Council may make any changes it considers warranted by law or in the best interest of the taxpayers. The annual operating budget is then adopted through passage of an annual budget ordinance. Upon approval by the Council, the annual budget document becomes a matter of public record and is filed with the City Secretary.

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The legal level of budgetary control is the fund; therefore, expenditures may not legally exceed budget appropriations at the fund level. To amend the total of a fund or to reclass line items within the fund, a budget amendment approved by the Council is required. The general fund, debt service fund, and the enterprise fund have legally adopted annual budgets. During the year, the City amended the budget. Total expenditures exceeded the general fund budget by \$345,686 primarily due to capital outlay of \$498,415.

3. Deposits and Investments

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Of the bank balances, \$250,000 was covered by federal depository insurance at one institution and \$1,376,856 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

4. Restricted Assets

At September 30, 2023, restrictions on cash and investments were as follows:

<u>Cash and Investments</u>	Governmental Fund
Restricted for:	
Senior citizens center	\$ 4,216
Somerville Park Association	354
Hotel/ Motel	2,368
Municipal court	48,409
Debt service	142,830
	\$ 198,177

5. Receivables

Receivables at September 30, 2023, consist of the following:

	Governmental Funds	Proprietary Funds	Total
Receivables:			
Taxes:			
Property	\$ 104,743	\$ -	\$ 104,743
Sales	64,281	-	64,281
Municipal court	10,155	-	10,155
Insurance	-	40,924	40,924
Grants	65,099	-	65,099
Utility revenue	-	124,284	124,284
Less:			
allowance for uncollectibles	-	(973)	(973)
Net total receivables	\$ 244,278	\$ 164,235	\$ 408,513

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Property taxes attach as an enforceable lien on property as of February 1. Taxes are levied on October 1 and are payable by January 31, after which time they become delinquent and penalties and interest may be assessed by the City.

6. Capital Assets

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

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated				
Land	\$ 195,662	\$ 154,803	\$ -	\$ 350,465
Construction in progress	1,042,262	46,750	(1,042,262)	46,750
Total capital assets not being depreciated	<u>1,237,924</u>	<u>201,553</u>	<u>(1,042,262)</u>	<u>397,215</u>
Capital assets being depreciated				
Buildings and improvements	251,523	-	-	251,523
Streets and infrastructure	828,387	1,555,288	-	2,383,675
Software	28,318	-	-	28,318
Machinery and equipment	1,184,359	-	-	1,184,359
Total at historical cost	<u>2,292,587</u>	<u>1,555,288</u>	<u>-</u>	<u>3,847,875</u>
Less: accumulated depreciation for:				
Buildings and improvements	92,041	10,266	-	102,307
Streets and infrastructure	67,412	59,202	-	126,614
Software	18,181	1,076	-	19,257
Machinery and equipment	926,912	50,084	-	976,996
Total accumulated depreciation	<u>1,104,546</u>	<u>120,628</u>	<u>-</u>	<u>1,225,174</u>
Total capital assets being depreciated, net	<u>1,188,041</u>	<u>1,434,660</u>	<u>-</u>	<u>2,622,701</u>
Governmental activities capital assets, net	<u>\$ 2,425,965</u>	<u>\$ 1,636,213</u>	<u>\$ (1,042,262)</u>	<u>\$ 3,019,916</u>
<u>Business-type activities</u>				
Capital assets not being depreciated				
Construction in progress	\$ 895,930	\$ 41,174	\$ (895,930)	\$ 41,174
Total capital assets not being depreciated	<u>895,930</u>	<u>41,174</u>	<u>(895,930)</u>	<u>41,174</u>
Capital assets being depreciated				
Buildings and improvements	17,298	-	-	17,298
Machinery and equipment	837,170	29,787	(5,687)	861,270
Water and wastewater distribution	8,529,744	1,003,686	(27,070)	9,506,360
Total at historical cost	<u>9,384,212</u>	<u>1,033,473</u>	<u>(32,757)</u>	<u>10,384,928</u>
Less: accumulated depreciation for:				
Buildings and improvements	18,133	-	-	18,133
Machinery and equipment	437,569	35,815	(2,464)	470,920
Water and wastewater distribution	4,320,372	212,510	(13,535)	4,519,347
Total accumulated depreciation	<u>4,776,074</u>	<u>248,325</u>	<u>(15,999)</u>	<u>5,008,400</u>
Total capital assets being depreciated, net	<u>4,608,138</u>	<u>785,148</u>	<u>(16,758)</u>	<u>5,376,528</u>
Business-type activities capital assets, net	<u>\$ 5,504,068</u>	<u>\$ 826,322</u>	<u>\$ (912,688)</u>	<u>\$ 5,417,702</u>

CITY OF SOMERVILLE, TEXAS
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Depreciation expense was charged to programs of the primary government as follows:

General government	\$	3,747
Public safety		38,319
Culture and recreation		4,500
Public works		11,020
Highway and streets		63,042
		\$ 120,628

7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries commercial insurance.

8. Long-term Liabilities

Long-term liabilities outstanding at September 30, 2023 are comprised of the following:

<u>Long-term debt</u>	<u>Governmental activities</u>	<u>Business-type activities</u>
\$947,000, 2014 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$52,000 to \$78,000 through February 15, 2029; interest rates 0.80% to 3.50%	\$ 429,000	\$ -
\$1,500,000 General Obligation Bonds due in annual installments of \$55,000 to \$78,000 through February 2036; interest rate 1.74%	1,390,000	-
\$48,510 note payable dated November 9, 2018, payable in annual payments \$11,780, maturing November 9, 2023; interest rate 4.64%, secured by police car	10,594	-
\$82,912 note payable dated October 12, 2021, payable in annual payments of \$13,193, maturing October 20, 2028; interest rate 2.77%, secured by dump truck	24,005	48,011
\$124,800 note payable dated October 12, 2021, payable in annual payments of \$14,570, maturing October 20, 2031; interest rate 2.92%, secured by backhoe	37,957	75,916

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	Governmental activities	Business-type activities
\$57,245 note payable dated October 21, 2021, payable in annual payments of \$15,511, maturing December 3, 2025; interest rate 3.30%, secured by police car	43,623	-
\$53,108 note payable dated February 8, 2022, payable in annual payments of \$14,419, maturing March 11, 2026; interest rate of 3.384%, secured by police car	40,486	-
<u>Other long-term liabilities:</u>		
Compensated absences for accrued vacation	23,281	4,459
Other long-term payable	6,456	3,089
	<u>\$ 2,005,402</u>	<u>\$ 131,475</u>

Annual debt service requirements to maturity for the outstanding debt, including interest of \$273,322 are as follows:

Fiscal Year Ending September 30	Governmental activities		Business-type activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 166,195	\$ 41,538	\$ 14,962	\$ 3,547	\$ 181,157	\$ 45,085
2025	158,720	37,113	15,388	3,121	174,108	40,234
2026	166,875	32,818	15,826	2,683	182,701	35,501
2027	140,138	28,290	16,276	2,233	156,414	30,523
2028	143,370	24,552	16,739	1,770	160,109	26,322
2029-2033	740,366	73,902	44,734	2,916	785,100	76,818
2034-2036	460,000	12,093	-	-	460,000	12,093
Total	<u>\$ 1,975,665</u>	<u>\$ 250,305</u>	<u>\$ 123,926</u>	<u>\$ 16,270</u>	<u>\$ 2,099,591</u>	<u>\$ 266,575</u>

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Long-term debt					
Notes payable	\$ 200,323	\$ -	\$ 43,658	\$ 156,665	\$ 45,195
Certificates of Obligation	493,000	-	64,000	429,000	66,000
General Obligation Bonds	1,445,000	-	55,000	1,390,000	55,000
Other long-term liabilities:					
Compensated absences	30,145	-	6,864	23,281	-
Other long-term payable	3,089	4,760	1,393	6,456	3,228
Governmental activities long-term liabilities	<u>\$ 2,171,557</u>	<u>\$ 4,760</u>	<u>\$ 170,915</u>	<u>\$ 2,005,402</u>	<u>\$ 169,423</u>
Business-type activities					
Notes payable	\$ 138,475	\$ -	\$ 14,549	\$ 123,926	\$ 14,962
Compensated absences	4,459	-	-	4,459	-
Business-type activities long-term liabilities	<u>\$ 142,934</u>	<u>\$ -</u>	<u>\$ 14,549</u>	<u>\$ 128,385</u>	<u>\$ 14,962</u>

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9. Leases

Lessee

The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide funds financial statements. 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 a purchase option price that the City is reasonably certain to exercise.

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

Leased assets are reported on the government-wide Statement of Net Position and lease liabilities are reported as current and long-term liabilities on the Statement of Net Position.

The future principal and interest payments as of September 30, 2023 were as follows:

Governmental Activities			
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	\$ 32,428	\$ 1,139	\$ 33,567
2025	9,995	122	10,117
	\$ 42,423	\$ 1,261	\$ 43,684

Business-Type Activities			
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2024	\$ 10,737	\$ 263	\$ 11,000
2025	3,646	85	3,731
	\$ 14,383	\$ 348	\$ 14,731

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Right to use assets are amortized on a straight-line basis over the terms of the related leases. Right to use asset balances as of September 30, 2023 were as follows:

Governmental Activities			
Asset Class	Lease Asset Value	Accumulated Amortization	Lease Asset, Net of Amortization
Equipment	\$ 21,784	\$ 11,151	\$ 10,633
Buildings	83,337	48,326	35,011
	\$ 105,121	\$ 59,477	\$ 45,644

Business-Type Activities			
Asset Class	Lease Asset Value	Accumulated Amortization	Lease Asset, Net of Amortization
Buildings	\$ 32,548	\$ 18,082	\$ 14,466
	\$ 32,548	\$ 18,082	\$ 14,466

Lessor

The City recognizes a lease receivable and deferred inflow of resources in the government-wide and fund financial statements. At the commencement of leases, the City initially measured 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 an estimated borrowing rate as the discount rate. The lease term includes the non-cancellable period of the lease and options to extend the lease if they are reasonably certain to be exercised. 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 re-measurement 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.

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During the year, the City leased land for four years. The City recognized \$2,000 in lease and interest revenue during the current fiscal year. As of September 30, 2023, the City's receivable for lease payments was \$42,695. Also, the City has a deferred inflow of resources associated with these leases that will be recognized as revenue over the lease term. As of September 30, 2023, the balance of the deferred inflow of resources was \$42,695.

The future amounts to be received under the lease agreements as of September 30, 2023 were as follows:

Fiscal year	Governmental Activities		
	Principal Payments	Interest Payments	Total Payments
2024	\$ 10,537	\$ 1,463	\$ 12,000
2025	10,951	1,049	12,000
2026	11,381	619	12,000
2027	9,826	174	10,000
	<u>\$ 42,695</u>	<u>\$ 3,305</u>	<u>\$ 46,000</u>

10. Interfund Transfers

Interfund transfers during the year ended September 30, 2023, were as follows:

Transfers In	Transfers Out			
	General	Proprietary	Capital Projects	Non-major Special Revenue
General	\$ -	\$ 44,923	\$ -	\$ 4,200
Capital Projects	506,250	-	-	-
Proprietary	-	-	81,669	-
Total	<u>\$ 506,250</u>	<u>\$ 44,923</u>	<u>\$ 81,669</u>	<u>\$ 4,200</u>

11. Pension Plans

A. Plan Description

The City participates as one of 901 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual

CITY OF SOMERVILLE, TEXAS
Notes to Basic Financial Statements
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comprehensive financial report (ACFR) that can be obtained at www.tmr.com. All eligible employees of the city are required to participate in TMRS.

B. Benefits Provided

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

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

Plan provisions for the City were as follows:

	Plan Year	
	2021	2022
Employee Deposit Rate	5%	5%
Matching Ratio (City to Employee)	1.5 to 1	1.5 to 1
A member is vested after	5 years	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% repeating, transfers	100% repeating, transfers
Annuity Increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5 years/age 60, 25 years/any age.

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	29
Active employees	13

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using

CITY OF SOMERVILLE, TEXAS
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the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated rate necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.64% and 6.51% in calendar years 2022 and 2023, respectively. The city's contributions to TMRS for the year ended September 30, 2023, were \$38,874.

D. Net Pension Liability/Asset

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

Actuarial assumptions:

The Total Pension Liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5% including inflation
Investment rate of return	6.75%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%.

For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, and 100% for employers with 11 to 15 members and 110% for employers with less than 100 members.

There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%). The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2019, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2014 through December 31, 2018, first used in the December

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31, 2019 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Other Public and Private Markets	12.0%	7.22%
Real Estate	12.0%	6.85%
Hedge Funds	5.0%	5.35%
Private Equity	10.0%	10.00%
Total	100.0%	

Discount Rate

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

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employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability/Asset.

<i>Changes in the Net Pension Liability</i>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a) - (b)
Balance at 12/31/2021	\$ 1,407,546	\$ 1,715,624	\$ (308,078)
Changes for the year:			
Service Cost	76,223	-	76,223
Interest	101,560	-	101,560
Change of benefit terms	90,610	-	90,610
Difference between expected and actual experience	13,486	-	13,486
Changes of assumptions	-	-	-
Contributions - employer	-	29,448	(29,448)
Contributions - employee	-	31,733	(31,733)
Net investment income	-	(125,127)	125,127
Benefit payments, including refunds of employee contributions	(63,355)	(63,355)	-
Administrative expense	-	(1,084)	1,084
Other charges	-	1,293	(1,293)
Net changes	218,524	(127,091)	345,615
Balance at 12/31/2022	<u>\$ 1,626,070</u>	<u>\$ 1,588,533</u>	<u>\$ 37,537</u>

Sensitivity of the net position liability (asset) to changes in the discount rate.

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability/(asset)	\$ 244,075	\$ 37,537	\$ (133,319)

Pension Plan Fiduciary Net Position

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

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E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2023, the City recognized pension expense of \$141,410.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,640	\$ 1,401
Difference between projected and actual investment earnings	110,038	-
Contributions subsequent to the measurement date	30,757	-
Total	\$ 147,435	\$ 1,401

Contributions of \$30,757 made subsequent to the measurement date are reported as deferred outflows of resources related to pensions and will be recognized as a reduction of the net pension liability for the year ending September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2023	\$ 11,020
2024	26,861
2025	29,211
2026	48,184
Total	\$ 115,276

12. Other Post-Employment Benefits

A. Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System ("TMRS") known as the Supplemental Death Benefits Fund ("SDBF"). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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B. Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit", or "OPEB".

Employees covered by benefit terms.

At October 1, 2021, the effective date of the most recent OPEB valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	2
Active employees	13
	27

Contributions and Actuarial Information

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year, the intent is to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust as defined by paragraph 4 of GASB Statement No. 75.

The total supplemental death benefit ("SDB") contribution rates were 0.42% for calendar years 2022 and 2023. The City's contributions for the year ended September 30, 2023 were \$3,883 and were equal to the required contributions.

Total OPEB Liability. The City's total OPEB liability of \$63,829 was measured as of December 31, 2022, and was determined by an actuarial valuation as of December 31, 2022.

Actuarial Assumptions. The total OPEB in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions as of the December 31, 2022 measurement date:

Inflation	2.5% per year
Salary Increases	3.5% to 11.5% including inflation
Discount Rate	4.05%

Salary increases were based on a service-related table. Mortality rates for service retirees are based on the 2019 Municipal Retirees of Texas Mortality Tables. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully

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generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set forward for males and a 3-year set-forward for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Actuarial assumptions used in the December 31, 2022 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2014 through December 31, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2021	\$ 88,755
Changes for the year:	
Service Cost	3,046
Interest	1,644
Change of benefit terms	-
Difference between expected and actual experience	(639)
Changes of assumptions	(27,073)
Benefit payments, including refunds of employee contributions	(1,904)
Net changes	(24,926)
Balance at 12/31/2022	\$ 63,829

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 4.05%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.05%) or 1 percentage point higher (5.05%) than the current rate.

	1% Decrease in Discount Rate (3.05%)	Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
City's total OPEB liability	\$ 74,513	\$ 63,829	\$ 55,176

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

For the year ended September 30, 2023, the City recognized OPEB expense of \$162. At September 30, 2023, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 6,192
Changes in actuarial assumptions	1,615	19,814
Contributions subsequent to the measurement date	1,984	-
Total	<u>\$ 3,599</u>	<u>\$ 26,006</u>

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

Year ended December 31:	
2023	\$ (10,090)
2024	(8,882)
2025	(5,419)
	<u>\$ (24,391)</u>

13. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. 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 such amounts, if any, to be immaterial.

In the course of operations, the City is subject to litigation from time to time. Although the amount of any liability with respect to such litigation cannot be determined, in the opinion of management, such liability will not have a material adverse effect on the City's financial condition.

14. Related Party Transactions

In 2023, the City paid \$13,031 to a Council member's business.

15. Net Investment in Capital Assets

Long-term debt has been issued by the General fund for the purchase and construction of Enterprise fund capital assets. The portion of debt related to the Enterprise fund capital assets is not deducted in the calculation of the amount of net investment in capital assets for governmental or business-type activities. However, this amount is included in the calculation of net investment in capital assets for the primary government as a whole.

16. Deficit Fund Balance

A deficit unassigned fund balance of \$3,638 and \$8,866 exists in the Senior Citizens Center and Court Technology special revenue funds, respectively.

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17. Commitments

In September 2023, the City entered into a construction agreement with Solid Bridge for \$247,520 for Street and Drainage improvements to begin in December 2024. The CDBG Community Development grant will cover the funds of the improvements.

18. Subsequent Events

Subsequent to year end, the City demolished the old City Hall for \$108,444 in preparation to build a new City Hall.

In November 2023, the City of entered into an agreement to finance the purchase of a vehicle for the police department for approximately \$69,000.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

BRACEWELL

[Closing Date]

\$ _____
CITY OF SOMERVILLE, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025

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

CITY OF SOMERVILLE, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2025, dated January 1, 2025, in the aggregate principal amount of \$ _____.

The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the City authorizing their issuance (the “Ordinance”).

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

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

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

Based upon such examination 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 Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Certificates constitute valid and legally binding obligations of the Issuer.
2. A continuing ad valorem tax upon all taxable property within the City of Somerville, Texas, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for such purposes, within the limits prescribed by law. In addition, the Certificates are further secured by a limited pledge of a subordinate lien on the Net Revenues (as defined in the Ordinance) of the Issuer's water, sewer and sanitation system in an amount not to exceed \$1,000 as provided in the Ordinance.
3. Interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Certificates is not 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 Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

We express no opinion as to the amount or timing of any interest on the Certificates 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 Certificates. 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 Issuer or other parties upon which we have relied are determined to be inaccurate or incomplete or the Issuer fails to comply with the covenants of the Ordinance, interest on the Certificates could become includable in gross income for federal income tax purposes from the date of the original delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

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