OFFICIAL STATEMENT DATED OCTOBER 1, 2025

NEW ISSUE - BOOK-ENTRY-ONLY

RATINGS:
Moody's: "A2"
S&P: "A-" AG Insured "AA"
See "BOND INSURANCE," "BOND INSURANCE GENERAL RISKS," AND "RATINGS" herein

In the opinion of Greenberg Traurig, LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (defined herein) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds is not excluded from the determination of adjusted financial statement income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

CITY OF BROWNSVILLE, TEXAS

(A political subdivision of the State of Texas located in Cameron County, Texas)

$60,700,000
UTILITY SYSTEM REVENUE REFUNDING BONDS,
SERIES 2025

Dated: October 15, 2025 (interest accrues from the Closing Date) **Due: September 1 in the years shown on the following page**

The City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2025 (the "Bonds") are being issued by the City of Brownsville, Texas (the "City") as Additional Senior Lien Obligations (defined herein) for the following purposes: (i) the discharge and final payment of certain outstanding utility system revenue bonds, as further described on Schedule I attached hereto (the "Refunded Bonds"), (ii) to refund certain outstanding commercial paper notes to convert short-term variable rate obligations into long-term obligations, as further described in Schedule I attached hereto (the "Refunded Notes" and together with the "Refunded Bonds", the "Refunded Obligations"), and (iii) to pay the costs and expenses of issuing the Bonds (see "PLAN OF FINANCING" herein). The Bonds are being issued pursuant to the laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), an ordinance (the "Ordinance") adopted by the City Commission on August 5, 2025, and the City's Home Rule Charter (see "THE BONDS – Authority for Issuance" herein). As permitted by the provisions of Chapter 1207, the City Commission, in the Ordinance, delegated the authority to certain City or Board (defined herein) officials to execute an Approval Certificate establishing the final pricing terms for the Bonds. The Approval Certificate was executed by an authorized officer of the Board on October 1, 2025.

The Bonds are special obligations of the City, payable as to principal, premium, if any, and interest solely from, and equally and ratably secured, together with the currently outstanding Previously Issued Senior Lien Obligations (defined herein) and any Additional Senior Lien Obligations hereafter issued by the City, by a first and prior lien on and pledge of the Net Revenues (defined herein) of the City's combined water, wastewater and electric utilities system (the "System"). The Bonds are not payable from monies raised or to be raised by taxation (see "THE BONDS – Sources of and Security for Payment" herein). Pursuant to the City's Home Rule Charter, the management, operation and control of the System is delegated to the Brownsville Public Utilities Board (the "Board") (see "THE COMBINED UTILITIES SYSTEM – The Board" and the excerpts of the Ordinance set forth in "Appendix D – Selected Provisions from the Bond Ordinance" attached hereto).

Interest on the Bonds will accrue from the date of the initial delivery of the Bonds (the "Closing Date") to the initial purchasers thereof named below (the "Underwriters"), will be payable on September 1 and March 1, commencing March 1, 2026, until stated maturity or prior redemption and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be registered in the name of Cede & Co., the nominee of The Depository Trust Company ("DTC") which will act as securities depository for the Bonds. Only beneficial interests in the Bonds in denominations of $5,000 or integral multiples thereof are offered hereby. **No physical delivery of the Bonds will be made to the owners thereof.** The initial paying agent/registrar is The Bank of New York Mellon Trust Company, N.A., Houston, Texas (the "Paying Agent/Registrar"). Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will credit such payments to its participants for disbursement to the beneficial owners of the Bonds.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY INC.**

ASSURED GUARANTY®

See the following page for the maturity schedules, interest rates, initial yields, CUSIP numbers, and redemption provisions of the Bonds

THIS COVER PAGE IS NOT INTENDED TO BE A SUMMARY OF THE TERMS OR THE SECURITY FOR THE BONDS. INVESTORS ARE ADVISED TO READ THE OFFICIAL STATEMENT IN ITS ENTIRETY TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

The Bonds are offered when, as and if issued and received by the Underwriters and subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by Greenberg Traurig, LLP, Houston, Texas, Bond Counsel. Certain matters will be passed upon for the City by the City Attorney, for the Board by Spencer Fane LLP., Austin, Texas, as Special Counsel to the Board, and for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Austin, Texas. Certain legal matters will be passed upon for the Board by Greenberg Traurig, LLP, Houston, Texas, Disclosure Counsel. The Bonds are expected to be available for delivery to and credit through DTC on or about October 23, 2025.

GOLDMAN SACHS & CO. LLC

FROST BANK **RBC CAPITAL MARKETS**

MATURITY SCHEDULES, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS

$60,700,000
CITY OF BROWNSVILLE, TEXAS
UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2025

CUSIP [1] Prefix: 116475

$46,180,000 Serial Bonds

Maturity (Sept. 1)	Principal Amount	Interest Rate	Price or Yield [2]	CUSIP[1] Suffix	Maturity (Sept. 1)	Principal Amount	Interest Rate	Price or Yield [2]	CUSIP[1] Suffix
2026	$ 4,320,000	5.000%	2.710%	3S1	2036	$ 1,465,000	5.000%	3.570%	4C5
2027	4,090,000	5.000%	2.650%	3T9	2037	1,545,000	5.000%	3.710%	4D3
2028	5,185,000	5.000%	2.630%	3U6	2038	770,000	5.000%	3.860%	4E1
2029	5,440,000	5.000%	2.670%	3V4	2039	810,000	5.000%	3.980%	4F8
2030	5,695,000	5.000%	2.750%	3W2	2040	850,000	5.000%	4.100%	4G6
2031	5,870,000	5.000%	2.840%	3X0	2041	895,000	5.000%	4.220%	4H4
2032	1,205,000	5.000%	2.990%	3Y8	2042	940,000	5.000%	4.330%	4J0
2033	1,270,000	5.000%	3.110%	3Z5	2043	985,000	5.000%	4.420%	4K7
2034	1,330,000	5.000%	3.260%	4A9	2044	1,035,000	5.000%	4.480%	4L5
2035	1,395,000	5.000%	3.410%	4B7	2045	1,085,000	5.000%	4.550%	4M3

$14,520,000 Term Bonds

$6,335,000 5.250% Term Bond due September 1, 2050 and priced to yield 4.69% [2] – CUSIP[1] Suffix 4N1

$8,185,000 5.250% Term Bond due September 1, 2055 and priced to yield 4.74% [2] – CUSIP[1] Suffix 4P6

REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2036, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see "THE BONDS - Redemption of the Bonds - Optional Redemption"). The Bonds maturing in the years 2050 and 2055 (the "Term Bonds") are subject to mandatory sinking fund redemption as described herein (see "THE BONDS – Redemption of the Bonds – Mandatory Redemption of the Bonds").

[1] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of The American Bankers Association by FactSet Research Systems, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services provided by CUSIP Global Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. Neither the City, the Board, the Financial Advisor (defined herein) nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

[2] Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on September 1, 2035, the first optional call date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

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USE OF INFORMATION

This Official Statement, which includes the cover page, Schedule I, and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds, in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

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

The information set forth herein has been obtained from records of the City, the Board, and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a promise or guarantee of the Financial Advisor or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

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

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

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

Neither the City, the Board, the Financial Advisor, nor the Underwriters 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 described under the caption "THE BONDS - Book-Entry-Only System," or Assured Guaranty Inc. ("AG") or its municipal insurance policy described herein under the heading "BOND INSURANCE".

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

AG makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading "BOND INSURANCE" and "Appendix E - Specimen Municipal Bond Insurance Policy".

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The cover page hereof, this page, the appendices included herein, and any addenda, supplement or amendment hereto are part of this 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 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE CITY .... The City of Brownsville, Texas (the "City") is a political subdivision, and a municipal corporation of the State of Texas located in Cameron County, Texas. The City was incorporated in 1853 and first adopted its Home Rule Charter in 1915. The City's Home Rule Charter has not been amended since 2023. The City operates under a Commission/Manager form of government with a City Commission comprised of the Mayor and six Commissioners elected for staggered four-year terms. The City Manager is the Chief Administrative Officer for the City. The City is approximately 133 square miles in area.

THE BOARD .... Pursuant to the City's Home Rule Charter, the City's combined electric, water and wastewater system (the "System") is managed, operated and maintained by the Public Utilities Board of the City of Brownsville, Texas (the "Board"), which is comprised of seven members, six of whom are appointed by the City Commission for four-year terms, and the seventh member is the City's Mayor serving in an ex-officio capacity.

THE BONDS .... The Bonds are issued as the *City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2025* in the principal amount of $60,700,000 (the "Bonds"). See "THE BONDS — General" herein.

AUTHORITY .... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), the City's Home Rule Charter, and an ordinance adopted by the City Commission on August 5, 2025 (the "Ordinance"). As permitted by the provisions of Chapter 1207, the City Commission, in the Ordinance, delegated the authority to certain City or Board officials to execute an Approval Certificate establishing the final pricing terms for the Bonds. The Approval Certificate was executed by an authorized officer of the Board on October 1, 2025.

SECURITY AND SOURCE OF PAYMENT .... The Bonds are special obligations of the City, payable as to principal, premium, if any, and interest solely from and equally and ratably secured, together with the currently outstanding Previously Issued Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, by a first and prior lien on and pledge of the Net Revenues of the System (see "THE BONDS – Sources of and Security for Payment" herein). The Bonds are not payable from monies raised or to be raised by taxation.

BOND INSURANCE ……................... The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Inc. (see "BOND INSURANCE").

OPTIONAL REDEMPTION .... The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 2036, in whole or in part in authorized denominations, on September 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see "THE BONDS — Redemption of the Bonds - Optional Redemption").

MANDATORY SINKING FUND REDEMPTION....................... The Bonds maturing September 1 in the years 2050 and 2055 (the "Term Bonds") are subject to mandatory sinking fund redemption (see "THE BONDS — Redemption of the Bonds – Mandatory Redemption of the Bonds").

TAX MATTERS.......... In the opinion of Greenberg Traurig, LLP, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

USE OF PROCEEDS....................... Proceeds from the sale of the Bonds will be used for the following purposes: (i) the discharge and final payment of certain outstanding utility system revenue bonds, as further described on Schedule I attached hereto (the "Refunded Bonds"), (ii) to refund certain outstanding commercial paper notes to convert short-term variable rate obligations into long-term obligations, as further described in Schedule I attached hereto (the "Refunded Notes" and together with the "Refunded Bonds", the "Refunded Obligations"), and (iii) to paying the costs and expenses of issuing the Bonds.

RATINGS .... The Bonds are expected to be rated “AA” (stable outlook) by S&P Global Ratings (“S&P”) by virtue of a bond insurance policy issued by AG. The Bonds have been rated "A2" by Moody’s Investor Service, Inc. (“Moody’s”) and “A-” by S&P without regard to credit enhancement. The underlying rating of the currently outstanding Previously Issued Senior Lien Obligations (without regard to credit enhancement) is “A-” (outlook stable) by S&P. Moody’s has assigned an underlying rating (without regard to credit enhancement) on certain of the City's currently outstanding Previously Issued Senior Lien Obligations of "A2" (outlook stable). (see "BOND INSURANCE" and "RATINGS" herein).

BOOK-ENTRY-ONLY SYSTEM .... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company (“DTC”) pursuant to its Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar (initially, the Bank of New York Mellon Trust Company, N.A., Houston, Texas) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

PAYMENT RECORD....................... The City has never defaulted on the payment of its bonded indebtedness.

DELIVERY..................................... Delivery of the Bonds is subject to receipt of an approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Bond Counsel as to legality and certain other matters, both of which are expected to occur on or about October 23, 2025.

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CITY AND BOARD OFFICIALS

CITY OF BROWNSVILLE, TEXAS
City Hall/Market Square
P.O. Box 911
Brownsville, Texas 78520
Telephone: 956-548-6000

CITY COMMISSION

Mayor John F. Cowen, Jr.	Mayor
Bryan L . Martinez	Commissioner District 1
Linda C. Macias	Commissioner District 2
Gustavo De Leon	Commissioner District 3
Pedro Cardenas	Commissioner District 4
Tino Villarreal, Jr.	Commissioner at Large "A"
Nurith Galonsky.	Commissioner at Large "B"

HIRED OFFICIALS

Helen Ramirez	City Manager
Alan Guard	Deputy City Manager/CFO
Stephen Muse	Interim Finance Director
Will Trevino	City Attorney
Felix Sauceda	Assistant City Attorney
Doro Garcia	Assistant City Manager

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
P.O. Box 3270
Brownsville, Texas 78523-3270
Telephone: 956-983-6100

BOARD MEMBERS

Gerardo Martinez	Chair
Alonzo "Al" Villarreal	Vice Chair
Daisy Zamora, Ph. D	Secretary/Treasurer
Alejandro Najera	Member
Joseph L. Hollman, Ph. D.	Member
Martin Sarkis	Member
Mayor John F. Cowen, Jr.	Ex–Officio Member, Elected

BOARD ADMINISTRATION

Marilyn D. Gilbert	General Manager and Chief Executive Officer
Mark Dombroski	Assistant General Manager and Chief Operating Officer
Miguel "Mike" Perez	Chief Financial Officer
David Medrano	Director of Finance
Constanza Miner	Chief Administrative Officer
Paul Gonzalez	General Counsel & Chief Legal Officer

CONSULTANTS AND ADVISORS

Bond Counsel	Greenberg Traurig, LLP Houston, Texas
Special Counsel to the Board	Spencer Fane LLP Austin, Texas
Local Counsel	Jones, Galligan, Key & Lozano, LLP Brownsville, Texas
Certified Public Accountants	Burton McCumber & Longoria, LLP Brownsville, Texas
Financial Advisor	Estrada Hinojosa Dallas, Texas

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OFFICIAL STATEMENT
RELATING TO

$60,700,000
CITY OF BROWNSVILLE, TEXAS
(A political subdivision of the State of Texas located in Cameron County, Texas)
UTILITY SYSTEM REVENUE REFUNDING BONDS,
SERIES 2025

INTRODUCTION

This Official Statement, which includes the cover page, and the Appendices hereto, provides certain information regarding the issuance by the City of Brownsville, Texas (the "City") of its *Utility System Revenue Refunding Bonds, Series 2025* in the aggregate principal amount of *$60,700,000* (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance authorizing the issuance of the Bonds adopted by the City Commission on August 5, 2025 (the "Ordinance"), except as otherwise indicated herein (see "Appendix D – Selected Provisions from the Bond Ordinance" attached to this Official Statement which contains certain definitions and excerpts from the Ordinance).

The City, incorporated in 1853, is a political subdivision and municipal corporation of the State of Texas (the "State") duly organized and existing under the laws of the State, including the City's Home Rule Charter (the "City Charter"), last amended in 2023. The City operates under a Commission/Manager form of government, with a City Commission comprised of the Mayor and six Commissioners elected to staggered four-year terms. Elections are held each odd-numbered year. The City provides the following services: public safety (police and fire protection), highways, streets, sanitation, electric, water and sanitary sewer utilities, health and social services, cultural-recreation, airport, public transportation, public improvements, and planning and zoning. The City covers approximately 133 square miles. The 2020 Census population for the City was 186,738, and the estimated population for 2025 is 192,260.

Pursuant to the City Charter, the management, operation, and control of the City’s combined water, wastewater and electric utilities system (the "System") is delegated to the Public Utilities Board of the City of Brownsville, Texas (the "Board"), which is comprised of seven members, six of whom are appointed by the City Commission for four-year terms, and the seventh member is the City’s Mayor serving in an ex-officio capacity.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City, the Board, the System and its operations and finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. A copy of such documents may be obtained upon request from the City's Financial Advisor, Estrada Hinojosa, Dallas, 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. A copy of the final Official Statement pertaining to the Bonds will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system (see "OTHER INFORMATION - Continuing Disclosure of Information" herein for a description of the City’s undertaking to provide certain information on a continuing basis).

PLAN OF FINANCING

PURPOSE

The Bonds are being issued for the following purposes: (i) the discharge and final payment of certain outstanding utility system bonds, as further described on Schedule I attached hereto (the “Refunded Bonds”), (ii) to refund certain outstanding commercial paper notes to convert short-term variable rate obligations into long-term obligations, as further described in Schedule I attached hereto (the “Refunded Notes” and together with the “Refunded Bonds”, the “Refunded Obligations”), and (iii) to pay the costs and expenses of issuing the Bonds.

REFUNDED BONDS

The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment, maturity, and redemption dates, as applicable, of such Refunded Bonds, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A., Houston, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters, the City will deposit with the Escrow Agent the amount necessary, together with other lawfully available funds of the City, if any, to accomplish the discharge and final payment of the Refunded Bonds on their scheduled redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Prior to, or simultaneously with, the issuance of the Bonds, the City will give instructions to the applicable paying agent/registrar to provide notice to the owners of the Refunded Bonds that, subject to the delivery and closing of the Bonds, such Refunded Bonds will be redeemed prior to stated maturity, on which date money will be made available to redeem such Refunded Bonds from money held under the Escrow Agreement.

Causey, Demgen & Moore, P.C. a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds (see "OTHER INFORMATION-Verification of Arithmetical and Mathematical Computations" herein).

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have accomplished the defeasance of all of the Refunded Bonds in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Causey, Demgen & Moore, P.C. the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from any revenues of the City, the Board or the System nor for the purpose of applying any limitation on the issuance of debt.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

REFUNDED NOTES

The Ordinance provides that an amount sufficient to refund the Refunded Notes, together with other lawfully available funds of the City, shall be deposited into the note payment fund relating to the Refunded Notes held by US Bank, N.A., the issuing and paying agent for the Refunded Notes, to reimburse draws made on the direct pay letter of credit supporting the Refunded Notes which will be used to pay the Refunded Notes on their scheduled maturity date.

SOURCES AND USES OF FUNDS

The City and the Board anticipate that the proceeds from the sale of the Bonds, together with other funds, will be applied approximately as set forth in the following table:

Sources of Funds:		
Principal Amount	$	60,700,000.00
Premium		4,356,008.45
Issuer Contribution		237,491.04
Total Sources of Funds	$	65,293,499.49
Uses of Funds:		
Note Payment Fund Deposit for Refunded Notes	$	30,095,071.23
Deposit to Refunded Bonds Escrow Fund		33,994,791.01
Costs of Issuance(1)		876,897.38
Underwriters' Discount		326,739.87
Total Uses of Funds	$	65,293,499.49

(1) Includes Bond Issuance Premium

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is hereby made to the Ordinance for the detailed provisions thereof (see "Appendix D – Selected Provisions from the Bond Ordinance").

GENERAL

The Bonds will be dated October 15, 2025 and will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page ii of this Official Statement. The Bonds will be issued in fully registered form and will be in denominations of $5,000 or any integral multiple thereof. The Bonds will bear interest from the date of the delivery of the Bonds (the "Closing Date"), or from the most recent date to which interest has been paid or duly provided for, and interest will be paid semiannually on each September 1 and March 1, commencing March 1, 2026, until stated maturity or prior redemption. Principal and interest on the Bonds are payable in the manner described below under "THE BONDS - Book-Entry-Only System." In the event the Book-Entry-Only System is discontinued, the interest on the Bonds payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by the Paying Agent/Registrar (initially, the Bank of New York Mellon Trust Company, N.A., Houston, Texas), as of the Record Date (hereinafter defined), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal of, or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

AUTHORITY FOR ISSUANCE

The Bonds are being issued pursuant to Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), the City's Home Rule Charter, and the Ordinance. As permitted by the provisions of Chapter 1207, the City Commission, in the Ordinance, delegated the authority to certain City or Board officials to execute an Approval Certificate establishing the final terms of the Bonds. The Approval Certificate was executed by an authorized officer of the Board on October 1, 2025.

SOURCES OF AND SECURITY FOR PAYMENT

Net Revenue Pledge . . . The Bonds are special obligations of the City, payable as to principal, premium, if any, and interest solely from and equally and ratably secured, together with the currently outstanding Previously Issued Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, by a first and prior lien on and pledge of the Net Revenues of the System and such lien is superior to the pledge and lien securing the currently outstanding Junior Lien Obligations, Subordinate Lien Obligations, and Commercial Paper Notes and any Inferior Lien Obligations hereafter issued by the City. Neither the full faith and credit nor the taxing power of the City, Cameron County, Texas, the State, or any other entity is pledged as security to the payment of the principal of, premium, if any, or interest on the Bonds. The Bonds are secured by and payable only from the Net Revenues and are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, constituting the System.

Definitions of Net Revenues, Gross Revenues, and Maintenance and Operating Expenses . . . The term "Net Revenues" is defined in the Ordinance as Gross Revenues less Maintenance and Operating Expenses.

Gross Revenues include all revenues, income, and receipts of every nature derived or received by the City or the Board from the operation and ownership of the System (other than grants, restricted gifts, water rights fees, contributions in aid of construction, impact fees charged by the City or the Board pursuant to the provisions of Chapter 395, Texas Local Government Code, as amended, or other similar law, and refundable meter deposits), including the interest income from the investment or deposit of money in any Fund maintained pursuant to the Ordinance (with the exception of the Senior Lien Reserve Fund until the Required Reserve Amount is accumulated, the Project Fund and the Rebate Fund), or maintained by the City in connection with the System.

Maintenance and Operating Expenses (which are to be paid out of Gross Revenues prior to payment of amounts due in respect of any Debt, including the Bonds) include all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, including (1) the cost of all salaries, labor, materials, repairs, and extensions necessary to render efficient service, but only if, in the case of repairs and extensions, that are, in the judgment of the Board (reasonably and fairly exercised), necessary to maintain operation of the System and render adequate service to the City and the inhabitants thereof and other customers of the System, or are necessary to meet some physical accident or condition which would otherwise impair the payment of Debt, (2) payments to pension, retirement, health, hospitalization, and other employee benefit funds for employees of the Board engaged in the operation or maintenance of the System, (3) payments under contracts for the purchase of electricity, gas, water supply, treatment of sewage, and other utility services, or other materials, goods, or services for the System to the extent authorized by law and the provisions of such contract, (4) payments to auditors, attorneys, and other consultants incurred in complying with the obligations of the City or the Board under the Ordinance, and (5) any legal liability of the City or the Board arising out of the operation, maintenance, or condition of the System, but excluding any allowance for depreciation, property retirement, depletion, and obsolescence, other items not requiring an outlay of cash, and any Debt Service Requirements of any Debt.

PERFECTION OF SECURITY INTEREST FOR THE BONDS

Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the pledge of the Net Revenues, and such pledge is therefore valid, effective and perfected. Should Texas law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Net Revenues is subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge the City has agreed in the Ordinance to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

RATE COVENANT

In the Ordinance, the City has covenanted that while any of the Senior Lien Obligations are outstanding, it will establish and maintain rates and charges for facilities and services afforded by the System, together with any other lawfully available funds, that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. to pay Maintenance and Operating Expenses for each Fiscal Year, including the funding or replenishment of the Operating Reserve Fund;

B. to produce Net Revenues sufficient to pay (1) no less than 1.25 times the annual Debt Service Requirements for such Fiscal Year on the Senior Lien Obligations then Outstanding, and (2) no less than 1.00 times the amounts required to be deposited to fund or to cure any deficiency in any reserve or contingency fund created for the payment and security of the Senior Lien Obligations and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured solely by a first and prior lien on and pledge of the Net Revenues;

C. to produce Net Revenues, together with any other lawfully available funds (including the proceeds of Debt which the City expects will be utilized to pay all or part of the principal of and/or interest on any obligations described in this subsection C), sufficient to pay (1) no less than 1.10 times the annual debt service requirements for such Fiscal Year on the Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City and the amounts required to be deposited to fund or cure any deficiency in any reserve or contingency fund created for the payment and security of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a junior lien on and pledge of the Net Revenues, and (2) no less than 1.00 times the annual debt service requirements on the currently outstanding Commercial Paper Obligations, and any Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the City and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the currently outstanding Commercial Paper Obligations, and any Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the City and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a subordinate lien on and pledge of the Net Revenues;

D.to produce Net Revenues, together with any other lawfully available funds, to fund the transfers to the City's General Fund as permitted by the Ordinance (see "Funds and Accounts and Flow of Funds - Transfers to the City's General Fund" and "THE COMBINED UTILITY SYSTEM – Transfers to the City's General Fund" below); and

E. to pay any other Debt payable from the Net Revenues and/or secured by a lien on the System.

In the event the Board's annual audit report reflects that the Net Revenues for the Fiscal Year covered thereby were less than necessary to meet the requirements as described above, the Board is required, within thirty (30) days after receipt of such annual audit report, to report such fact to the City Commission and review the operations of the System and the rates and charges for services provided, and the Board (and the City Commission, if required) is required to make the necessary adjustments or revisions, if any, in order that the Net Revenues for the succeeding year will be sufficient to satisfy the foregoing coverage requirements specified above.

FUNDS AND ACCOUNTS AND FLOW OF FUNDS

The following paragraphs briefly describe in summary form the manner in which Gross Revenues and Net Revenues are utilized and their priority of payment. For a complete description of the flow of funds, see excerpts of the Ordinance which are included in "Appendix D – Selected Provisions from the Bond Ordinance."

Plant Fund . . . The Ordinance requires all Gross Revenues to be deposited by the Board, as collected and received, into a separate account known as the Plant Fund. All Gross Revenues deposited into the Plant Fund shall be transferred for the following uses and in the order of priority shown below:

FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined in the Ordinance or required by statute (including, but not limited to, Chapter 1502, Texas Government Code, as amended) to be a first charge on and claim against the Gross Revenues, including the establishment of a fuel adjustment subaccount or similar accounts. In addition, the Board is required to retain in the Plant Fund a reserve amount to pay Maintenance and Operating Expenses of not less than two months of budgeted Maintenance and Operating Expenses for the current Fiscal Year (the "Operating Reserve Fund") which amount was funded initially in the amount of $12,500,000 with lawfully available funds of the Board and will be replenished as described in subparagraph ELEVENTH below.

SECOND: to the payment of the amounts required to be deposited into the Debt Service Fund created and established for the payment of the Senior Lien Obligations as the same become due and payable (see "Debt Service Fund" below).

THIRD: to the payment of the amounts required to be deposited into the Senior Lien Reserve Fund and other debt service reserves for Senior Lien Obligations created and established in accordance with the Ordinance (see the provisions of the Ordinance as set forth in Appendix D of this Official Statement) to maintain the amounts required to be deposited in accordance with the provisions of the Ordinance or the ordinances relating to the issuance of any Additional Senior Lien Obligations.

FOURTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City as the same become due and payable.

FIFTH: to the payment of the amounts required to be deposited into the reserve fund created and established in connection with the Junior Lien Obligations to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the issuance of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City.

SIXTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of the currently outstanding Commercial Paper Obligations (to the extent the Commercial Paper Obligations are payable from a subordinate lien on the Net Revenues), or any Subordinate Lien Obligations hereafter issued by the City as the same become due and payable.

SEVENTH: to the payment of the amounts required to be deposited into the reserve fund, if any, created and established to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the currently outstanding Commercial Paper Obligations (to the extent the Commercial Paper Obligations are payable from a subordinate lien on the Net Revenues), or any Subordinate Lien Obligations hereafter issued by the City as the same become due and payable.

EIGHTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of any Inferior Lien Obligations as the same become due and payable.

NINTH: to the payment of the amounts required to be deposited into the reserve fund, if any, created and established to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the issuance of any Inferior Lien Obligations.

TENTH: to the payment of the amounts to be deposited into the City Transfer Fund and to be transferred to the City's General Fund as provided in the Ordinance (see "Transfers to the City's General Fund" below and the excerpt of the Ordinance as set forth in Appendix D of this Official Statement).

ELEVENTH: to the payment of the amount to replenish the Operating Reserve Fund to the amount required in subparagraph FIRST above.

TWELFTH: to the payment of the accrual to fund or to replenish the Capital Improvement Fund created and established by the Ordinance, along with the accumulation of any other surplus Net Revenues (see "Capital Improvement Fund" below and the excerpt of the Ordinance as set forth in Appendix D of this Official Statement).

Debt Service Fund . . . For purposes of providing funds to pay the principal of, premium, if any, and interest on the Senior Lien Obligations as the same become due and payable, the Board is required to maintain, at a Depository, a separate and special account or fund known as the Debt Service Fund. The Board is required to deposit into the Debt Service Fund prior to each principal and interest payment date from the available Net Revenues an amount equal to the amount required to fully pay the interest on and the principal of the Senior Lien Obligations then falling due and payable, such deposits to pay maturing principal and accrued interest on the Senior Lien Obligations to be made by the Board in substantially equal monthly installments on or before the business day before the 15th day of each month, beginning on or before the business day before the 15th day of the month next following the delivery of the Bonds to the Underwriters. If the Net Revenues in any month are insufficient to make the required payments into the Debt Service Fund, then the amount of any deficiency in such payment is required to be added to the amount otherwise required to be paid into the Debt Service Fund in the next month.

Senior Lien Reserve Fund . . . The Ordinance requires the Board to create, establish, and maintain with a Depository a separate and special fund or account known as the Senior Lien Reserve Fund for the purpose of accumulating a reserve for the payment of the Senior Lien Obligations equal to the least of (1) 100% of the Maximum Annual Debt Service Requirements for the Senior Lien Obligations, (2) 125% of the Average Annual Debt Service Requirements for the Senior Lien Obligations and (3) 10% of the initial principal amount of the Outstanding Senior Lien Obligations (calculated by the Board at the beginning of each Fiscal Year and as of the date of issuance of the Bonds and each series of Additional Senior Lien Obligations) (the "Required Reserve Amount").

During such time as the Senior Lien Reserve Fund contains the Required Reserve Amount, the Board may, at its option, withdraw all surplus funds in the Senior Lien Reserve Fund in excess of the Required Reserve Amount and deposit such surplus in the Debt Service Fund. If the Senior Lien Reserve Fund at any time contains less than the Required Reserve Amount (other than as the result of the issuance of Additional Senior Lien Obligations as described below), the Board is required to cure the deficiency in the Required Reserve Amount by making monthly deposits into such Fund from the Net Revenues, such monthly deposits to be in amounts equal to not less than 1/60th of the Required Reserve Amount covenanted by the City to be maintained in the Senior Lien Reserve Fund with any such deficiency payments being made on or before the business day before the 15th day of each month until the Required Reserve Amount has been fully restored.

The City may provide a Surety Policy or Policies issued in amounts equal to all or part of the Required Reserve Amount for the Senior Lien Obligations in lieu of depositing cash into the Senior Lien Reserve Fund, subject to the satisfaction of certain conditions set forth in the Ordinance (see the excerpt of the Ordinance as set forth in Appendix D of this Official Statement). The City has reserved the right to use Gross Revenues to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the City (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Senior Lien Reserve Fund pursuant to the Ordinance to restore the balance in such fund to the Required Reserve Amount for the Senior Lien Obligations.

Prior to the date of delivery of the Bonds, the Senior Lien Reserve Fund will have on deposit therein approximately $40,347,727 (unaudited) as of July 2025, which amount exceeds the Required Reserve Amount for the Outstanding Senior Lien Obligations (i.e., $15,064,827). The amount on deposit in the Senior Lien Reserve Fund consists of cash and investments (approximately $16,430,727, a reserve fund surety policy provided in 2005 by Ambac Assurance Corporation ("Ambac") in connection with the issuance of the System's Revenue Improvement and Refunding Bonds, Series 2005A, with a maximum amount available to be drawn thereon equal to $17,874,000, and reserve fund surety policies provided in 2008 by Assured Guaranty Municipal Corp., now known as Assured Guaranty Inc. ("AG" - as the legal successor in interest to Financial Security Assurance which originally provided such surety policies) in connection with the issuance of the System's Revenue

Refunding Bonds, Series 2008, with a maximum amount available to be drawn thereon equal to $6,043,000. After giving effect to the issuance of the Bonds and the defeasance of the Refunded Bonds, the Required Reserve Amount for all Senior Lien Obligations will be $15,341,853. The amounts currently on deposit in the Senior Lien Reserve Fund satisfy the Required Reserve Amount for the Senior Lien Obligations. Accordingly, in connection with the issuance of the Bonds, the City will not make a deposit into the Senior Lien Reserve Fund. Pursuant to the terms of the Ambac and AG reserve fund surety policies, cash in the reserve fund which exceeds the Reserve Fund Requirement must be drawn upon first.

As and when Additional Senior Lien Obligations are delivered or incurred, the Required Reserve Amount shall increase, if required, to an amount calculated in the manner provided in the first paragraph of this subsection. Any additional amount required to be maintained in the Senior Lien Reserve Fund will be so accumulated by the deposit of all or a portion of the necessary amount from the proceeds of the issue or other lawfully available Net Revenues deposited into the Senior Lien Reserve Fund immediately after the delivery of the then proposed Additional Senior Lien Obligations, or, at the option of the City, by the deposit of monthly installments, made on or before the business day before the 15th day of each month following the month of delivery of the then proposed Additional Senior Lien Obligations, of not less than 1/60th of the additional amount to be maintained in the Senior Lien Reserve Fund by reason of the issuance of the Additional Senior Lien Obligations then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Required Reserve Amount.

Notwithstanding the provisions of the preceding paragraph, the City (i) may elect to exclude Additional Senior Lien Obligations from the benefit of the Senior Lien Reserve Fund, in which case such Senior Lien Obligations will not be taken into account in calculating the amount of the Required Reserve Amount, nor shall money in the Senior Lien Reserve Fund be used to pay or provide for the payment of principal of or interest on such Senior Lien Obligations, and (2) may elect to fund a separate debt service reserve fund for one or more series of such Additional Senior Lien Obligations to the extent the balance of such fund does not exceed the amount by which the Required Reserve Amount is reduced by such exclusion in any Fiscal Year. The Bonds benefit from the Senior Lien Reserve Fund.

Transfers to the City's General Fund . . . For purposes of providing funds to transfer to the City's General Fund, the Ordinance requires the Board to create and maintain at a Depository a separate and special account or fund to be known as the City Transfer Fund. The Board is required to deposit into the City Transfer Fund from the available Net Revenues an amount equal to one-third of the quarterly amount hereinafter described to be made by the Board to the City in substantially equal monthly installments on or before the business day before the 15th day of each month, beginning on or before the business day before the 15th day of the month next following the delivery of the Bonds to the Underwriters. After making each of the payments required by the provisions of subparagraphs FIRST through NINTH as described above under "Funds and Accounts and Flow of Funds - Plant Fund," the Designated Financial Officer of the Board is required to transfer no later than the business day preceding the 15th day of the month following the end of each Fiscal Year quarter, an amount of money from the City Transfer Fund equal to ten percent (10%) (or such lesser amount as may be determined from time to time by the City Commission of the City) of the Gross Revenues received for the preceding Fiscal Year quarter, as adjusted in accordance with the next two following sentences, to be utilized by the City in the manner permitted by the provisions of Chapter 1502, Texas Government Code, as amended. Prior to applying the percentage set forth in the preceding sentence to determine the amount to be transferred to the City, the amount of Gross Revenues for a Fiscal Year quarter shall be reduced by an amount equal to all costs for the purchase of power and fuel paid or incurred by the Board during such Fiscal Year quarter. Furthermore the amount of funds to be transferred to the City shall be reduced by any amounts owed by the City to the Board for the utility services; provided, however, that the Board shall provide the City with a sufficiently detailed statement of charges for such utility services to permit the City to allocate the charges for such utility services to the appropriate office, division, or department of the City and to determine the charges paid by the Board to the Southmost Regional Water Authority with respect to the Southmost Project. To the extent that the available Net Revenues in any quarter are insufficient for the Board to make all or part of the required transfer to the City, the Board shall make up such shortfall (i) in the next quarter in which available Net Revenues exceed the amounts required to make the transfer to the City pursuant to the foregoing provisions and the payment to the Operating Reserve Fund under the provisions of the Ordinance, or (ii) to the extent such shortfall has not been made up by the last quarter of the Fiscal Year, solely from any surplus funds deposited into the Capital Improvement Fund for such Fiscal Year (see the excerpt of the Ordinance as set forth in Appendix D of this Official Statement).

Capital Improvement Fund . . . The Ordinance creates and establishes a special fund known as the Capital Improvement Fund. Money on deposit in the Capital Improvement Fund is used for making capital improvements to the System and for meeting contingencies of any nature in connection with the operations, maintenance, improvement, replacement, or relocation of properties constituting the System including, but not limited to, the replacement of any equipment relating to the System, as may be determined from time to time by the Board, and to fund the costs of any rate stabilization subaccount or any other similar subaccounts.

The Ordinance requires the City to deposit Net Revenues of the System, after making each of the payments required by the provisions of subparagraphs FIRST through ELEVENTH as described above under "Funds and Accounts and Flow of Funds - Plant Fund," into a Capital Reserve Account of the Capital Improvement Fund in an annual sum equal to $3,000,000 until the amount on deposit in the Capital Reserve Account of the Capital Improvement Fund equals or exceeds $15,000,000 (the "Capital Amount"). In the event that such annual payments are not made, the Board is required to request the City to establish sufficient rates and charges for the System to cure any such deficiency with respect to the accumulation of the Capital Amount within one year. When and so long as the cash and investments in the Capital Reserve Account of the Capital Improvement Fund equals the Capital Amount, no deposits will be required to be made to the credit of the Capital Reserve Account of the Capital Improvement Fund; but, if and when the Capital Reserve Account of the Capital Improvement Fund at any time contains less than the Capital Amount, the City is required to cure the deficiency in the Capital Amount by resuming monthly deposits to said Fund from Net Revenues of the System, or at the option of the City from any other lawfully available funds, such monthly deposits to be in amounts equal to not less than 1/36th of the Capital Amount covenanted by the City to be maintained in the Capital Improvement Fund.

ADDITIONAL BONDS

The City may issue Additional Senior Lien Obligations on a parity with the Bonds if, among other things, the Designated Financial Officer executes a certificate stating that (a) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Senior Lien Obligations to satisfy the City's or the Board's obligations under the Ordinance or any other ordinance authorizing the issuance of any then outstanding Senior Lien Obligations, the City and the Board are not then in default as to any covenant, condition, or obligation prescribed in the Ordinance or in the ordinances authorizing the issuance of any then outstanding Senior Lien Obligations, (b) each of the special funds created for the payment, security, and benefit of the Senior Lien Obligations then outstanding contains the amount of money then required to be on deposit therein, and (c) according to the books and records of the Board, the Net Earnings for the preceding Fiscal Year or for any 12 consecutive calendar month period out of the 18-month period ending not more than ninety (90) days preceding the month the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, is adopted, are equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, then proposed. In making such a determination of the Net Earnings, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to adoption of the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, and, for purposes of satisfying the Net Earnings test, make a pro forma determination of the Net Earnings for the period of time covered by this representation based on such change in rates and charges being in effect for the entire period covered by the Designated Financial Officer's representation.

REDEMPTION OF THE BONDS

Optional Redemption of the Bonds . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2036, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

Mandatory Redemption of the Bonds . . . The Bonds maturing September 1 in the years 2050 and 2055 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the City, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the date and in the principal amounts shown in the following schedule:

5.250% Term Bond Stated to Mature on September 1, 2050			5.250% Term Bond Stated to Mature on September 1, 2055		
Maturity (September 1)		Principal Amount	Maturity (September 1)		Principal Amount
2046		$ 1,140,000	2051		$ 1,475,000
2047		1,200,000	2052		1,550,000
2048		1,265,000	2053		1,630,000
2049		1,330,000	2054		1,720,000
2050	Maturity	1,400,000	2055	Maturity	1,810,000

On or before July 15th of every year in which there are mandatory redemption requirements as set forth above for Term Bonds, the Paying Agent/Registrar (i) shall determine the principal amount of Term Bonds of the particular coupon rate and maturity that must be mandatorily redeemed on September 1 of such year after taking into account deliveries for cancellation and optional redemptions of Term Bonds of such coupon rate and maturity as more fully provided below, (ii) shall select by lot or other customary random method the Term Bonds of such coupon rate and maturity (or portions thereof) to be mandatorily redeemed on September 1 of such year, and (iii) shall give notice thereof in the manner hereinbelow provided. The mandatory redemption requirements stated above for the Term Bonds shall be reduced by the principal amount of any Term Bonds of such coupon rate and maturity purchased and delivered or tendered to the Paying Agent/Registrar for cancellation at least 50 days prior to such mandatory redemption date. In addition, in the exercise of its right of optional redemption contained herein the City may elect to redeem less than all of the Term Bonds of a particular coupon rate and maturity then outstanding, and thereby reduce the mandatory redemption requirements in any year or years for the Term Bonds of such coupon rate and maturity by the principal amount of such Term Bonds optionally redeemed and which has not previously been made the basis for a credit against the mandatory requirements for the Term Bonds.

General Provisions . . . If less than all of the Bonds of a stated maturity are to be redeemed, the Paying Agent/Registrar shall determine by lot the particular Bonds, or portions thereof, within such stated maturity to be redeemed. Bonds of a denomination larger than $5,000 may be redeemed in part ($5,000 or any integral multiple thereof). Any Bond to be partially redeemed may be surrendered in exchange for one or more new Bonds in authorized denominations of the same stated maturity and interest rate for the unredeemed portion of the principal of such Bond.

Notice of Redemption . . . Not less than 30 days prior to an optional or mandatory redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the Holder appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. If a Bond is subject by its terms to prior redemption and has been called for redemption and notice of redemption thereof has been duly given as hereinabove provided, such Bond (or the principal amount thereof to be redeemed) shall become due and payable and interest thereon shall cease to accrue from and after the redemption date therefore, provided moneys sufficient for the payment of such Bond (or of the principal amount thereof to be redeemed) at the then applicable redemption price are held for the purpose of such payment by the Paying Agent/Registrar.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state any condition to such redemption and that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified upon satisfaction of such condition, if any, and that thereafter the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Ordinance, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding.

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to The Depository Trust Company ("DTC"), New York, New York. Any failure by DTC to advise any DTC participant, or of any DTC 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 or any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see "THE BONDS - Book-Entry-Only System" below).

AMENDMENTS

Subject to the provisions of the Ordinance, the City may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price, the rate of interest thereon, change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

The Ordinance requires the City to publish notice of any proposed amendment in a financial newspaper or journal published in the City of New York, New York once each week for two consecutive weeks. Such publication is not required, however, if notice in writing is given to each registered owner of any Senior Lien Obligations. With respect to amendments requiring consent of bondholders, whenever at any time not less than 30 days, and within one year, from the date of the first publication of such notice, or other service of written notice, the City receives an instrument or instruments executed by the registered owners of at least a majority in outstanding principal amount of the Senior Lien Obligations then outstanding consenting to and approving such amendment, the City Commission may pass such amendment (see selected provisions from of the Ordinance, an excerpt of which is included in Appendix D of this Official Statement).

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor’s rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

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

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

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

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

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

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

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

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

The Paying Agent/Registrar and the City, as long as the DTC book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance, or other notices with respect to such Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owners, of any notices and their contents or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of the Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility or obligation to Direct Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption.

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

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Houston, Texas. Interest on the Bonds will be paid to registered owners shown on the records of the Paying Agent/Registrar on the Record Date (see "THE BONDS - Record Date for Interest Payment" herein), and such interest will be paid by check sent by mail to the address of such registered owner appearing on the registration books of the Paying Agent/Registrar or by such other customary banking arrangements acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner.

SUCCESSOR PAYING AGENT/REGISTRAR

The City reserves the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon a change in the Paying Agent/Registrar for the Bonds, the City shall promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

OWNERSHIP

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of the principal thereof and premium, if any, thereon, and for the further purpose of making and receiving payment of the interest thereon, and for all other purposes, whether or not such Bond is overdue. Neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the owner of any Bond in accordance with the Ordinance shall be valid and effective and shall discharge the liability of the City and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

RECORD DATE FOR INTEREST PAYMENT

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

DEFEASANCE

The Ordinance provides that any Bond will be deemed paid and will no longer be considered to be outstanding within the meaning of the Ordinance when payment of principal of and interest on such Bond to its maturity has been made or provided for. Payment may be provided for by deposit of any combination of (1) money in an amount sufficient to make such payment and/or (2) Government Securities. Any such deposit must be certified by an independent public accountant to be of such maturities and interest payment dates and bear such interest as will, without reinvestment, be sufficient to make the payment to be provided for on the Bond; provided, however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of Bonds. The Ordinance provides that "Government Securities" means (A) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (B) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (C) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (D) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (A) through (C) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for any purpose, including the application of any limitation on indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the City to take any action amending the terms of the Bonds are extinguished.

TRANSFER, EXCHANGE AND REGISTRATION

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the registration books at its corporate trust office in Houston, Texas (the "Designated Trust Office") in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Bonds in accordance with the terms of the Ordinance.

Each Bond shall be transferable only upon the presentation and surrender thereof at the Designated Trust Office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the owner or his authorized representative in a form satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of a Bond for transfer, the Paying Agent/Registrar is required to authenticate and deliver in exchange therefore, under such reasonable regulations as the Paying Agent/Registrar may prescribe, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity, in the principal amount of $5,000 or any integral multiple thereof, and bearing interest at the same rate as the Bond or Bonds so presented and surrendered.

All Bonds shall be exchangeable upon the presentation and surrender thereof at the Designated Trust Office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination, in such aggregate principal amount as discussed above equal to the unpaid principal amount of the Bond delivered in accordance with the Ordinance and shall be entitled to the benefits and security of the Ordinance to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The Paying Agent/Registrar may require the owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any reasonable standard or customary fee or charge of the Paying Agent/Registrar for a conversion or exchange shall be paid by the one requesting such conversion or exchange, except that the City shall pay such fee or charge in the case of the conversion or exchange of an assigned and transferred Bond.

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred, or exchanged for Bonds of other authorized denominations, only upon presentation and surrender to the Paying Agent/Registrar duly endorsed by the registered owner or its duly authorized agent. 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.

BONDHOLDERS' REMEDIES

The Ordinance does not provide for the appointment of a trustee to represent the interests of the Bond owners upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinance. Furthermore, the Ordinance does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. A registered owner of Bonds could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages is vulnerable to the defense of governmental immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus proceeding to compel the City to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Ordinance. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Texas Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

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

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Assured Guaranty Inc. ("AG") will issue its Municipal Bond Insurance Policy (the "Policy") for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, Maryland, California, Connecticut or Florida insurance law.

ASSURED GUARANTY INC.

AG is a Maryland domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL" and together with its subsidiaries, "Assured Guaranty"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through ownership interests in Sound Point Capital Management, LP and certain of its investment management affiliates. Only AG is obligated to pay claims under the insurance policies AG has issued, and not AGL or any of its shareholders or other affiliates.

AG's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A1" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AG should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AG in its sole discretion. In addition, the rating agencies may at any time change AG's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AG. AG only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AG on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc.

On August 1, 2024, Assured Guaranty Municipal Corp., a New York domiciled financial guaranty insurance company and an affiliate of AG ("AGM"), merged with and into AG, with AG as the surviving company (such transaction, the "Merger"). Upon the Merger, all liabilities of AGM, including insurance policies issued or assumed by AGM, became obligations of AG.

Current Financial Strength Ratings

On August 4, 2025, KBRA announced that it had affirmed AG's insurance financial strength rating of "AA+" (stable outlook).

On June 30, 2025, S&P announced that it had affirmed AG's financial strength rating of "AA" (stable outlook).

On July 10, 2024, Moody's, following Assured Guaranty's announcement of the Merger, announced that it had affirmed AG's insurance financial strength rating of "A1" (stable outlook).

AG can give no assurance as to any further ratings action that S&P, Moody's and/or KBRA may take. For more information regarding AG's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2024.

Capitalization of AG

At June 30, 2025:

- The policyholders' surplus of AG was approximately $3,514 million.
- The contingency reserve of AG was approximately $1,453 million.
- The net unearned premium reserves and net deferred ceding commission income of AG and its subsidiaries (as described below) were approximately $2,437 million. Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AG and (ii) the net unearned premium reserves and net deferred ceding commissions of AG's wholly owned subsidiary Assured Guaranty UK Limited ("AGUK"), and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus, contingency reserve, and net unearned premium reserves and net deferred ceding commission income of AG were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AG are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2024 (filed by AGL with the SEC on February 28, 2025);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2025 (filed by AGL with the SEC on May 9, 2025); and

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2025 (filed by AGL with the SEC on August 8, 2025).

All information relating to AG included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Inc.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AG included herein under the caption "BOND INSURANCE – Assured Guaranty Inc." or included in a document incorporated by reference herein (collectively, the "AG Information") shall be modified or superseded to the extent that any subsequently included AG Information (either directly or through incorporation by reference) modifies or supersedes such previously included AG Information. Any AG Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AG makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading "BOND INSURANCE".

THE COMBINED UTILITIES SYSTEM

GENERAL

Pursuant to the City Charter, the City owns the System as a combined utilities system that provides the City and certain areas of Cameron County, Texas outside the City with electric, water, and wastewater service. All facilities of the System are owned by the City and operated, maintained, and managed through the Board.

The electric system was established in 1904 to provide street lighting and electric service to the area. During the 2024 Fiscal Year, the electric system served approximately 54,122 customers (excluding accounts relating to general governmental functions of the City) and accounted for approximately 71.57% of System operating revenues. In 2024, the electric system experienced a peak demand of 317 megawatts ("MW"). See "THE ELECTRIC SYSTEM."

The water system includes raw water supply from the Rio Grande River, two water treatment plants having a combined nominal treatment capacity of 40 million gallons per day and transmission and distribution facilities that served approximately 55,469 customers (excluding municipal) during the 2024 Fiscal Year. The water system contributed approximately 15.77% of the System's total operating revenues during that period. The Board partnered with the Southmost Regional Water Authority and built a 7.5 million gallon reverse osmosis water treatment plant of which the Board has 92.91% ownership. See "THE WATER SYSTEM." The wastewater system includes two wastewater treatment plants with a combined primary and advanced secondary treatment capacity of 27.3 million gallons per day and wastewater collection lines serving approximately 56,224 customers (excluding accounts relating to general governmental functions of the City) during Fiscal Year 2024. The wastewater system contributed approximately 12.66% of the System's total operating revenues during that period. See "THE WASTEWATER SYSTEM."

HISTORICAL SYSTEM OPERATING RESULTS

The following is a summary of audited System operating results for the Fiscal Years ended September 30, 2020 through September 30, 2024 and unaudited System operating results for the ten months through July 31, 2025 of Fiscal Year 2025. Financial statements for the Board for its Fiscal Year ended September 30, 2024 are included in Appendix B and have been examined by Burton McCumber & Longoria, LLP, independent certified public accountants, as stated in their report, which is included in Appendix B. This summary should be read in conjunction with the financial statements included in Appendix B.

TABLE 1 – SYSTEM HISTORICAL OPERATING RESULTS (FISCAL YEAR ENDED SEPTEMBER 30) [(1)]

	Audited 2020	Audited 2021	Audited 2022	Audited 2023	Audited 2024	Unaudited Ten Months Ended July 31, 2025
Operating Revenues:						
Electric System Revenues	$ 171,708,196	$ 408,486,140	$ 231,865,653	$ 213,284,659	$ 174,616,303	$ 132,025,706
Water System Revenues	25,983,318	26,618,453	29,397,026	35,522,699	38,478,543	31,997,787
Wastewater System Revenues	23,358,462	23,508,068	25,070,642	28,352,306	30,884,191	26,761,588
Total Operating Revenues	$ 221,049,976	$ 458,612,661	$ 286,333,321	$ 277,159,664	$ 243,979,037	$ 190,785,081
Operating Expenses:						
- Production - Fuel	$ 10,181,355	$ 43,135,682	$ 22,267,510	$ 12,581,289	$ 8,878,325	$ 9,473,869
- Production - Other than fuel	4,164,703	4,051,202	17,027,593	15,384,890	13,533,697	13,760,332
- Production - Oklaunion	7,675,081	-	-	-	-	-
- Production - Hidalgo	3,231,030	3,223,658	4,146,274	5,564,132	4,128,143	4,393,511
- Purchased Power	44,909,116	162,739,356	61,480,088	67,369,636	47,409,716	25,341,352
- Transmission & Distribution	8,512,114	8,551,987	18,703,754	18,957,097	20,548,172	17,409,821
Water - Supply, Pumping and Treatment	5,986,115	5,869,042	6,383,434	7,350,500	8,540,818	6,133,318
- Transmission and Distribution	3,559,242	3,479,550	3,766,630	4,370,994	4,885,775	3,772,201
Wastewater - Treatment & Pumping	7,953,275	8,044,125	9,738,638	10,579,497	10,552,175	8,604,556
- Collection	741,446	974,216	1,188,945	1,504,640	1,407,767	1,197,623
Customer Accounting	5,479,943	6,008,468	5,967,313	5,836,656	5,935,338	4,964,146
Administrative and General	39,079,273	37,508,602	36,177,713	45,026,976	49,745,914	44,136,792
Total Operating Expenses	$ 141,472,693	$ 283,585,888	$ 186,847,892	$ 194,526,307	$ 175,565,840	$ 139,187,522
Total Net Operating Income	$ 79,577,283	$ 175,026,773	$ 99,485,429	$ 82,633,357	$ 68,413,197	$ 51,597,559
Other Non-Operating Expense (net)	(3,365,453)	(3,205,450)	(3,370,237)	1,576,171	2,349,714	1,640,603
Balance Available for Debt Service	$ 76,211,830	$ 171,821,323	$ 96,115,192	$ 84,209,528	$ 70,762,911	$ 53,238,162
Debt Service						
Senior Outstanding Series:						
Series 2005A Improvement & Refunding Bonds	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 4,167
Series 2008 Revenue Refunding Bonds	5,000	5,000	5,000	5,000	5,000	4,167
Series 2012 Revenue Refunding Bonds	376,091	-	-	-	-	-
Series 2013A Revenue Refunding Bonds	12,355,332	10,058,867	10,018,783	9,977,533	9,933,638	8,245,375
Series 2015 Revenue Refunding Bonds	5,859,075	5,837,304	5,822,971	5,802,054	5,779,533	4,801,000
Series 2016 Revenue Refunding Bonds	4,527,008	4,532,321	4,534,529	4,526,342	4,529,571	3,774,833
Series 2018 Revenue Refunding Bonds	1,911,667	1,908,700	1,905,050	1,912,883	1,908,425	1,591,500
Series 2020 Revenue Refunding Bonds	188,964	2,318,763	2,399,685	2,447,498	2,274,894	1,639,078
Series 2020A Revenue Refunding Bonds	204,874	2,453,771	2,456,131	2,333,637	984,651	820,542
Series 2022 Priority Revenue Refunding Bonds	-		249,375	831,900	831,900	693,250
Series 2022A Priority Revenue Refunding Bonds	-		512,022	1,708,564	1,708,564	1,423,803
Total Gross Senior Debt Service	25,433,011	27,119,726	27,908,546	29,550,411	27,961,176	22,997,715
Less Capitalized Interest	-	-	-	-	-	-
Total Net Senior Debt Service	25,433,011	27,119,726	27,908,546	29,550,411	27,961,176	22,997,715
Junior Outstanding Series:						
Series 2007 Junior Lien Bonds	-	-	-	-	-	-
Series 2012 Junior Lien Bonds	59,296	58,301	57,224	56,509	59,892	48,861
Commercial Paper	451,484	8,861	179,194	-	485,065	975,647
Total Junior Debt Service	510,780	67,162	236,418	56,509	544,957	1,024,508
Total Debt Service	$ 25,943,791	$ 27,186,888	$ 28,144,964	$ 29,606,920	$ 28,506,133	$ 24,022,224
Debt Service Coverage [(1) (2) (3)]						
Senior Debt Average Annual	4.25	10.37	5.24	6.16	5.40	5.09
Senior & Junior Lien Debt Average Annual	4.24	10.35	5.24	6.16	5.40	5.09
Balance Available After Debt Service	$ 50,268,039	$ 144,634,435 [(4)]	$ 67,970,228	$ 54,602,608	$ 42,256,778	$ 29,215,938

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Source: Brownsville Public Utilities Board. Unaudited July 2025.

(1) Does not include Southmost Regional Water Authority and payments to the City (see "THE BONDS – Funds and Accounts and Flow of Funds – Transfers to the City's General Fund). Revenues do not reflect usage by the City and the Board.

(2) Debt service coverage ratios for Junior Lien Debt have been omitted. Such coverage ratios vary based on the amount of short-term obligations issued as commercial paper that may be outstanding from time to time.

(3) Debt service coverage for Senior Debt, and Senior & Junior Lien Debt shown above is based on "average annual" levelized debt principal and interest requirements through 2051. Debt service coverage based on "actual" 2024 fiscal year-end results are 2.53x for Senior Lien Debt and 2.48x for Senior & Junior Lien Debt combined. Includes the Refunded Bonds and excludes the Bonds.

(4) The extraordinarily high Electric revenues in Fiscal Year 2021 are primarily attributable to the Winter Storm Uri event in February 2021.

MANAGEMENT DISCUSSION RELATING TO FISCAL YEAR 2024 OPERATING REVENUES AND EXPENSES

See the Board's Annual Financial Report for Fiscal Year 2024 attached hereto as Appendix B for the Board's management discussion for Fiscal Year 2024.

TRANSFERS TO THE CITY'S GENERAL FUND

The transfers to the City are made on a quarterly basis calculated at ten percent (10%) of the gross revenues received for the preceding fiscal year quarter, as adjusted in accordance with the following: (1) prior to applying the percentage set forth above to determine the amount to be transferred to the City, the amount of Gross Revenues for a Fiscal Year quarter are reduced by an amount equal to all costs for the purchase of power and fuel paid or incurred by the Board during such Fiscal Year quarter as well as funding requirements for the Southmost Regional Water Authority Project; and (2) the amount of funds to be transferred to the City are reduced by any amounts owed by the City to the Board for utility services, provided that the Board shall provide the City with a sufficiently detailed statement of changes for such utility services.

The Board's Fiscal Year 2024 balance available after debt service decreased by $12,345,830 compared to its 2023 balance, primarily as a result of an overall decrease in Electric System Operating Revenues.

Required payments to the City for the years ended September 30, 2024 and 2023, totaled $11,393,548 and $12,055,925.

SYSTEM DEBT

The following tables set forth the principal amounts of Senior Lien Obligations and Junior Lien Obligations to be outstanding following issuance of the Bonds (see Table 2 below), and the annual debt service requirements on such indebtedness (see Table 3 below).

TABLE 2 – OUTSTANDING SYSTEM REVENUE OBLIGATIONS

Senior Lien Obligations	Principal Amount Outstanding
Utilities System Revenue Improvement and Refunding Bonds, Series 2005A	$ 100,000
Utilities System Revenue Refunding Bonds, Series 2008	100,000
Utilities System Revenue Refunding Bonds, Series 2013A	9,565,000
Utilities System Revenue Refunding Bonds, Series 2015[1]	7,940,000
Utilities System Revenue Refunding Bonds, Series 2016	17,745,000
Utilities System Revenue Refunding Bonds, Series 2018	3,905,000
Utility System Revenue Refunding Bonds, Series 2020	52,175,000
Utility System Revenue Refunding Bonds, Series 2020A	57,980,000
Utility System Revenue Refunding Bonds, Series 2022	17,165,000
Utility System Revenue Refunding Bonds, Taxable Series 2022A	35,605,000
The Bonds	60,700,000
Subtotal	$ 262,980,000
Junior Lien Obligations	
Utilities System Junior Lien Revenue Bonds, Series 2012	365,000
Subtotal	365,000
Subordinate Lien Obligations [2]	
None	$ -
Inferior Lien Obligations	
None	$ -
Total	$ 263,345,000

Source: Brownsville Public Utilities Board

(1) Excludes the Refunded Bonds.

(2) On September 30, 2025, the Board had $30.0 million in outstanding commercial paper, all of which will be refunded on or about October 23, 2025 with proceeds of the Bonds.

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TABLE 3 – ANNUAL DEBT SERVICE REQUIREMENTS ON SYSTEM REVENUE OBLIGATIONS

Fiscal Year Ending 9/30	Existing Senior Lien Debt Service (1)(2)			The Bonds(2)			Total Combined Senior Lien Debt Service Requirements			Existing Junior Lien Debt Service	Combined Senior and Junior Lien Debt Service	Principal Retired
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Total	Total	
2025	$ 18,020,000	$ 9,577,258	$ 27,597,258	$ -	$ -	$ -	$ 18,020,000	$ 9,577,258	$ 27,597,258	$ 58,634	$ 27,655,892	
2026	15,165,000	7,086,915	22,251,915	4,320,000	2,627,668	6,947,668	19,485,000	9,714,582	29,199,582	57,221	29,256,803	
2027	15,705,000	6,519,965	22,224,965	4,090,000	2,855,300	6,945,300	19,795,000	9,375,265	29,170,265	60,786	29,231,050	
2028	15,260,000	6,090,714	21,350,714	5,185,000	2,650,800	7,835,800	20,445,000	8,741,514	29,186,514	59,166	29,245,679	
2029	15,625,000	5,747,866	21,372,866	5,440,000	2,391,550	7,831,550	21,065,000	8,139,416	29,204,416	57,521	29,261,936	35.20%
2030	16,015,000	5,377,440	21,392,440	5,695,000	2,119,550	7,814,550	21,710,000	7,496,990	29,206,990	60,851	29,267,840	
2031	16,535,000	4,981,130	21,516,130	5,870,000	1,834,800	7,704,800	22,405,000	6,815,930	29,220,930	58,986	29,279,916	
2032	10,330,000	4,552,664	14,882,664	1,205,000	1,541,300	2,746,300	11,535,000	6,093,964	17,628,964	62,094	17,691,058	
2033	10,800,000	4,089,257	14,889,257	1,270,000	1,481,050	2,751,050	12,070,000	5,570,307	17,640,307	-	17,640,307	
2034	8,940,000	3,595,343	12,535,343	1,330,000	1,417,550	2,747,550	10,270,000	5,012,893	15,282,893	-	15,282,893	62.97%
2035	9,340,000	3,191,142	12,531,142	1,395,000	1,351,050	2,746,050	10,735,000	4,542,192	15,277,192	-	15,277,192	
2036	9,775,000	2,756,780	12,531,780	1,465,000	1,281,300	2,746,300	11,240,000	4,038,080	15,278,080	-	15,278,080	
2037	10,210,000	2,329,900	12,539,900	1,545,000	1,208,050	2,753,050	11,755,000	3,537,950	15,292,950	-	15,292,950	
2038	3,270,000	1,883,300	5,153,300	770,000	1,130,800	1,900,800	4,040,000	3,014,100	7,054,100	-	7,054,100	
2039	3,380,000	1,768,581	5,148,581	810,000	1,092,300	1,902,300	4,190,000	2,860,881	7,050,881	-	7,050,881	77.88%
2040	3,485,000	1,660,319	5,145,319	850,000	1,051,800	1,901,800	4,335,000	2,712,119	7,047,119	-	7,047,119	
2041	3,605,000	1,545,813	5,150,813	895,000	1,009,300	1,904,300	4,500,000	2,555,113	7,055,113	-	7,055,113	
2042	3,760,000	1,391,200	5,151,200	940,000	964,550	1,904,550	4,700,000	2,355,750	7,055,750	-	7,055,750	
2043	3,920,000	1,229,875	5,149,875	985,000	917,550	1,902,550	4,905,000	2,147,425	7,052,425	-	7,052,425	
2044	4,085,000	1,061,650	5,146,650	1,035,000	868,300	1,903,300	5,120,000	1,929,950	7,049,950	-	7,049,950	86.25%
2045	4,265,000	886,263	5,151,263	1,085,000	816,550	1,901,550	5,350,000	1,702,813	7,052,813	-	7,052,813	
2046	3,255,000	703,100	3,958,100	1,140,000	762,300	1,902,300	4,395,000	1,465,400	5,860,400	-	5,860,400	
2047	3,375,000	585,050	3,960,050	1,200,000	702,450	1,902,450	4,575,000	1,287,500	5,862,500	-	5,862,500	
2048	3,495,000	462,400	3,957,400	1,265,000	639,450	1,904,450	4,760,000	1,101,850	5,861,850	-	5,861,850	
2049	3,625,000	335,050	3,960,050	1,330,000	573,038	1,903,038	4,955,000	908,088	5,863,088	-	5,863,088	94.80%
2050	3,755,000	202,700	3,957,700	1,400,000	503,213	1,903,213	5,155,000	705,913	5,860,913	-	5,860,913	
2051	1,305,000	65,250	1,370,250	1,475,000	429,713	1,904,713	2,780,000	494,963	3,274,963	-	3,274,963	
2052	-	-	-	1,550,000	352,275	1,902,275	1,550,000	352,275	1,902,275	-	1,902,275	
2053	-	-	-	1,630,000	270,900	1,900,900	1,630,000	270,900	1,900,900	-	1,900,900	
2054	-	-	-	1,720,000	185,325	1,905,325	1,720,000	185,325	1,905,325	-	1,905,325	99.36%
2055	-	-	-	1,810,000	95,025	1,905,025	1,810,000	95,025	1,905,025	-	1,905,025	100.00%
	$ 220,300,000	$ 79,676,923	$ 299,976,923	$ 60,700,000	$ 35,124,805	$ 95,824,805	$ 281,000,000	$ 114,801,728	$ 395,801,728	$ 475,257	$ 396,276,985	

(1) Excludes the refunded obligations.
(2) Includes sinking fund installments of various term bonds.

Debt Service Coverage Ratios (1)	Amount	Fiscal Year	Coverage
Senior Lien Maximum Annual Debt Service Coverage	$29,220,930	2031	2.42x
Senior Lien Average Annual Debt Service Coverage	12,273,482	2026-2055	5.76x
All Debt Maximum Annual Debt Service Coverage	29,279,916	2031	2.40x
All Debt Average Annual Debt Service Coverage	12,287,370	2026-2055	5.75x

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(1) Coverage rates are based on audited September 30, 2024 Net Revenue Available for Debt Service of $70,762,911.

COMMERCIAL PAPER PROGRAM

Pursuant to authorization from the City, the Board maintains a Commercial Paper Program to provide short-term tax-exempt financing for additions, improvements and extensions to the City's electric, waterworks and sewer systems. The Commercial Paper Program, which was initially established in 2004, currently is authorized to issue Notes thereunder in an aggregate principal amount not to exceed $100,000,000 at any time outstanding. Liquidity support for Notes issued under the Commercial Paper Program is provided by a letter of credit issued by PNC, N.A., which has a stated termination date of November 7, 2025. This letter of credit and related reimbursement agreement will be substituted either prior or at the stated termination date with a letter of credit from Bank of America N.A.

The City periodically has issued Commercial Paper Notes to finance various improvements. There is currently $30 million in Commercial Paper Notes outstanding, all of which will be refunded on or about October 23, 2025 with proceeds of the Bonds (see Schedule I attached hereto).

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THE BOARD

Current Board Members . . . Under the terms of the City Charter, the Board is comprised of seven members, six of whom are appointed by the City Commission for four-year terms, and the seventh member is the City's Mayor serving ex-officio. The present members of the Board and their terms of office are:

Name and Title	Term Expires
Gerardo Martinez, Chair	July 1, 2027
Alonzo "Al" Villarreal, Vice Chair	December 31, 2028
Daisy Zamora, Ph.D., Secretary/Treasurer	July 1, 2027
Alejandro Najera, Member	July 1, 2027
Joseph L. Hollman, PhD, Member	July 1, 2027
Martin Sarkis, Member	December 31, 2029
John F. Cowen, Jr.	May 1, 2027

Delegation of Management and Control to Board . . . As provided in the City Charter, the Board has full authority and power with reference to the control, management and operation of the System and the expenditure and application of the Gross Revenues of the System, subject to the provisions contained in the Ordinance and State law. Pursuant to State law, the City Commission retains the power to approve all rates of the System and the issuance of debt for the System. The Board will exercise the powers and perform the duties and functions conferred upon and agreed to by the City in the Ordinance and is required to carry out and perform on behalf of the City all covenants, agreements and obligations undertaken by or imposed upon the City by the terms and provisions of the Ordinance to the extent permitted by law. The Ordinance provides that in the event the City Charter is amended to transfer management and control of the System to the City Commission or if for any lawful reason the Board cannot assume and discharge the duties and obligations thus imposed, the management, control and operation of the System will be assumed and discharged by the City Commission.

Board's Approval of Financing Plan . . . Prior to the adoption of the Ordinance, the Board approved a plan of finance concerning the issuance of the Bonds and recommended the approval of the Bonds by the City Commission. While legally not required to do so, the Board has historically recommended that the City Commission adopt ordinances authorizing the issuance of bonded indebtedness.

MANAGEMENT PERSONNEL

The members of the Board appoint a General Manager and Chief Executive Officer who is responsible for retaining and managing a staff to operate the System. Set forth below are biographical summaries of certain of the current members of the Board's management staff.

Marilyn D. Gilbert, General Manager and Chief Executive Officer – In February 2023, Marilyn D. Gilbert became the first Hispanic female leader to serve in the position. Ms. Gilbert rejoined the Board in April 2022, as the Assistant General Manager and COO of the Board, before she was appointed to GM/CEO. She has over 25 years of experience in both private and public sections focusing her experience in policy, customer programs, operations, energy management, construction infrastructure, resource planning, engineering, nuclear generation, NERC compliance, system and trading operations, generation, and leading integrated resource plans as well as transmission planning. She started her utility industry career in designing public water, wastewater, drainage, and roadway infrastructure for various cities working on public works assignments while employed as a graduate engineer at Turner, Collie and Braden, Inc./AECOM. Between 2000 and 2014, she previously held roles at BPUB as Director of Energy Services, Energy Risk Manager and Key Account Manager. Resource management is a key focus of Ms. Gilbert's experience, having been responsible for ensuring that the utilities where she worked had the necessary power and resources to serve their customers. As the energy department manager, she oversaw and provided leadership for all of the energy operations at the Imperial Irrigation District ("IID"), the 3rd largest public power utility in California. IID, an independent system operator and a balancing authority, owns and operates the energy grid in the southern California desert, with a service territory spanning 6,400 square miles. She oversaw operations of the energy grid incorporating more than 2,700 MW of power from independent power producers and IID's generation assets, including renewable and conventional generation, and battery storage. As Director of Operations Services Oversight at Long Island Power Authority ("LIPA"), an integrated electrical utility created by the state of New York, she oversaw improvements and modifications to enhance system resiliency following the devastation caused by Superstorm Sandy. In this role, she ensured that the power transferred to Manhattan complied with federal regulations, permitting requirements, and relevant standards, as well as the generating assets serving over 1.1 million customers. She oversaw LIPA's generating assets that met the system demands of over 6,000 MW through power purchase agreements or ownership in nuclear, renewable energy, waste-to-energy, natural gas, and hydro generating facilities.

Currently, Ms. Gilbert serves as a member of Region M of the Rio Grande Regional Water Authority Group, and Executive Board Member and Vice President of the Texas Public Power Association. She is also a Board Member of the North American Transmission Forum, whose membership includes investor-owned, state-authorized, municipal, cooperative, U.S. federal, and Canadian provincial utilities that promotes excellence in the reliability and resiliency of the electric transmission system. Ms. Gilbert is also the Deputy Secretary/Treasurer for Southmost Regional Water Authority, where she has held the position since January 2023. Ms. Gilbert holds a Bachelor of Science in Architectural Engineering from The University of Texas at Austin and a Master of Business Administration from The University of Texas at Pan American.

Mark Dombroski, Assistant General Manager and Chief Operating Officer – Mark Dombroski is the assistant general manager and chief operating officer at BPUB, bringing more than 25 years of leadership experience in public-sector energy and utilities. His areas of expertise include finance, strategic planning, regulatory strategy and operational management.

Before joining BPUB, Mark served as Deputy General Manager and Chief Financial Officer of Austin Energy, the seventh-largest municipal utility in the United States. He also served as the Chief Risk Officer for Austin Energy, overseeing energy trading, regulatory and compliance.

During his tenure with Austin, he served as the interim General Manager, interim Chief Operating Officer, and Chief Financial Officer for the City of Austin.

His career also includes serving as Finance Director for Seattle City Light and Senior Manager at KPMG, LLP.

After graduating from the University of Texas at Dallas, Mark served as an Officer in the United States Marine Corps, achieving the rank of Captain. Mark earned a Master's degree in Public Administration (MPA) from Seattle University and holds certifications as a Certified Energy Manager (CEM) and a Certified Demand-Side Manager (CDSM) from the Association of Energy Engineers.

Miguel A. Perez, *Chief Financial Officer* – Miguel A. Perez was appointed Chief Financial Officer ("CFO") of BPUB in November 2021, after serving in key financial leadership roles since joining BPUB in 2006, including Director of Finance and Acting CFO.

Before joining BPUB in February 2006, he worked for a Brownsville accounting firm for 17 years as an auditor, specializing in audits of school districts, counties, and city governments.

As CFO, Miguel directs all BPUB accounting and financial activities. He is responsible for the execution of broad financial and management policies regarding accounting, auditing, purchasing, investments, debt management, bond issues, budgeting, payroll, rate design, fleet management, information technology and operational technology systems.

Miguel earned a Bachelor of Business Administration from Texas A&I University (now Texas A&M Kingsville).

Constanza Miner, Chief Administrative Officer – Constanza Miner serves as the Chief Administrative Officer at BPUB and brings over 20 years of experience in business development, administration, marketing, customer service, and real estate.

Constanza's experience as a business executive in the private sector includes more than 12 years in real estate development, and she is a former licensed real estate agent in Texas. Before joining BPUB, she served as the Interim Executive Director and CEO of the Greater Brownsville Incentives Corporation ("GBIC"), a position she assumed after being appointed Deputy Executive Director and COO in August 2022. She also held an eight-year tenure with the City of Brownsville, where she held various positions, including Human Resources Generalist, Planning and Development Services Director, Retail and Redevelopment Manager, and Business Development Director for both the City of Brownsville and GBIC.

Constanza holds a Bachelor of Arts in Business Administration from the University of Texas-Pan American and a Master of Science in Organizational Leadership with a specialization in Public Administration from Northcentral University, where she was elected a member of the Delta Mu Delta International Honor Society in Business. Constanza currently serves as National Board Member for IDEA Public Schools and Board Member for Brownsville Chamber of Commerce.

Paul Gonzalez, General Counsel and Chief Legal Officer – Paul Gonzalez serves as General Counsel and Chief Legal Officer for BPUB. Paul was previously an attorney and shareholder with the Davidson Troilo Ream & Garza Law Group, where he practiced in the areas of local, state and federal public utility regulation, primarily related to the provision of electric, natural gas, and water/wastewater services.

In private practice and as a former in-house counsel for one of the nation's largest municipally-owned electric and gas utilities, his regulatory experience includes land use regulation, the exercise of eminent domain, and regulatory compliance matters for North American Electric Reliability Corporation standards and other regulatory schemes.

Paul has served clients on high-profile projects, including major capital projects involving multiple owners. He has also overseen associated state and federal litigation, including the coordination of legal advice among aligned parties and counsel and the supervision of attorney budgets. Paul has drafted legislation, prepared comments on proposed rules, testified, briefed, and argued matters before the state court of appeals, and has litigated contested cases before the Public Utility Commission of Texas and other regulatory bodies. He also advised clients on broader public law issues, including board governance, parliamentary procedure, open meetings and records issues, ethics/conflicts of interest, as well as procurement and contract matters.

David Medrano, Director of Finance – David Medrano is the Director of Finance at BPUB. David is an accomplished financial professional, having served in management and executive-level roles across a broad array of sectors, including higher education, non-profit, local government, transit, electric, natural gas, and water utilities. His senior roles include Chief Financial Officer, City Auditor, Chief Audit Executive, and Director of Internal Audit and Compliance.

David brings deep expertise in accounting, corporate finance, portfolio management, and internal audit. He is a Certified Public Accountant (CPA) (TX & CA), a Chartered Financial Analyst (CFA), a Financial Risk Manager (FRM), a Certified Compliance & Ethics Professional (CCEP), a Certified Internal Auditor (CIA), a Certified Fraud Examiner (CFE), and a Certified Information Systems Auditor (CISA). David holds a Master of Accounting from the University of St. Thomas in Houston.

Guided by servant leadership and a collaborative philosophy, David has led transformative initiatives in financial governance, compliance, enterprise risk, and internal controls for billion-dollar organizations.

RATES

Under Article VI of the City Charter, the Board is required periodically to review rates, fees, and charges for services rendered by the System with due consideration being accorded to the terms, covenants, and conditions contained in any contract of the City or the Board relating to the

System or any ordinance authorizing the issuance of any utilities system revenue bonds. In the event the Board's review reflects the necessity of a rate adjustment, the Board is required to submit to the City Commission a report for its review, and the basis upon which the proposed rate adjustment is predicated, accompanied by a written request for approval and adoption of the rates, fees and charges recommended by the Board. If the City Commission approves the adjustment recommended by the Board, it adopts an appropriate ordinance placing such rates, fees and charges in effect. To assist the Board in maintaining a competitive position in multiple-certificated areas and under electric retail competition in Texas, the City Commission delegated authority to the Board to adjust electric customer rates and to negotiate individual customer contracts within certain restrictions.

Under the Ordinance, the City has covenanted to maintain certain rates (see Appendix D – "Selected Provisions From the Bond Ordinance - General Covenants-Rate Covenant").

SYSTEM RATE STUDY AND RATE INCREASES

Historically, the City has utilized revenues generated by the System to fund more than 50% of the cost of capital improvement projects. See "POWER SUPPLY REQUIREMENTS – Electric Capital Improvement Plan and Additional Debt," "THE WATER SYSTEM– Water Supply Capital Improvement Plan and Additional Debt," and "THE WASTEWATER SYSTEM – Wastewater System Capital Improvement Plan and Additional Debt" for a description of projected capital improvement projects and the expected sources of funding thereof.

For additional information regarding rates for the three System utilities, see "THE ELECTRIC SYSTEM – Electric Rates," "THE WATER SYSTEM – Water Rates," and "THE WASTEWATER SYSTEM – Wastewater Rates."

BUDGET

The Board adopts, prior to the beginning of each succeeding fiscal year, an annual budget for the System.

BILLINGS AND COLLECTIONS

The System bills customers monthly on a combined statement which includes charges for electric, water and wastewater services, fuel adjustment charges, and other miscellaneous System charges, all of which constitute part of Gross Revenues, as defined in the Ordinance. Payments are deposited into the Plant Fund (created under the City Charter) within 24 hours after receipt. Under present Board policy and City ordinances, utility bills are treated as delinquent and subject to a 6% penalty if payment is not made on or before 20 days after issuance. Should payment not be made in full within 20 days, a notice is mailed which allows ten days before service is subject to being discontinued. For Fiscal Year 2024, write-offs totaled 0.43% of gross billings (excluding accounts relating to general governmental functions of the City).

The Board also collects utilities sales tax, the City's fees for garbage services, area maintenance fees, and federal unfunded mandate environmental compliance fees, which are not included in Gross Revenues of the System.

CUSTOMER RELATIONS

The Public Utilities Board Consumer Advisory Panel ("PUBCAP") was organized in 1983 for the purpose of better informing Board officials as to the needs and concerns of System customers. PUBCAP is comprised of ten members representing a cross-section of the System's service area community and one staff representative of the Board. PUBCAP also provides a forum for the Board to inform customers of activities and plans involving the System. Subjects covered during PUBCAP meetings have ranged from consumer complaints to detailed discussions of the Board's rate structure.

CONTRIBUTED UTILITY SERVICES

The Board supplies electric, water and wastewater services to the City for bona fide municipal services. While Article VI of the City Charter stipulates that "no charges shall be made for any utilities furnished or used for City purposes," the Ordinance includes a requirement that no free service of the System shall be allowed. This restriction extends to most services for most municipal purposes, except water provided to the City for municipal fire-fighting purposes. Although the City Charter provides that the Board may not charge the City for such contributed services, the Ordinance allows the Board to deduct from the amount transferred to the City's General Fund the reasonable value of electric, water and wastewater services provided by the Board to the City for municipal purposes. (The City transfer provision was adopted in accordance with Section 1502.059, Texas Government Code, in connection with the Board's refunding of System obligations in 2005. For additional information, see "THE COMBINED UTILITY SYSTEM – Transfers to the City's General Fund.") In order to determine the amount of such deduction, the contributed services are accounted for in accordance with the Board's general service rate schedule. Based on such accounting during the 2024 Fiscal Year, the Board provided approximately $6.06 million of contributed electric, water and wastewater services (2.46% of gross System operating revenues) to the City for bona fide City uses.

CUSTOMER STATISTICS

The historical average annual number of customers for the electric, water, and wastewater facilities is shown below.

TABLE 4 - HISTORICAL CUSTOMER STATISTICS AVERAGE ANNUAL NUMBER OF CUSTOMERS [(1)]

Fiscal Year End	Electric		Water		Wastewater	
9/30	Customers	Change	Customers	Change	Customers	Change
2015	47,671	0.91%	48,997	1.00%	49,041	1.06%
2016	48,196	1.10%	49,598	1.23%	49,693	1.33%
2017	48,726	1.10%	50,153	1.12%	50,329	1.28%
2018	49,455	1.50%	50,771	1.23%	51,366	2.06%
2019	50,209	1.52%	51,441	1.32%	52,137	1.50%
2020	51,406	2.38%	52,331	1.73%	53,075	1.80%
2021	52,008	1.17%	53,114	1.50%	53,863	1.48%
2022	52,410	0.77%	53,601	0.92%	54,339	0.88%
2023	53,138	1.39%	54,310	1.32%	55,056	1.32%
2024	54,122	1.85%	55,469	2.13%	56,224	2.12%

[(1)] Excluding accounts relating to general governmental functions of the City.
Source: Brownsville Public Utilities Board

THE ELECTRIC SYSTEM

THE ELECTRIC SYSTEM GENERALLY

The electric system provides retail electric service through its electric facilities to consumers inside and outside the city limits. The existing customer service area of the electric facilities encompasses approximately 133 square miles of Cameron County, including substantially the entire City (estimated by the Public Utilities Board at over 96%).

Electric service is also provided in the unincorporated areas surrounding the City by AEP Texas Central Company (formerly CPL Retail Energy, formerly Central Power and Light Company) and Magic Valley Electric Cooperative, Inc. ("MVEC"). Each such entity also has a small number of customers inside the Brownsville city limits (see "Present Electric System Competition" under this section).

The electric system's maximum net peak electrical demand during Fiscal Year 2024 was 317.00 MW. Total sales during that period, as reported by the Board, were 1,328,890 MWh to an average of 54,122 customers (excluding accounts relating to general governmental functions of the City), resulting in operating revenues of $170,630,907 from the sale of electricity (without including any revenues in respect of contributed service to the City or the Board or wholesale revenues).

The Board operates a fully integrated electric generation, transmission and distribution system, with three transmission interconnections with American Electric Power Company ("AEP") (see "POWER SUPPLY REQUIREMENTS – Interconnections, Transmission and Distribution Within the Electric System" under this section).

The Board, like other municipal electric systems in the State, presently is confronted by fundamental changes to the system of electric utility regulation in the State brought about by the enactment of Senate Bill 7 ("Senate Bill 7" or "SB 7") by the Texas Legislature (the "Legislature") in 1999. As further described below, SB 7 provides for open competition in the provision of retail electric service in the State, which competition commenced on January 1, 2002 in the part of the State that is within the service area of the Electric Reliability Council of Texas ("ERCOT"). The City is located in the ERCOT service area. Senate Bill 7 provides that the municipal governing body or a body vested with the power to manage and operate a municipally-owned utility has the discretion to decide when or if the municipally-owned utility will provide customer choice.

Municipally-owned utilities ("MOUs"), like the electric system, are not required to participate in the competitive market, although they may "opt in" to retail electric competition. Under the statutory scheme of SB 7, any decision by a MOU to opt in would be irrevocable. To date, no action has been taken with respect to opening the Board's service area to retail electric competition as allowed by Senate Bill 7 and the Board's staff does not believe the Board will open its service area to open competition. The Ordinance contains a covenant not to grant a franchise or permit for facilities that compete with the System to the extent permitted by law, which may restrict the right of the Board to opt in to retail electric competition or restrict the access of competitors to the Board's service area. The Board's staff recognizes that the Ordinance may (but does not necessarily) have to be amended at some point in the future in order to permit the Board to opt in to electric competition (see "The Development of the Competitive Market and the Board's Response to the Changing Legal and Business Environments" under this section and "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Electric Utility Restructuring in Texas; Senate Bill 7").

While SB 7 generally deregulates the retail sale of energy in the State, SB 7 maintains the existing regulated structure with respect to electric transmission and distribution services in the State. As discussed below under "The Proposed Wholesale Market Design Rule," there are various rule-makings presently under way by the Public Utility Commission of Texas ("PUCT") (collectively, the "Proposed Wholesale Market Design Rule" or the "Proposed Rule"), that, if fully implemented would dramatically alter the wholesale market design in ERCOT. However, for the reasons discussed below, the Board is of the view that the electric system is positioned to continue to distribute energy within the Board's service area (see "THE TEXAS ELECTRIC UTILITY INDUSTRY – ERCOT - Electric Utility Restructuring in Texas; Senate Bill 7").

ELECTRIC RATES

General. The Board analyzes and adjusts the fuel and purchased energy charge ("FPEC") on a monthly basis. Beginning in April 2016, the Board implemented a bill reduction plan which set the FPEC at a rate that maintains an average residential electric bill at $102.00 based on 1,000 kWh of electric consumption. The plan was implemented to maintain a competitive alignment with other local providers. Effective November 2021 the Board started increasing the FPEC based on market conditions and rising fuel costs. The Board utilized rate stabilization funds of $1,500,000 and $9,500,000 in fiscal years ending September 30, 2023 and 2024 respectively, to supplement actual FPEC collections.

The rates and conditions of service of the electric system are established by the City Commission. The rates established by the City Commission for electric usage by ratepayers within the boundaries of the City are not subject to review by the PUCT or any other state or federal regulatory agency. Rates established by the City Commission for electric usage by ratepayers situated outside the boundaries of the City are subject to review under the PUCT's appellate jurisdiction upon a proper filing of a petition by 5% of the ratepayers of the electric system situated outside the boundaries of the City. The Board reports that there is currently no petition on file by ratepayers situated outside the boundaries of the City with respect to any electric rate, and the management of the Board is not aware of any planned filing. The conditions of service established by the Board for ratepayers within the City are not subject to review by the PUCT or any other state or Federal regulatory agency.

Effective October 1, 2011, the electric system base rates increased by 5%. In addition, the rate structure was revised from a single-tier energy charge to a two-tier energy charge rate design. This structure was intended to help promote conservation without impacting any of the electric system's low consumption consumers (consumers utilizing less than 500 kWh).

Additionally, in order to have available adequate revenues to make projected deposits to the Capital Improvement Fund and in anticipation of issuing a significant amount of additional debt to fund the City's portion of a proposed new electric generating plant, which was cancelled in Fiscal Year 2020, the Board recommended, and the City Commission approved on December 17, 2012, a five-year rate plan for the electric system. The adopted five-year plan increased electric rates as reflected in the following table. The April 1, 2013, October 1, 2013, October 1, 2014, October 1, 2015 and October 1, 2016 increases were implemented. However, on May 3, 2022, pursuant to the findings by an independent consulting and engineering firm (the "2022 Rate Study") and upon recommendation of the Board, the City Commission approved a partial reduction of electric rates to reverse the base rate increases related to the anticipated debt issuances for the previously planned electric generating plant. The results of the 2022 Rate Study indicated that the rate reduction would return energy rates and demand charges to those made effective October 1, 2013, and that such reductions would not materially impair any obligations under the City Charter of the City, bond ordinances or State law. Such rate reductions will be phased-in over a two year period becoming effective on June 1, 2022 and June 1, 2023. In October 2022, the City Commission approved the acceleration of the second phase to an effective date of December 1, 2022.

The table below shows the average electric system rate increases and decreases during the preceding twelve-year period and the average electric system rate increases approved by the City Commission in December 2012 and the decreases approved by the City Commission in May 2022:

Effective Date	% of Increase/ (Decrease)
April 2013 …………………….	7.0%
October 2013 …………………	7.0%
October 2014…………………	7.0%
October 2015..…….…………..	8.0%
October 2016 ………………...	7.0%
June 2022………………………	(-11.0%)
December 2022………………….	(-11.0%)

Electric Retail Service Rates. Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility. Since the electric deregulation aspects of SB 7 (hereinafter described) became effective on January 1, 2002, the PUCT's jurisdiction over electric investor-owned utility ("IOU") companies primarily encompasses only the transmission and distribution functions. PURA generally excludes MOUs, such as the System, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates (see "Electric Transmission Access and Rate Regulation" herein). Under the PURA, a municipal governing body or the body vested with the power to manage and operate a MOU such as the System has exclusive jurisdiction to set rates applicable to all services provided by the MOU with the exception of electric wholesale transmission activities and rates.

The City has covenanted and is obligated under the Ordinance, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of the System and to pay the debt service requirements on all revenue debt of the System, including the Senior Lien Obligations, and to make all other payments prescribed in the respective bond ordinances relating thereto.

Electric Transmission Access and Rate Regulation. Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), MOUs, including the System, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over MOUs for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions, for purposes of recovery of the cost of capital investment in transmission by transmission owners. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method which sets the price for transmission at the system average for ERCOT. The System's wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing the System's input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. With respect to the costs of transmission congestion, pursuant to P.U.C. Docket No. 31540, "Proceeding to Consider Protocols to Implement a Nodal Market in the ERCOT Pursuant to P.U.C. SUBST. R. 25.501," the PUCT has completed the shift from zonal congestion pricing to nodal congestion pricing. ERCOT implemented the nodal system on December 1, 2010.

THE DEVELOPMENT OF THE COMPETITIVE MARKET AND THE BOARD'S RESPONSE TO THE CHANGING LEGAL AND BUSINESS ENVIRONMENTS

Subsequent to the passage of Senate Bill 7, and as a variety of factors that will impact both the statewide electric market and the Board are still evolving, representatives of the Board participated actively at PUCT and ERCOT proceedings to protect the Board's interests. Notwithstanding the evolving issues concerning retail electric competition in the State and the Board's own responses to the options contained in Senate Bill 7, as described below, the Board began planning for increased competition in the mid-1990's. In preparation for deregulation, the Board has taken numerous actions to maintain and enhance its competitive position. Deregulation could occur by either future action by the Texas Legislature, or a decision by the Board to participate in competition. The general consensus of the Board, however, has determined it will remain out of retail competition. The greatest potential impact on the electric system from Senate Bill 7 could result from a decision by the Board to participate in a fully-competitive market. The potential effects of a decision to compete include the potential loss of customers to other Retail Electric Providers ("REPs") resulting in a reduced electric load while owning the existing electric generation facilities and the associated debt service on such facilities. On the other hand, if the Board's retail rates and its ability to deliver dependable service are competitive with those of other REPs, the Board may be successful in retaining existing customers. Any decision of the Board to participate in full retail competition would also permit the electric system to offer electric service to customers that are not presently within the certified service area of the Board.

Among the steps that have been taken by the Board to prepare for possible direct competition is a current rate structure that the Board believes places the System in a competitive position to the System's competitors. The Board's staff is committed to maintaining its electric rates at levels that are competitive with other suppliers, whether or not it is eventually determined to open the Board's service area to competition.

Additionally, the Board established a Fuel Sub-account in 2005 which may be utilized as a rate stabilization/competition fund to be used in a manner that enhances the Board's competitive posture by stabilizing rates or otherwise utilized, as determined by the Board, to competitively position the Board. As of September 2025, the Fuel Sub-account had a balance of $0.00. In 2024 the Board also established a Power Supply Stabilization Reserve to mitigate power supply cost volatility which causes frequent variation in the fuel purchased and energy charge. The Power Supply Stabilization Reserve shall maintain a cash equivalent of 90 days of net power supply costs. As of August 2025, this reserve had a balance of $1,571,430.

The Board continues to staff a Key Account Marketing Department, which historically has been successful in acquiring new customers in multiple-certificated service areas. As a result of a pre-Senate Bill 7 agreement with AEP, the Board is authorized under Senate Bill 7 to, and has, expanded its certificated areas in AEP's singly-certificated areas. In such situations, the Board has acquired a significant number of new customers.

Senate Bill 7 also includes a provision that clarifies the right of MOUs, such as the Board, to enter into risk management and hedging contracts for fuel and energy.

PRESENT ELECTRIC SYSTEM COMPETITION

The Board has authority to provide electric service to customers within and outside the boundaries of the City in areas to which it is certified for electric service by the PUCT. The Board is singly certified in a substantial portion of its service area within the boundaries of the City and, within this area, it alone is presently authorized to provide electric service. The Board is also singly certified to serve the developed portion of the Port of Brownsville.

In areas where the Board is dually or multiple-certified with other electric utilities, the Board competes with AEP and MVEC principally for electric customers. In these areas the customer chooses the utility system from which it will receive electric service. The Board may serve areas newly annexed by the City only if it is singly, dually, or multiple-certified by the PUCT to serve the area. AEP has agreed not to oppose application to the PUCT by the Board for certification to serve newly annexed areas. No agreement of this nature exists between the Board and MVEC. However, the Board's agreement with AEP allows the Board some opportunity to expand its service territory as the City annexes new areas, and the PUCT has recognized and given effect to the agreement in approving the Board's application for dual certification. H.B. 4059, enacted by the 84th Texas Legislature in 2015, imposed some restrictions on future City annexations which could adversely impact the Board's expansion of electric service areas in certain areas of Cameron County.

ELECTRIC CUSTOMERS

For the Fiscal Year ended September 30, 2024, the Board had approximately 54,122 electric customers (excluding accounts relating to general governmental functions of the City). Residential and commercial/industrial customers provided approximately 40.16% and 38.73% of electric system sales revenues, respectively.

The following table lists the ten largest users of electric energy from the System for Fiscal Year 2024 (excluding accounts relating to general government functions of the City) which represented, in the aggregate, approximately 14.90% of electric system revenues.

Table 4A - SCHEDULE OF TEN LARGEST ELECTRIC CUSTOMERS (FISCAL YEAR ENDED SEPTEMBER 30, 2024) (1)

Customer Name	Annual Consumption (kWh)	Annual Sales Revenue	Percent of Annual Sales Revenue
Brownsville I S D	77,711,189	$ 8,924,306	5.28%
Rich Products Corp.	27,630,174	2,843,889	1.68%
Cameron County	16,538,199	2,065,428	1.22%
Texas Southmost College	18,007,128	1,917,432	1.13%
University of Texas Rio Grande Valley	17,261,303	1,813,454	1.07%
Trico Technologies Corp.	16,279,947	1,741,734	1.03%
Go Car Wash Texas, LLC	15,129,052	1,578,188	0.93%
Valley Regional Med Ctr.	14,450,400	1,460,972	0.86%
VB M C Brownsville	12,412,193	1,446,862	0.86%
The Brownsville Housing Opportunity Corp	12,253,163	1,421,624	0.84%
TOTAL	227,672,748	$ 25,213,889	14.90%

(1) Excluding accounts relating to general governmental functions of the City.
Source: Brownsville Public Utilities Board

POWER SUPPLY REQUIREMENTS

HISTORICAL REQUIREMENTS

As depicted by the table set forth below, in Fiscal Year 2024, peak demand was at 317 MW while electric energy requirements decreased by 1.92% over the prior fiscal year. The Board's capacity requirements are calculated based upon the Board's peak summer demand. Many factors, including weather and changes in population, affect electric sales of the System and should be considered when evaluating the power supply requirements of the electric system over the period beginning in Fiscal Year 2020 reported on the following pages.

TABLE 5 - HISTORICAL ANNUAL ELECTRIC PEAK DEMAND AND ENERGY REQUIREMENTS (1)

Peak Demand			Energy Requirements		
Fiscal Year End 9/30	MW	Change	MWh	Change	Load Factor
2020	282	-4.10%	1,304,173	-2.18%	52.79%
2021	283	0.35%	1,323,762	1.50%	53.40%
2022	293	3.69%	1,377,750	4.08%	53.60%
2023	308	4.97%	1,408,620	2.24%	52.21%
2024	317	2.92%	1,381,580	-1.92%	49.75%

(1) Wholesale electric sales not included.
Source: Brownsville Public Utilities Board

POWER SUPPLY RESOURCES – GENERAL

The Board meets its power supply obligations through a combination of resources: (i) the operation of the Silas Ray Power Production Facilities owned and operated by the Board (composed of one conventional steam turbine unit and a re-powered steam turbine in Combined Cycle with a combustion turbine and a GE LM6000 gas turbine generator for an estimated gas fired capability of 115 MW) (see “OWNED GENERATION FACILITIES – Silas Ray Plant” for a discussion of the availability of such resources), (ii) the operation of the Calpine/Hidalgo combined cycle Power Plant in which the Board has an ownership interest entitling it to 105 MW of capacity, (iii) a Power Purchase Agreement with Constellation Energy Generation, LLC, formerly Exelon Corporation, entitling the Board to purchase 78 MW of renewable energy, (iv) Power Purchase Agreement with AEP Energy Partners, Inc. entitling the Board to an estimated 65 MW of energy and (v) economy energy purchases through ERCOT.

APPLICATION OF RESOURCES

The tables set forth below, which were prepared by the Board, summarize the electric system's historical loads and resources for the Fiscal Years 2020 through 2024.

TABLE 6 - HISTORICAL PEAK LOADS AND RESOURCES (MW)

	Fiscal Year End (9/30)				
	2020	2021	2022	2023	2024
Available Resources:					
Oklaunion Unit No. 1 (1)	70.0	0.0	0.0	0.0	0.0
Oklaunion Unit No. 2 (1)	54.0	0.0	0.0	0.0	0.0
Silas Ray Units	115.0	115.0	115.0	115.0	115.0
Hidalgo	105.0	105.0	105.0	105.0	105.0
Sendero Wind Farm (2)	33.9	33.9	33.9	33.9	33.9
AEP Power Purchase Agreement (3)	0.0	50.0	57.0	57.0	57.0
Total Resources	377.9	303.9	310.9	310.9	310.9
Peak Load Responsibility:					
System Peak Demand	282.3	282.7	293.4	307.5	317.3
Balance Available	95.6	21.2	17.4	3.4	-6.4

(1) Oklaunion was decommissioned on September 30, 2020.
(2) Name plate capacity 78.0 MW. Sendero P-50: Summer peak median capacity value 43.4%. Value during peak 33.9 MW.
(3) AEP Power Purchase Agreement commenced October 1, 2020. Value stated is typical at summer peak.
Source: Brownsville Public Utilities Board

TABLE 7 - HISTORICAL ENERGY SOURCES (GWh)

	Fiscal Year End (9/30)				
	2020	2021	2022	2023	2024
Sources:					
Oklaunion Unit No. 1 and 2(1)	167.4	0.0	0.0	0.0	0.0
Silas Ray Units	105.4	16.0	49.9	121.7	65.4
Hidalgo	456.5	413.4	543.6	557.9	487.1
Sendero Wind Energy	237.9	103.5	125.6	138.0	132.2
AEP Power Purchase Agreement (2)	0.0	438.0	480.1	411.5	345.4
Firm Purchase	0.0	0.0	0.0	0.0	78.6
Economy Purchases	336.9	352.9	178.6	179.6	272.9
Total Requirements	1,304.1	1,323.8	1,377.8	1,408.7	1,381.6

(1) Oklaunion was decommissioned on September 30, 2020.
(2) AEP Power Purchase Agreement commenced October 1, 2020.
Source: Brownsville Public Utilities Board

PROJECTED REQUIREMENTS

The Board's staff analyzes the historical load of the electric system and develops a load model for use in its forecast of future power and energy requirements. The tables below set forth the results of that analysis for the five years ending September 30, 2025. The forecasted requirements set forth below are based upon the estimated most probable growth rates (see "OTHER INFORMATION – Forward Looking Statements").

PROJECTED ANNUAL ELECTRIC PEAK DEMAND AND ENERGY REQUIREMENTS (1)

Peak Demand (2)			Energy Requirements		
Fiscal Year End 9/30	MW	Change	MWh	Change	Load Factor
2025	309	-2.62%	1,405,322	1.25%	51.92%
2026	312	0.97%	1,411,502	0.44%	51.64%
2027	314	0.64%	1,418,539	0.50%	51.57%
2028	317	0.96%	1,428,947	0.73%	51.46%
2029	321	1.26%	1,428,947	0.00%	50.82%

Source: Brownsville Public Utilities Board
(1) Wholesale electric sales not included.
(2) System Peak Demand is based on the Board's 2025 Load Forecast for peak load during adverse weather conditions.

PROJECTED POWER REQUIREMENTS

The Board has updated the long range power supply strategy to meet its projected need for additional capacity. An assortment of resource options have been reviewed and will be considered, including (i) distributed generation, and (ii) construction of new generating facilities in the Board's service area. Additionally, the Board is discussing power supply options with other power supply entities. The following tables summarize the Board's estimated future loads and resources for the Fiscal Years 2025 through 2029 (see "OTHER INFORMATION – Forward Looking Statements").

PROJECTED PEAK LOADS AND RESOURCES (MW)

	Fiscal Year End (9/30)				
	2025	2026	2027	2028	2029
Capacity Resources					
Silas Ray(1)	115.0	115.0	115.0	115.0	115.0
Hidalgo	105.0	105.0	105.0	105.0	105.0
Sendero Wind Energy (2)	33.9	33.9	33.9	33.9	33.9
AEP Power Purchase Agreement (2)	59.0	59.0	59.0	59.0	59.0
Total Resources	312.9	312.9	312.9	312.9	312.9
Peak Load Responsibility					
System Peak Demand(3)	302.9	305.9	309.0	312.1	315.2
Total Load	302.9	305.9	309.0	312.1	315.2
Balance Available	10.0	7.0	3.9	-1.2	-2.3

Source: Brownsville Public Utilities Board
(1) See "OWNED GENERATION FACILITIES – Silas Ray Plant" for a discussion of the availability of such resources.
(2) Value stated is typical output at time of summer peak.
(3) System Peak Demand is based on BPUB's 2025 Load Forecast for peak load during adverse weather conditions.

PROJECTED ENERGY REQUIREMENTS AND RESOURCES (GWh)

	Fiscal Year End (9/30)				
	2025	2026	2027	2028	2029
Energy Requirements	1,405.3	1,411.5	1,418.5	1,428.9	1,434.8
Resources:					
Silas Ray[(1)]	122.8	118.7	114.7	110.9	107.1
Hidalgo	571.4	552.3	533.9	515.9	498.6
Sendero Wind Energy	226.6	219.0	211.7	204.5	197.7
AEP Power Purchase Agreement	309.0	298.7	288.8	279.0	269.6
Firm & Other Purchases	10.8	0.0	0.0	0.0	0.0
Economy Purchases (ERCOT)	164.7	222.9	269.4	318.6	361.7
Total Resources	1,405.3	1,411.5	1,418.5	1,428.9	1,434.8

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(1) See "OWNED GENERATION FACILITIES – Silas Ray Plant" for a discussion of the availability of such resources.

OWNED GENERATION FACILITIES

The following paragraphs describe the City's electric generating resources in more detail, including electric generating facilities owned by the City:

Silas Ray Plant

General . . . The Board wholly owns and operates power production facilities in the City that are located at the Silas Ray Plant on the north bank of the Rio Grande River, west of downtown Brownsville, Texas. Designated as Unit #10, a simple cycle, natural gas fired GE LM6000 gas turbine (installed in 2004) is located just south of the main plant building. The main plant building houses the steam turbine generator for Unit #6 installed in 1961. In July 2025, Unit #6 experienced a planned outage, and an unavoidable extension was necessary based on findings. Unit #6 currently remains out of service. The Board is currently determining the feasibility of the repair of Unit #6 or the possible retirement of the unit. Unit #9, a natural gas-fired combustion turbine (installed in 1997), is located adjacent to the plant building. The gas turbine discharges its waste heat into a Heat Recovery Steam Generator that in turn produces steam to power the existing Unit #6 steam turbine for an overall plant capacity of 115 MW. Since August 2025, Unit #9 has been out of service due to an unplanned outage, but it is expected to be returned to service following completion of equipment maintenance.

In response to the winter storm of February 2021, BPUB undertook measures to weatherize the Silas Ray Power Plant. This includes the installation of new heat trace systems and insulation on water tank level valves and transmitters as well as wind breaks on select equipment.

Fuel . . . The Board currently has a gas transportation agreement with Texas Gas Service ("TGS"), a division of ONE Gas, Inc., a gas supply agreement with Tenaska Marketing Ventures ("TMV") for service to its Silas Ray generation units.

Calpine/Hidalgo

General. . . The Board purchased an equity ownership in a gas fired plant from Duke Energy which entitles the Board to 105 MWs of the 500 MW combined cycle plant located in Edinburg, Texas, approximately 56 miles from the City. Calpine Energy subsequently acquired the ownership interest of Duke Energy. The unit consists of two gas turbines with heat recovery steam generators and one steam turbine generator. This unit is extremely efficient with an average heat rate of 7,040 BTU/KWH.

Fuel . . . The Board currently has a gas supply agreement with Calpine Energy Services, LP for service to its Calpine/Hidalgo Plant.

Wind Energy

The Board evaluated renewable energy opportunities, and on January 23, 2014, entered into a Power Purchase Agreement ("PPA") with Sendero Wind Energy, LLC ("SWE") which entitles the Board to purchase 78 MW of renewable electric energy. On December 19, 2014, Exelon Corporation acquired the Sendero Wind Energy Project. The PPA shall remain in full force and effect until the twenty-fifth (25th) anniversary of the commercial operation date of the wind turbine facility. Exelon developed, constructed and achieved at its sole cost and expense, commercial operation of the facility during December 2015 and is delivering to the Board the full energy output of the facility. Constellation Energy Generation, LLC, formerly Exelon Corporation, owns, operates, and maintains the facility, which consists of thirty-nine (39) General Electric 2.0 MW wind turbines and associated equipment having a designed output of approximately 78.0 MW.

ECONOMY ENERGY

In the electric utility industry, the term economy purchases generally refers to the purchase or sale of electric power available at a given time at a cost lower than a utility's own generation, typically on a short-term, non-firm basis. Such purchases are used as a tool for cost savings and efficiency rather than a guaranteed supply resource.

In Fiscal Year 2024, economy purchases accounted for approximately 19.75% of the Board's energy requirements.

ELECTRIC CAPITAL IMPROVEMENT PLAN AND ADDITIONAL DEBT

The Board's current Electric Capital Improvement Plan (the "Electric CIP") identifies projects for a five-year period ending September 30, 2030. The Electric CIP identifies approximately $121.04 million in generation, transmission and distribution projects, of which $26.1 million are projected to be debt financed.

Capital projects involve the acquisition or construction of major facilities and equipment. Due to its nature as a planning tool, a capital budget, while identifying and prioritizing capital expenditures, is subject to revision as circumstances change, including changes in the economy. Consequently, the inclusion of an expenditure in a capital budget is not a firm commitment to a project, particularly as the planning horizon extends into the future.

AGREEMENT BETWEEN THE BOARD AND CFE

The Board received authority in 2001 from the U.S. Department of Energy to establish a 138/69 kV double circuit transmission line connecting the Board's transmission lines with Mexico's Commission Federal De Electricidad ("CFE"). With this connection, the Board could potentially buy, sell, or exchange power with CFE by scheduling energy flows through ERCOT. No connection, however, currently exists.

INTERCONNECTIONS; TRANSMISSION AND DISTRIBUTION WITHIN THE ELECTRIC SYSTEM

The electric system is currently interconnected with AEP at four locations, all of which are rated at 138 kilovolts ("kV"), and has four substations connected directly to AEP transmission lines. The Board's interconnection capacity with AEP is greater than 400 mega-volt- amperes ("MVA") and the four substations have a service capacity of 150 MVA. AEP has constructed a 138 kV transmission line around the north side of the City to interconnect the two 138 kV ties which AEP has with the Board. This 138 kV line improves the overall reliability of the Board's transmission interconnections to the ERCOT grid by providing an alternative feed to each of the Board's 138 kV interconnection points. The bulk power transmission network of the electric system consists of approximately 49 circuit miles of 138 kV transmission lines made up of multiple loops within the electric system service area. The electric system is supplied with power from the 69/138 kV double bus at the Silas Ray Station via 69-138 kW autotransformers which also connect the Board's Silas Ray generation to ERCOT. Fourteen (14) distribution substations are served from the 138 kV transmission system. As a result of improvements, the loop is capable of carrying the electric system load in the event of any single transmission segment being out of service during an emergency or maintenance outage. The electric system currently has fourteen substations connected to the transmission network and serving its 12.5 kV distribution network. The distribution system includes 385 circuit miles of primary overhead distribution line and 353 miles of primary underground distribution line to serve retail customers.

S.B. 776, enacted by the 84th Texas Legislature in 2015, requires a municipally owned electric utility to acquire a Certificate of Convenience and Necessity from the PUCT prior to construction of new electric transmission facilities outside its certificated retail service areas.

NEW VALLEY HUB IN ERCOT

ERCOT established a new hub in its system for the Lower Rio Grande Valley. This has the effect of isolating the Lower Rio Grande area when ERCOT is determining the statewide average wholesale electricity price. The economic impact on the cost of power in the Lower Rio Grande Valley is yet to be fully determined.

ERCOT has determined that the Lower Rio Grande Valley area will have satisfactory transmission infrastructure through 2026. ERCOT has identified a new 345 kV line between two local substations named Delsol and Frontera to improve the Valley load serving capability after 2026. The new infrastructure is designed to increase the region's load-serving capability, improve resiliency, and allow for better power imports and exports.

ENERGY CONSERVATION

The System has taken steps to implement a coordinated energy conservation program consisting of the following elements: (1) retrofitting energy efficient components such as lighting and HVAC systems in existing internal facilities; (2) implementing energy efficient rebate programs for electric customers; (3) providing the option of paperless billing; (4) maintaining an interactive web based educational tool with unlimited access to the public; (5) executing a media and advertising campaign to instruct and promote energy conservation; and (6) obtaining media coverage for energy conservation activities.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

THE ELECTRIC UTILITY INDUSTRY GENERALLY

The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact the business affairs, financial condition and competitiveness of an electric utility, and the level of utilization of generating facilities, such as those of the electric system. One of the most significant of these factors has been the effort on national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on both the wholesale and retail level. For a description of the competition in the electric utility industry in Texas and the response of the Board thereto, see "The Electric Utility Industry Generally - Electric Utility Restructuring in Texas - Senate Bill 7" below.

Such factors include, among others, (i) effects of compliance with rapidly changing cyber, environmental, safety, licensing, regulatory, and legislative requirements; (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy; (iii) changes that might result from a national energy policy; (iv) increased competition from independent power producers; (v) "self-generation" by certain industrial and commercial customers; (vi) issues relating to the ability to issue tax-exempt obligations; (vii) severe restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations; (viii) changes from previously projected future electricity requirements; (ix) increases in costs; (x) shifts in the availability, intermittency and relative costs of different fuels; (xi) management and integration of renewable generation and storage systems into the supply portfolio; and (xii) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways. The Board cannot predict what future effects these factors may or will have on its business operations and financial condition, but the effects could be significant. The following is a brief discussion of several factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is available from sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

TEXAS DEREGULATION STRUCTURE, STATUS AND ISSUES

The following discussion is presented for the purpose of providing information concerning the current Texas legal and market structure. The Texas market is unique in many respects from deregulated markets in other parts of the United States, in part due to the isolation of the market in ERCOT, which is essentially a transmission grid and associated generation facilities with few interconnects to other transmission grids.

The wholesale energy market in ERCOT was established by legislation enacted in the 1995 Texas Legislature and has been significantly modified and developed through enactment of SB 7 and the commencement of retail electric choice in Texas on January 1, 2002. The discussion below describes some of the effects on the market and the challenges presented to the market as a whole, as well as, in some instances, local regions within ERCOT that are facing particular effects of deregulation.

The information in this section is derived from various PUCT and ERCOT source materials. Except for specific references to the Board or the System or as otherwise noted as being provided by another source or entity, all expressions of opinion, summaries of events and statistical information contained in such sections are from legislative reports prepared by the PUCT. The Board does not take responsibility for the content of such reports on either the PUCT or ERCOT websites or in ERCOT reports.

In general, the restructuring of the electric utility industry in accordance with SB 7 continues to evolve, and the Board is observing and evaluating the changes in the developing energy market in the State. Since January 1, 2002 when consumer choice began in competitive areas of ERCOT, there has been continued development within ERCOT of a market-driven wholesale market in which energy is a commodity. It is apparent that traditional planning methods using known generation resources paired with known load has become less important as a planning approach in the market in general. As the competitive market matures in Texas, the market will almost certainly experience ebbs and flows in the construction of new generation and transmission facilities, and some of the existing generation will be displaced by newer resources, which may affect the market price of energy on both the retail and wholesale levels, as well as the demands on, and capacity of, the existing electric transmission system.

ERCOT

ERCOT is one of six Regional Reliability Councils in the North American Reliability Corporation ("NERC"). The ERCOT bulk electric system is located entirely within the State and serves more than 27 million customers, representing approximately 90% of the State's electrical load. The ERCOT service region covers 75%, or 200,000 square miles, of the State and contains a total of 54,100 miles of transmission lines at 345-kV. ERCOT only has asynchronous ties to other reliability councils and is only connected through two direct current ("DC") ties to the eastern interconnect and three small DC ties to Mexico, providing only limited import/export capability.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an ISO in 1996. Under ERCOT's organizational structure, the independent transmission system operators ("ISOs") report to the ERCOT Board of Directors, but the PUCT has complete authority to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure that ERCOT is accountable. ISO responsibilities include security operations of the bulk system, facilitation and efficient use of the transmission system by all market participants, and coordination of regional transmission planning among transmission owning utilities and providers.

ERCOT's statutory functions include establishing and enforcing procedures relating to the reliability of the regional electrical network and accounting for the production and delivery of electricity among generators and all other market participants. The procedures are subject to PUCT oversight and review, and the PUCT chairman is an ex-officio member of the ERCOT Board. The PUCT may authorize ERCOT to charge a reasonable and competitively neutral rate to wholesale buyers and sellers to cover the independent organization's costs. Individual electric utilities own sections or components of the ERCOT transmission grid and are responsible for operating and maintaining their own transmission lines and equipment. The ISO coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. The 1999-enacted SB 7 (described in greater detail below under "Electric Utility Restructuring in Texas – Senate Bill 7") provides that a retail electric provider, municipally owned utility, electric cooperative, power marketer, transmission and distribution utility, or Power Generation

Company shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines and procedures established by the ISO.

Under the PUCT's transmission open access rules, each transmission service provider in ERCOT is required to provide transmission service to transmission customers in ERCOT. As compensation for this service, each transmission service provider annually recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service ("TCOS"), which is set by the PUCT. The PUCT recently approved changes to the Substantive Rule 25.247 that establishes a filing schedule for non-investor-owned transmission service providers ("TSPs") operating within ERCOT - effective November 28, 2018. A non-investor-owned TSP that has not had a commission-approved change to its transmission service rate since January 1, 2017 must submit a comprehensive or interim transmission cost of service within two years of the effective date of the rule. The rule also requires periodic interim or comprehensive filings every 48 months for entities with a wholesale transmission cost of service greater than one percent of the total ERCOT wholesale transmission costs. Smaller non-investor-owned TSPs with charges less than one percent of the total ERCOT wholesale transmission charges must file every 96 months.

ERCOT only has asynchronous ties to other reliability councils and is only connected through two direct current C1DC11) ties to the eastern interconnect and three small DC ties to Mexico, providing only limited import/ export capability.

Average demand for electricity in 2024 was approximately 3.5% higher than in 2023 – an increase of approximately 1,776 megawatts ("MW") as the Texas economy continued to grow. Peak demand in 2024, however, was down 0.3% from 2023 because of less extreme heat in the summer. Load in West Texas continued to grow much faster than the system-wide average, up 15.7% year on year. This trend in recent years has been driven by expanding oil and natural gas production activity and thousands of megawatts of Large Flexible Loads, large data centers used for crypto-currency mining.

In 2024, approximately 14 GW of new capacity entered commercial operation, including 7.5 GW of solar, 5.0 GW of electric storage resources ("ESRs"), 1.1 GW of wind, and 500 MW of combustion turbines. Since 2020, most new capacity has come from solar and ESRs, with annual average additions of 5.2 GW and 2.4 GW, respectively. The share of generation produced from most types of generation in ERCOT were relatively flat with wind virtually unchanged and natural gas generation decreasing by less than one percent. However, changes in the resource mix and fuel prices caused the share of coal-fired generation to fall from 13.9% in 2023 to 12.6% in 2024, while solar generation rose from 7.2% in 2023 to 10.4% of all generation in 2024. In addition to solar, ESRs have also been rapidly expanding in the ERCOT market.

ERCOT has historically invested an average of $3 billion per year in building or upgrading transmission infrastructure, with that figure rising to $3.78 billion in 2024. The unprecedented load growth coupled with the growing amount of congestion already present in the ERCOT system prompted the Board of Directors to approve a 765- kV infrastructure plan for the ERCOT Transmission Grid – the Permian basin Reliability Plan.

In addition, ERCOT has been authorized by the PUCT to investigate compliance with the ERCOT Protocols and Operating Guides, working with the PUCT staff regarding any potential protocol violations.

THE PUBLIC UTILITY COMMISSION OF TEXAS

The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. The PUCT is comprised of four commissioners and a chair appointed by the Governor. The PUCT writes rules that determine the workings of the ERCOT market and has enforcement authority relating to violations of its rules and the ERCOT protocols. Beginning in 2021, the PUCT requires that MOUs file certificates of convenience and necessity ("CCN") to build transmission outside its city limits. The PUCT adopted rules, effective July 5, 2016, revising the process to obtain CCNs. Effective May 28, 2017, the PUCT issued a rule allowing the PUCT, after notice and hearing, to revoke or amend any CCN if the PUCT finds that certain adverse conditions exist. The PUCT does not directly regulate retail rate cases of municipally owned electric utilities, but it does have limited appeal jurisdiction related to ratepayers outside of municipal jurisdiction.

TEXAS RELIABILITY ENTITY, INC. ("TEXAS RE")

Headquartered in Austin, Texas, Texas RE performs the regional entity functions described in the 2005 Energy Act (defined below), which created Section 215 of the Federal Power Act, for the ERCOT region, as mandated by the delegation agreement with the NERC. The delegation agreement was approved by FERC. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC Reliability Standards within the geographic boundaries of the ERCOT region, as well as to assess and periodically report on the reliability and adequacy of the bulk power system.

ELECTRIC UTILITY RESTRUCTURING IN TEXAS – SENATE BILL 7

During the 1999 Legislative Session, the Texas Legislature enacted SB 7, providing for retail electric open competition. The enactment of SB 7 modified the PURA and required that retail and wholesale competition begin on January 1, 2002. SB 7 continues Texas electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 modifications to PURA also fundamentally redefined and restructured the Texas electric industry. The following discussion of SB 7 applies primarily to ERCOT.

SB 7 includes provisions that apply directly to MOUs, such as the Board, as well as other provisions that govern investor owned utilities ("IOUs") and electric co-operatives ("Electric Co-Ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy suppliers. SB 7 also allows retail customers of those MOUs and Electric Co-Ops that elect to opt-in, on or after that date, to choose their electric energy suppliers. Provisions of SB 7 that apply to the Board's electric system, as well as provisions that apply only to IOUs and Electric

Co-Ops, are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the Board and the City could choose to directly participate in the future.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000, and to unbundle their generation, transmission/ distribution and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies and possibly operating divisions. If so, these new entities may be owned by a common holding company, but each must operate largely independent of the others. The services offered by such separate entities must be available to other parties on non- discriminatory bases. MOUs and Electric Co-Ops which open their service territories ("opt-in") to retail electric competition are not required to, but may, unbundle their electric system components.

ENTITIES THAT HAVE OPTED-IN TO COMPETITION

The following discussion relates to entities that are currently in electric competition in Texas and does not apply to the Board and the City, but could apply if the Board and the City opt-in to electric competition.

Generation assets of IOUs are owned by Power Generation Companies, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of Transmission and Distribution Utilities ("TDUs") are fully regulated by the PUCT. Retail sales activities are performed by Retail Electric Providers ("REPs") which are the only entities authorized to sell electricity to retail customers (other than MOUs and Electric Co-Ops within their service areas, or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, power marketers, and/ or other parties and may resell that electricity to retail customers at any location in ERCOT (other than within service areas of MOUs and Electric Co-Ops that have not opened their service areas to retail competition). TDUs, MOUs, and Electric Co-Ops that have chosen to participate in competition are obligated to deliver electricity to retail customers and are also required to transport electricity to wholesale buyers. The PUCT is required to approve the construction of TDUs' new transmission facilities and may order the construction of new facilities in Texas in order to relieve transmission congestion. TDUs are required to provide access to both their transmission and distribution systems on a non¬discriminatory basis to all eligible customers. Retail rates for the use of distribution systems of MOUs and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than that of the PUCT.

SB 7 also provides a number of consumer protection provisions. Each service area within the State that participates in retail competition has a designated Provider of Last Resort; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. The City has the option to be designated as a Provider of Last Resort for its service area if it chooses to opt-in. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each MOU and Electric Co-op that opts-in to retail competition may designate itself or another qualified entity as the Provider of Last Resort for its service territory. In such cases, the respective MOU or Electric Co-op, not the PUCT, will set the electric rates for such respective Provider of Last Resort.

Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non-economic" assets less market value and certain "above market" purchased-power costs) and "regulatory assets", which is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs, which have been and will be collected through a non-by passable competitive transition charge collected from the end retail electric users within the IOU's service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing, and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the "competitive transition charge." Neither the State nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

ADDITIONAL IMPACTS OF SENATE BILL 7 DEREGULATION

MOUs and Electric Co-Ops are largely exempt from the requirements of SB 7 that apply to IOUs. While MOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of MOUs and Electric Co-Ops have the sole discretion to determine whether and when to opt-in to retail competition. However, if a MOU or Electric Co-op has not voted to opt-in, it will not be able to compete for retail energy customers at unregulated rates outside its traditional electric service area or territory.

Any future decision of the Board and the City Commission to participate in full retail competition would permit the Board to offer electric energy service to customers located in areas participating in retail choice that are not presently within the certificated service area of the Board's electric system. The Board and the City Commission could likewise choose to open the Board's service area to competition from other suppliers while choosing not to have the Board compete for retail customers outside its certified service area.

As discussed above, MOUs and Electric Co-Ops will also determine the rates for retail use of their distribution systems after they open their territories to retail competition, although the PUCT has established by rule the terms and conditions applicable to have access to those systems. SB 7 also permits MOUs and Electric Co-Ops to recover their stranded costs through collection of a non- by passable transition charge from their customers if so determined by such entities through procedures that have the effect of procedures available to MOUs under SB 7. Unlike IOUs, the governing body of a MOU determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. MOUs and Electric Co-Ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by the Board and the City as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

A MOU that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anti-competitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of MOUs electing to compete in the retail market.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for an independent transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 (as amended by the Texas Legislature after 1999) directs the PUCT to determine electric wholesale transmission open access rates on a 100% "postage stamp" pricing methodology.

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants that may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities. The bill also improves the competitive position of MOUs by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of MOUs are made exempt from disclosure under the open meetings and open records acts and the right of MOUs to enter into risk management and hedging contracts for fuel and energy is clarified.

The 84th Texas Legislature in its 2015 session passed legislation to protect Cameron County cities and towns from encirclement through the City's annexation actions in order for the other cities and towns to expand their boundaries. The Board is enabled through a settlement agreement with AEP to expand its electric service area in areas newly annexed by the City to provide competition with AEP. To the extent the City is limited to annex new geographical areas in AEP's electric service areas as a result of the legislation, there may be some limitation for the Board to expand its electric service areas. The legislation did provide that in any areas which the City may be required to "roll back" areas, the Board could provide electric service as if the "roll back" had not occurred.

TEXAS LEGISLATIVE IMPACT ON THE ELECTRIC INDUSTRY

Most Recent Legislative Session – 89th Legislative Session

Below is a discussion of certain legislation adopted during the 89th Legislative Session that is relevant to BPUB and its operations.

SB 6

Senate Bill 6 ("SB 6") was passed by a super-majority in the Texas House and Senate and has significant implications for large load consumers (LLs), such as data centers, in the ERCOT region. The bill is meant to encourage more efficient use of power within ERCOT and address potential reliability issues arising from (1) the removal of power generation from the grid by co-locating LLs with existing generators and (2) the inability of ERCOT to curtail LLs during grid emergencies, which could exacerbate the risk of widespread outages.

To address these concerns, SB 6 outlines a series of directives for the PUCT and ERCOT. It mandates the establishment of interconnection charges for LLs and calls for a reevaluation of the 4 Coincident Peak("4CP") methodology used in transmission cost allocation. The bill also directs PUCT to create standardized interconnection processes for LLs and establishes a formal review process for LLs seeking net metering with existing generators. Additionally, SB 6 establishes a flat study fee of at least $100,000 for initial transmission screening studies, with provisions for additional fees if more capacity is requested.

In terms of reliability, SB 6 directs PUCT and ERCOT to develop a competitive reliability service to procure demand reductions from LLs in anticipation of emergencies. It also mandates curtailment capabilities for non-critical LLs during firm load shed events and allows ERCOT to issue emergency notices requiring LLs with backup generation to either reduce load or deploy their own generation — only after all market-based services have been exhausted, treating such actions as firm load shed for price calculation purposes.

Notably, SB 6 delegates significant authority to PUCT to establish and enforce rules and standards for LLs. As such, the specifics remain unclear.

Texas Energy Fund

The Texas Legislature approved an additional $5 billion of funding for the Texas Energy Fund ("TEF") for fiscal years 2025-2026, reaching TEF's $10 billion limit in funding. While TEF will grant most of the money as low-interest loans to incentivize the development of new gas power plants, $1.8 billion out of the newly approved $5 billion will go to the Texas Backup Power Package Program. The Texas Backup Power Package Program offers financial incentives to help businesses install reliable backup power sources, including solar and storage, at facilities necessary to support the community health, safety and well-being. These businesses include critical infrastructure such as nursing homes and water treatment plants.

The Texas Legislature also passed Senate Bill 2268 ("SB 2268"), enabling TEF to extend the initial funding deadline beyond Dec. 31, 2025, on a case-by-case basis, "if the commission determines that market factors necessitate [it]". SB 2268 also splits the 10 GW capacity limit, which was previously shared between the low-interest loans and completion bonus grants, into two separate 10 GW limits. However, as both the loans and completion bonus grants still share the $7.2 billion cap, TEF will not be able to grant the full 10 GW in loans and 10 GW in grants in practice.

88th Legislative Session

Below is a discussion of certain legislation adopted during the 88th Legislative Session that is relevant to BPUB and its operations.

<u>HB 1500</u>

The Texas Legislature passed House Bill 1500 ("HB 1500") placed a variety of restrictions on the PUCT's potential adoption and implementation of the Performance Credit Mechanism ("PCM"). After voicing substantial concerns regarding the costs and efficacy of the PCM, the legislature decided to place a number of "guardrails" on any PCM-type construct that might be adopted by the PUCT. Most notably, HB 1500 provided that the net cost of the PCM to the market cannot exceed $1 billion annually.

At present, the PUCT has decided not to implement a PCM construct.

Another significant aspect of HB 1500 was its requirement that ERCOT generators (other than battery storage) that execute a generation interconnection agreement on or after January 1, 2027, must annually meet certain performance standards, or else pay a fine. In essence, these generators will need to demonstrate their ability to produce power a certain percentage of the time when called upon by ERCOT. The basic idea behind the new performance standards is to allocate some of these costs directly to intermittent resources (though non-variable generators like gas plants would also be subject to penalties in the event that they are unable to perform).

HB 1500 also sought to address concerns regarding high costs of building transmission infrastructure to connect certain types of generation to the grid. Historically, the costs of all transmission facilities used for generation interconnections have been socialized among all ERCOT ratepayers. HB 1500 dialed back that practice to a certain extent by only allowing ERCOT ratepayers to pay for a standard allowance for certain future interconnections, based on potential consumer cost savings, historical interconnection costs, and other factors. Interconnection costs in excess of that standard allowance must be paid by the generator seeking interconnection. This provision has the practical effect of incentivizing generators to locate their facilities as close as possible to interconnecting transmission lines.

HB 1500 directed ERCOT to implement DRRS, a new ancillary service to compensate generators for being available to produce power during relatively brief periods of low supply, by December 1, 2024. Participation in DRRS has been limited to generators that can (1) produce power within two hours of being dispatched, (2) provide such power for at least four hours at a time (or longer if required by ERCOT), and (3) have other (as yet undefined) attributes to address inter-hour operation challenges. The term "dispatchable" was left undefined in this provision, which appears to signify that participation in DRRS may be technology-neutral — i.e., new technologies such as utility-scale batteries may be able to participate so long as they meet the requisite operational requirements.

87th Legislative Session

Below is a discussion of certain legislation adopted during the 87th Legislative Session that is relevant to BPUB and its operations.

<u>Public Utility Commission of Texas and ERCOT Reform</u> . . . During the 87th Regular Legislative Session, Governor Abbott declared ERCOT reform an emergency item for the session, following Winter Storm Uri, which resulted in lengthy outages statewide on the ERCOT grid.

<u>The Legislature focused on reforming ERCOT, the PUCT, and the electric utility and gas industries</u> . . . As to ERCOT reform, the Governor signed Senate Bill 2 into law on June 8, 2021, which changes the composition of the ERCOT Board of Directors (the "ERCOT Board"). Under the previous law, the ERCOT Board was made up of the Chairman of the PUCT, the Counsellor for the Office of Public Utility Council, six market participants elected by their respective market segments, and one member representing industrial consumer interest, one member representing large commercial consumer interest, and five members unaffiliated with any market segment. Senate Bill 2 drastically changes the composition of the ERCOT Board to include the following: (1) the Chairman of the PUCT; (2) the Counsellor for the Office of Public Utility Counsel; (3) the ERCOT CEO; and (4) eight members selected by the "selection committee," who have executive-level experience in finance, business, engineering, trading, risk management, law, or electric market design. All members of the ERCOT Board must be a resident of Texas. The selection committee is comprised of three members – one appointed by the governor, one appointed by the lieutenant governor, and one appointed by the speaker of the Texas House of Representatives. The selection committee is required to retain an outside consulting firm to help select the members of the ERCOT Board. Further, the selection committee designates the chair and vice chair of the ERCOT Board. In addition to changing the ERCOT Board's composition, Senate Bill 2 increases the oversight by the PUCT. That is, any rules adopted by ERCOT or enforcement actions taken by ERCOT cannot take effect before receiving PUCT approval. Moreover, the ERCOT Board is required to establish and implement a formal process for adopting new protocols or revisions to existing protocols, and the process must require that new or revised protocols may not take effect until the PUCT approves a market impact statement describing the new or revised protocols.

For PUCT reform, like ERCOT reform, the legislature restructured the composition of the PUCT. Specifically, instead of three commissioners appointed by the governor with advice and consent of the senate, under Senate Bill 2154, there will now be five commissioners appointed by the governor with advice and consent of the senate. All commissioners must be a Texas resident. Further, at least two commissioners must be well informed and qualified in the field of public utilities and utility regulation.

The Legislature also passed Senate Bill 3 to address the electric utility and gas industries after Winter Storm Uri. Senate Bill 3 became effective on June 8, 2021. The legislation encompasses several areas of reform.

- Power Outage Alert: The Texas Department of Public Safety is charged with developing and implementing a power outage alert to be activated when power supply may not be able to meet demand. The Power Outage Alert system would utilize Texas Department of Transportation dynamic message signs, as well as other forms of communication, to notify the public.

- Formation of Texas Energy Reliability Council: Senate Bill 3 creates the Texas Energy Reliability Council to (1) ensure that energy and electric industries meet high priority human needs and address critical infrastructure concerns; and (2) enhance coordination and communication in the energy and electric industries. The Council is comprised of agency representatives from the PUCT, Texas Railroad Commission ("RRC"), the Office of Public Utility Counsel, Texas Commission on Environmental Quality ("TCEQ"), Texas Transportation Commission, ERCOT, and other representatives from the electricity industry, energy sectors, industrial concerns, motor fuel producers, and chemical manufacturers.

- Natural Gas Reform: Senate Bill 3 requires that the RRC adopt rules for designating certain natural gas facilities as critical customers or critical gas suppliers during energy emergencies. Only facilities that are prepared to operate during a weather emergency may be designated as a critical customer. Moreover, the RRC must adopt rules to require any "gas supply chain facility" that is designated as critical to weatherize facilities. Additionally, the RRC must adopt rules regarding measures a gas pipeline facility must implement to weatherize during extreme weather conditions if that gas pipeline facility services a natural gas electric facility operating to provide power to the ERCOT power region and is included on the electricity supply chain map. The RRC is further tasked with inspecting for compliance with weatherization requirements. The RRC must also adopt rules to establish a classification system for violations and associated penalties.

  Further, the RRC is tasked with adopting rules to designate certain natural gas facilities and entities as critical during energy emergencies. The rules must provide for prioritizing these critical facilities during load shed events, and provide discretion to electric utilities, municipally owned utilities, and electric cooperatives to prioritize power delivery and power restoration among these designated critical facilities and entities.

  The RRC must also analyze certain emergency operations plans and prepare a weather emergency preparedness report on weatherization preparedness of applicable facilities.

- Electric Utility Reform: Senate Bill 3 requires that the PUCT adopt rules for the weatherization of generation facilities and the weatherization of facilities for utilities providing transmission service in the ERCOT region. ERCOT is required to conduct inspections of generation and transmission facilities to ensure compliance. Penalties may be assessed for non¬compliance. The PUCT is also required to review ancillary services to determine whether they meet the needs in the ERCOT market, and evaluate whether additional services are needed for reliability and provide adequate incentives for dispatchable generation. The PUCT must require ERCOT to modify the design, procurement, and cost allocation of ancillary services for the region in a manner consistent with cost causation principles and on a nondiscriminatory basis.

  The PUCT is further required to adopt rules related to the allocation of load shedding among electric cooperatives, municipally owned utilities, and transmission and distribution utilities providing transmission service in the ERCOT power region during involuntary load shedding events. The PUCT and ERCOT are required to conduct simulated or tabletop load shedding exercises. Senate Bill 3 requires electric utilities, MOUs, and electric cooperatives to periodically provide retail customers with information regarding procedures for involuntary load shedding, types of customers considered critical care residential customers and critical load industrial customers, the procedures for customers to apply to be considered a critical care residential customers or critical load industrial customers, and reducing electricity use at times when involuntary load shedding may be implemented.

  Senate Bill 3 also addresses dispatchable generation. The PUCT is required to ensure that ERCOT establishes requirements to meet the reliability needs of ERCOT, determines the quantity and characteristics of ancillary services necessary for reliability in extreme weather conditions, procures ancillary or reliability services, develops appropriate qualification and performance requirements for providing these ancillary or reliability services, and sizes the services to prevent prolonged rotating outages. The PUCT is required to ensure that such services are dispatchable, meet certain winter resource capability qualifications, and meet certain summer resource capability qualifications.

  Senate Bill 3 addresses wholesale power pricing mechanisms. Under Senate Bill 3, the PUCT is required to establish an emergency pricing program for the wholesale electric market with the following qualifications: (1) the emergency pricing program must take effect if the high system-wide offer cap has been in effect for 12 hours in a 24-hour period; (2) the pricing program may not allow an emergency pricing program cap to exceed any nonemergency high system-wide offer cap; (3) it shall establish an ancillary services cap to be in effect during the period an emergency pricing program is in effect; (4) any wholesale pricing procedure that has a low system-wide offer cap may not allow the low system-wide offer cap to exceed the high system-wide offer cap; (5) the PUCT shall review each system-wide offer cap program adopted by the PUCT, including the emergency pricing program, at least once every five years; and (6) the emergency pricing program must allow generators to be reimbursed for reasonable, verifiable operating costs that exceed the emergency cap.

  There are also new reporting and registration requirements for distributed generation (but not applicable to distributed generation serving a residential property).

- Formation of Texas Electricity Supply Chain Security and Mapping Committee: Senate Bill 3 also creates the Texas Electricity Supply Chain Security and Mapping Committee to serve the following purposes: (1) map the state's electricity supply chain; (2)

identify critical infrastructure resources in the electricity supply chain; (3) establish best practices to maintain service in extreme weather events; and (4) designate priority service needs to prepare for, respond to, and recover from an extreme weather event.

It is difficult at this time to predict the specifics of how these legislative reforms and related rulemaking will get implemented and the ultimate impact on the electric market in ERCOT.

Market Structure after Winter Storm Uri

During its 2021 regular session, the Texas legislature adopted legislation pertaining to the recovery of unforeseen costs in the ERCOT market related to Winter Storm Uri in February 2021, including House Bill 4492 ("HB 4492"), "relating to financing certain costs associated with electric markets; granting authority to issue bonds." HB 4492 became effective on June 16, 2021. This legislation allowed for the use of debt financing for the recovery of two categories of costs accrued during the winter storm and referred to as the "default balance" and the "uplift balance."

The default balance is comprised of approximately $800 million owed to ERCOT from defaults by market participants on payments owed as a result of the storm. Financing came from the state's Economic Stabilization Fund – also known as the "Rainy Day" fund – and is being repaid by ERCOT market participants through charges established by the PUCT.

The "uplift balance" consists of approximately $2.1 billion in ancillary service charges and reliability deployment price adders imposed during the week of the storm in excess of the system-wide Offer Cap. HB 4492 enabled ERCOT to finance repayment on this amount through the issuance of debt with PUCT approval.

Default Balance – HB 4492 provides that the "default balance" includes:

(1) amounts owed to ERCOT by competitive market participants from the period of emergency that otherwise would be uplifted to other wholesale market participants (i.e., competitive market participant short-pay defaults);

(2) congestion revenue rights ("CRR") auction receipts used by ERCOT to temporarily reduce short-pay amounts related to the period of emergency; and

(3) reasonable costs incurred to implement a debt obligation order consistent with this financing.

The legislation authorized the Comptroller of Public Accounts to invest not more than $800 million from the Economic Stabilization Fund to finance the default balance, subject to repayment by ERCOT market participants through charges established by the PUCT. The bill provided that the term of the debt could not exceed 30 years, with charges assessed on a non-bypassable basis to market participants generally, and not just to load serving entities.

Uplift Balance – The legislation enabled ERCOT to finance an "uplift balance" of up to $2.1 billion on behalf of wholesale market participants through the issuance of debt obligations approved by the PUCT. "Uplift balance" includes amounts that ERCOT previously uplifted to load-serving entities during the winter storm for reliability deployment price adder charges and ancillary services costs in excess of the PUCT's system-wide offer cap. However, it excludes those amounts covered under separate legislation (SB 1580) pertaining to securitization for electric cooperatives.

Load serving entities are required to repay the uplift balance debt on a load-ratio basis over a period not to exceed 30 years. Uplift charges are non-bypassable, except that certain load serving entities and transmission-voltage customers served by a REP were allowed to opt out of paying uplift charges if they paid in full all invoices owed for usage during the winter storm.

HB 4492 also amended Subchapter D, Chapter 39 of the Utilities Code, by adding Section 39.159 to require that all market participants fully and promptly pay ERCOT all amounts owed to the organization or provide for the prompt and full payment of such amounts. ERCOT was required to report to the PUCT any market participant that defaulted in such payments and was prohibited from allowing any defaulting market participant to continue to participate in the ERCOT market for any purpose until all default amounts are paid in full.

In accordance with the legislation and orders of the PUCT, BPUB opted out of the HB 4492 "uplift balance" debt financing and instead made the determination to finance costs incurred as a result of Winter Storm Uri through its commercial paper program.

86th Legislative Session

From January 8, 2019 to May 27, 2019, the 86th Texas Legislature convened its regular session. Below is a discussion of certain bills adopted by the 86th Legislature relevant to BPUB and its operations.

HB 4150 adds comprehensive reporting regarding transmission line inspections and safety incidents for all electric utilities. All utilities (MOUs, IOUs and Electric Co-Ops) will be required to report what percentage of transmission infrastructure, defined as over 60 KV, was inspected during the preceding five-year period, and what percentage is expected to be inspected in the upcoming five-year period. The bill also contains annual reporting requirements on safety education and training taking place or changed/appended, any known noncompliant maintenance issues and incidents, fatalities, and injuries with a corrective action plan. The bill also requires utilities to inspect lines over public recreational lakes in their service territory for compliance with National Electrical Safety Code height requirements. A rulemaking at the PUCT to implement HB 4150 was adopted effective March 5, 2020 with the initial reports due May 1, 2020.

Other bills include HB 864 and HB 866 and pertain to gas infrastructure safety and reporting. As of July 2019, the Railroad Commission of Texas ("RRCT") initiated a comprehensive rulemaking to implement these bills, as well as make other updates to Chapter 8 and Chapter 3.70 of Title 16 of the Texas Administrative Code, as amended, to bring the RRCT rules, definitions, and procedures in line with federal Pipeline and Hazardous Materials Safety Administration ("PHMSA") requirements and sections of State law that relate to the provisions. The result of the rulemaking, which is in the process of reformulation, will impact the reports the Board currently files with the RRCT regarding new pipeline construction and the Board's annual risk-based programs for identifying and replacing gas infrastructure.

Two additional bills of note are SB 1012 and SB 1938. SB 1012, filed at the request of the PUCT, clarifies and reaffirms the current ability of MOUs and Electric Co-Ops to own battery storage without having to register as power generation companies ("PGC"). SB 1938 codifies within State law certain ERCOT protocols as they pertain to transmission owners' ability to construct off existing transmission end-points.

In regard to cyber and grid security, three bills passed relevant to the electric utility industry. All of these bills are pending implementation and further action by the PUCT and ERCOT. SB 64 establishes a program for the PUCT to coordinate and share with utilities best practices on a number of cyber-related items, including guidance for cybersecurity controls for supply chain risk management. The bill also directs ERCOT to conduct an internal cybersecurity risk assessment and submit an annual confidential report to the PUCT. SB 475 creates the "Texas Electric Grid Security Council", an advisory body that will coordinate the sharing of information and implementation of best security practices in the electric industry. This council will be comprised of representatives from the PUCT, ERCOT and the Governor's office, and coordinate with industry and specific State and federal entities. Finally, SB 936 requires the PUCT and ERCOT to contract with an entity to act as PUCT's cybersecurity monitor. This bill was also filed at the request of the PUCT.

FEDERAL ENERGY POLICY AND FEDERAL REGULATION OF ELECTRIC TRANSMISSION SERVICES

The election of President Trump in November 2024 resulted in a host of new administrators to top government agencies, including the Environmental Protection Agency (the "EPA"). On January 29, 2025, the U.S. Senate confirmed former New York congressman, Lee Zeldin, as the administrator of the EPA. It is anticipated that the Trump administration may pursue efforts to roll back environmental rules promulgated by the EPA under previous presidential administrations.

The presidential election and various Supreme Court decisions have the continued ability to affect environmental positions within U.S. government agencies. Notably, on June 28, 2024, the Supreme Court issued an opinion in *Loper Bright Enterprises v. Raimondo*, representing a reduction in the authority of federal agencies and raises questions on the future timing and consistency of interpretations of the specific application of laws by the courts. Although there are no immediate material impacts to BPUB, it will continue to monitor matters as they progress under this new paradigm.

<u>The Energy Policy Act of 1992</u> . . . The Energy Act of 1992 (the "1992 Energy Act") greatly expands the authority of FERC to order utilities, including utilities within ERCOT, to provide transmission service for other utilities, qualifying facilities, and independent power producers. FERC also has authority to determine the prices that may be charged for transmission but has generally deferred to the PUCT electric transmission open access rules for access and pricing within ERCOT.

<u>The Energy Policy Act of 2005</u> . . . The Energy Policy Act of 2005 ("2005 Energy Act") extended limited FERC jurisdiction, known as "FERC-Lite," over public power entities within ERCOT, such as the Board, that own transmission lines, and gave FERC authority to delegate certain transmission reliability standard-setting responsibilities to the Energy Reliability Organization ("ERO") and to establish mandatory reliability standards for operation of the nation's transmission system. The 2005 Energy Act included several provisions that could affect the Board's business and continue to be evaluated by management, including:

- repeal of existing Public Utility Holding Company Act of 1935 requirements;
- conditional termination of the mandatory federal purchase and sale requirements for co-generation and small power production;
- expansion of FERC's merger review authority;
- re-authorization of renewable energy production incentives for solar, wind, geothermal, and biomass, and authorization of new incentives for landfill gas;
- incentives for development of new commercial nuclear power plants and other non- or low-carbon emitting technologies;
- establishment of a 7.5% goal for increased renewable energy use by the federal government by 2013, and a 20% required reduction in energy use by federal buildings by 2015; and
- increased funding for weatherization of low-income homes and state energy efficiency programs.

Furthermore, the 2005 Energy Act amended the Public Utility Regulatory Policies Act of 1978 ("PURPA") by adding five new standards that MOUs must consider and determine whether to implement. These new standards address net metering, diversity of fuel sources, efficiency of fossil-fuel-fired generation, time-based or "smart" metering, and the interconnection of distributed generation.

In December 2007, President Bush signed the Energy Independence and Security Act ("EISA") requiring utilities to consider, for adoption, rejection, or modification by December 19, 2009, the implementation of (1) integrated resource planning; (2) rate design modifications to promote energy efficiency investments; (3) smart grid investments; and (4) smart grid information. MOUs, such as the Board, are designated as "non-regulated" under EISA, as well as the 2005 Energy Act, because those utilities are not regulated by state utility commissions.

Retail Wheeling . . . The authority to order retail wheeling, which allows a retail customer to be located in one utility's service area and to obtain power from another utility or non-utility source, is specifically excluded from the enhanced authority granted to FERC under the Energy Act. However, while the states may have authority to determine whether retail wheeling will be permitted, FERC has determined that it has jurisdiction over the rates, terms and conditions of retail wheeling.

Critical Infrastructure Protections ("CIP") . . . In 2013, President Obama issued an Executive Order "Improving Critical Infrastructure Cybersecurity," to develop a voluntary risk-based cybersecurity framework. The National Institute of Standards and Technology ("NIST") framework (the "Framework") was finalized and released in mid-February 2014. The Framework is designed to be a living document and continual updates occur concerning its development. The Framework covers 16 sectors and the portion pertaining to the energy sector will be implemented by the United States Department of Energy (the "DOE"). Compliance is voluntary. Pursuant to an executive order issued by President Trump on May 11, 2017, entitled "Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure," all federal agencies are required to use the Framework to manage cybersecurity risks. In July 2019, NIST published its "Smart Grid Profile," which applies risk management strategies from the Framework to the smart grid. Congress continues to make cybersecurity and grid security a priority regarding preparedness of the electric utility sector for cybersecurity threats. The Board participates in a variety of physical and cyber initiatives and continues to analyze vulnerabilities and update its security, monitoring, and alerting technology in an effort to prevent cybersecurity incidents and maintain compliance with federal and state requirements.

The Board uses multiple security measures to protect its physical assets. In-house and third-party physical security audits and analysis are routinely performed. Access control/ card reader systems, cameras, and security lighting are located throughout the electric utility system and are employed to deter, detect, and prevent security threats.

On March 7, 2014, the FERC directed NERC to develop reliability standards requiring owners and operators of the bulk-power system to address risks due to physical security threats and vulnerabilities. NERC drafted a standard ("CIP-014-1"), which requires transmission owners and operators to (1) perform a risk assessment of their system to identify facilities that, if damaged, could have a critical impact on the operation of the bulk-power system; (2) evaluate potential threats and vulnerabilities to those facilities; and (3) develop and implement a security plan to address potential threats and vulnerabilities. FERC approved the reliability standard on November 20, 2014. The Board has taken steps to comply with CIP-014-1.

In July 2016 the FERC directed NERC to develop a CIP reliability standard that requires entities supporting the bulk electric system to develop and implement a supply chain management plan for industrial control system hardware, software, and vendor services associated with electric system operations. The standard was approved by FERC on July 19, 2018, as revised on June 20, 2019, (to extend mandatory reporting of cyber incidents to attempted attacks and events that comprised the system without necessarily impacting a reliability task) and will be effective on or about January 1, 2021. The Board is making the necessary preparations to comply with this new CIP standard, as supplemented.

Production Tax Credit ("PTC")/Investment Tax Credit ("ITC") . . . Beginning with the 112th United States Congress, lawmakers extended various tax credits, including approval of a $205 billion package on tax credit extenders that includes extensions and changes to a number of energy-related tax credits. The package expired on December 31, 2013, including the tax credit for electricity produced by wind and other renewable resources. Congress in 2014 failed to pass legislation extending these tax credits. At the end of 2015, the 114th Congress passed a five-year extension, modification and phase-out of the ITC for solar power and the PTC for wind and other renewables. The bill extended the PTC as-is for two years (including one retroactive year because the credit expired at the end of 2014), and phases out the credit to 80% in 2017, 60% in 2018, and 40% in 2019. The 30% temporary ITC was extended for three additional years (from its original December 31, 2016 expiration) and would then be phased out with a 26% credit in 2020, a 22% credit in 2021, and a 10% credit in 2022.

The Inflation Reduction Act was passed by Congress in 2022 and became effective January 1, 2023. Expanded and extended ITC and PTC. The One, Big, Beautiful Bill Act was signed into law on July 4, 2025. It terminates PTCs and ITCs for resources whose construction starts more than 60 days after enactment or that are placed in service after Dec. 31, 2028.

FERC Authority. . . In 1992, pursuant to the 1992 Energy Act, the FERC required utilities under its jurisdiction to provide access to their electric transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. MOUs are subject to FERC orders requiring provision of wholesale transmission service to other utilities, qualifying cogeneration facilities, and independent power producers. Under FERC rules promulgated subsequent to the 1992 Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access nondiscriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce and because PURA95 and SB 7, State laws discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor in the operation of the wholesale market in ERCOT. The 2005 Energy Act authorizes FERC to encourage and approve the voluntary formation of regional transmission organizations in order to promote fair and open access to electric transmission service and facilitate wholesale competition. The ERCOT open access system is administered by an ISO conducting many of the functions that would be administered by a Regional Transmission Organization.

Section 1211 of the 2005 Energy Act amended the Federal Power Act to include a new section, designated as Section 215, which directed FERC to certify an ERO and develop procedures for establishing, approving and enforcing electric reliability standards. FERC designated NERC to serve as the ERO and to set and monitor through Regional Entities ("RE") implementation of electric reliability standards. Within the ERCOT region, the Texas Reliability Entity serves as the RE for the ERCOT service area.

On November 16, 2016, FERC proposed to amend its regulations under the Federal Power Act to remove barriers to the participation of electric storage resources and distributed energy resource aggregations in the capacity, energy, and ancillary service markets operated by regional ISOs. Specifically, FERC proposed to require each ISO to revise its tariff to (1) establish a participation model consisting of market rules that, recognizing the physical and operational characteristics of electric storage resources, accommodates their participation in the organized wholesale electric markets and (2) define distributed energy resource aggregators as a type of market participant that can participate in the organized wholesale electric markets under the participation model that best accommodates the physical and operational characteristics of its distributed energy resource aggregation. In a per curium opinion issued by the United States Court of Appeals for the District of Columbia on June 20, 2017, the court denied Advanced Energy Management Alliance's petition to vacate FERCs approval as to capacity performance program changes.

The current FERC commissioners are Chairman David Rosner, Commissioner Lindsay S. See, and Commissioner Judy W. Chang, with two seats unfilled.

<u>FERC Final Rules and Proposed Rulemakings in Federal Regulation of Electric Utilities</u>. . . To establish foundations necessary to develop a competitive wholesale electricity market and effectuate the transmission access provisions of the Energy Act, on April 24, 1996, FERC issued two final rules ("FERC Rules") on non-discriminatory open access transmission services by public utilities and stranded cost recovery rules. Both of these substantially survived appellate reviews, including two petitions addressed in a published opinion of the United States Supreme Court. The first of the FERC Final Rules, Order No. 888, requires all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce to (i) file open-access, non-discriminatory transmission tariffs containing, at a minimum, the non-price terms and conditions set forth in the order and (ii) functionally unbundled wholesale power services by (1) applying a unified transmission tariffs system to all customers, (2) providing separate rate systems for wholesale generation, transmission and ancillary services, and (3) relying on the same electronic information dissemination network that its transmission customers rely on in selling and purchasing energy.

The second final rule, Order No. 889, requires all public utilities to establish or participate in an Open Access Same-Time Information System (OASIS) that meets certain specifications, and comply with standards of conduct designed to prevent employees of a public utility (or any employees of its affiliates) engaged in wholesale power marketing functions from obtaining preferential access to pertinent transmission system information.

FERC stated that its overall objective is to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. FERC also indicated that it intends to apply the principles set forth in the FERC Rules to the maximum extent to municipal and other non-FERC regulated utilities, both in deciding cases brought under the Federal Power Act and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

FERC has continued to refine the requirements imposed in Orders 888 and 889, through measures such as the imposition of standard provisions for interconnection with new generation, and revised codes of conduct for transmission providers.

In addition, on December 20, 1999, FERC issued Order No. 2000, a rule seeking to advance the formation of Regional Transmission Organizations ("RTOs"). The rule contemplates RTOs as voluntary participation associations of power transmission owning entities, comprising public and non-public utility entities, which would more efficiently address operational and reliability issues confronting the industry in particular by improving grid reliability, increasing efficiencies in transmission grid management, preventing discriminatory practices and improving market performance. Because of the voluntary nature of Order No. 2000, the rule was not subject to judicial review. Commission policy has continued to evolve and now appears to permit the formation of ISOs as well as RTOs.

Although these FERC Rules do not directly regulate municipally-owned and other non-FERC regulated utilities such as the System, the FERC Rules have a significant impact on such utilities' operations. The FERC Rules have significantly changed the competitive climate in which the non-FERC regulated utilities operate, giving their customers much greater access to alternative sources of electric transmission services. The rules require them to provide open access transmission service conforming to the requirements for investor-owned utilities whenever they are properly requested to do so under the Energy Act or as a condition of taking transmission service from an investor-owned utility. In certain circumstances, the non-FERC regulated utilities are required to pay compensation to their present suppliers of wholesale power and energy for stranded costs that may arise when the non-FERC regulated utilities exercise their option to switch to an alternative supplier of electricity.

FERC orders such as Orders 888, 889, and 2000 do not have direct application in the ERCOT region of Texas, where the Board operates, because the PUCT exercises jurisdiction over most intra-ERCOT transmission service and over the ERCOT ISO. However, developments at FERC have industry-wide impacts and can influence practices within ERCOT.

<u>Federal Energy Regulatory Commission Regulation</u> . . . The Board substantially conforms to the FERC Uniform System of Accounts in maintaining its books of accounts. FERC has authority under the Federal Power Act to require such reports even from utilities such as the Board, which are not directly subject to FERC regulation as public utilities or licensees. The Board is not otherwise under any active regulatory supervision by FERC at this time.

Historically, electric utilities operating in the ERCOT region of Texas have not had any interstate connections other than in certain emergency situations and hence, with the exception of AEP Texas Central Co. (formerly Central Power & Light Co.) and AEP Texas North Co. (formerly West Texas Utilities Co.), investor-owned utilities, municipal utilities and electric cooperatives and their electric facilities have not been subject to the FERC regulatory requirements on the basis of such interstate connections. Over the past several years, various efforts have been made to provide some interstate connections. These efforts have resulted in protracted judicial and administrative proceedings involving ERCOT members. FERC has issued orders, which, among other things, permit ERCOT members other than AEP Texas Central and AEP Texas North to avoid federal regulation of rates as the result of the ordered interconnections with another interstate connected utility except for regulation of transmission service "to, from and over" the interstate connections. As a result, the Texas Public Utility Commission regulates matters within ERCOT, such as transmission service and wholesale market design, which are regulated by FERC in most other portions of the conterminous United States.

Additional areas of FERC regulatory authority that extend into ERCOT include the authority to require the provision of transmission service in response to a complaint jurisdiction to determine “qualifying facility” and “exempt wholesale generator” status, and licensing jurisdiction over most non-federal hydropower facilities. Moreover, the Secretary of Energy, who issues Presidential Permits authorizing the construction of international electric transmission lines, has delegated to FERC the Secretary’s authority over the terms and conditions of transmission service over such lines.

ENVIRONMENTAL REGULATION

General . . . Electric utilities are subject to numerous environmental regulations administered at the Federal and State level. Over time such regulations have become more stringent as water and air quality goals have tightened, and as pollution control technologies have advanced. Although it is expected that this trend will continue into the future, the uncertainty associated with future regulations, coupled with the piecemeal and uncoordinated manner in which they are implemented, presents the electric utility industry with a formidable challenge. This challenge was further compounded in 1999 when the EPA launched a major enforcement initiative targeting older coal-fired electric generation plants. In undertaking this action, it was the EPA’s assertion that a number of coal-fired electric generation plants have undertaken major modifications in the past without concurrently upgrading pollution controls as required under the new source review (“NSR”) provision of the FCAA. The seriousness of this enforcement initiative has had a chilling effect on the electric utility industry, as many companies are hesitant to pursue improvements or perform needed maintenance on their generation assets for fear of unwittingly triggering NSR provisions or actual EPA enforcement actions.

The current administration is repealing or exempting companies from a number of previous regulations and it is a rapidly evolving regulatory landscape.

Clean Power Plan (“CPP”)/Affordable Clean Energy (“ACE”) Rule . . . The intent of these rules is to regulate emissions of carbon dioxide (“CO2”) and their potential to affect climate change. On July 8, 2019, the U.S. Environmental Protection Agency (“EPA”) published the ACE Rule replacing the CPP that had been issued in 2015. Therule bases the Best System of Emission Reduction (“BSER”) for carbon dioxide on Heat Rate Improvements (“HRI”) at the power plant. State Implementation Plans (“SIPs”) for this rule will set unit-specific performance standards that may consider remaining useful life of the plant and other factors. On January 19, 2021, the U.S. Court of Appeals for the District of Columbia Circuit (“DC Circuit”) vacated the ACE Rule, but did not reinstate the 2015 CPP. The DC Circuit remanded the Rule to the EPA for further consideration and provided the Biden Administration with a path to construct a new framework for regulating greenhouse gas emissions from power plants.

The ACE Rule is no longer in effect, as it was vacated by the D.C. Circuit Court of Appeals on January 19, 2021, and remanded to the EPA. Similarly, the CPP is no longer in effect, as the U.S. Supreme Court struck it down in 2022, ruling that the EPA lacked the legal authority to mandate "generation shifting" (changing fuel types from polluting to cleaner sources) for existing power plants.

Restrictions on emissions of Greenhouse Gases (“GHGs”) imposed by EPA, the Texas Commission on Environmental Quality (“TCEQ”), legislation, or civil litigation could have an adverse effect on the System. The Board cannot predict whether climate change legislation will be enacted in this or any future session of Congress, or whether State legislation could be enacted that would regulate carbon dioxide emissions. Moreover, the Board cannot predict the financial impact that any such legislation, if finally enacted and signed into law, would have on the System or the electric market in general.

Steam Electric Effluent Limitations Guidelines (“ELG”) . . . The EPA published the 2024 final rule for the Steam Electric Effluent Limitations Guidelines (ELGs) in May 2024, establishing new technology-based standards for power plant wastewater. The rule, which sets stricter limits on toxic metals like arsenic, mercury, and selenium from sources like flue gas desulfurization wastewater and bottom ash transport water, is currently being litigated in the Eighth Circuit Court of Appeals. In March 2025, the EPA announced it is reconsidering aspects of this rule and plans to extend compliance deadlines, explore flexibilities, and initiate new rulemaking to reduce the rule's impact.

National Ambient Air Quality Standards (“NAAQS”) . . . The primary intent of this rule is to regulate the concentration of ozone in the atmosphere. Ozone is formed through the interaction of nitrogen oxides (NOx) and other compounds in the atmosphere under strong sunlight. It is therefore more prevalent in the summer season.

The EPA has established national ambient air quality standards for six regulated pollutants: ozone, lead, carbon monoxide, sulfur dioxide, nitrogen dioxide, and particulate matter. When a pollutant concentration in an area exceeds a standard, the area is classified as “nonattainment” for that pollutant. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and “attain” compliance with the appropriate standard. This so-called State Implementation Plan or “SIP” entails enforceable control measures and time frames.

For ozone non-attainment SIPs, the emission reductions are generally targeted at nitrogen oxide and volatile organic compound emission sources because it is believed that the chemical reaction between these compounds in the presence of sunlight leads to ozone depletion.

EPA has an obligation to revisit the NAAQS every five years, and that process has resulted in the tightening of the ozone standard. In response, states must develop new SIPs designed to ensure that nonattainment areas will continue to make progress toward attainment of those more-stringent standards. In July 1997, EPA adopted a revised and more stringent ozone standard based on an 8-hour average of ozone concentrations, as compared to the prior standard based on a 1-hour average. TCEQ was required to submit to EPA new SIP rules in June 2007 to address compliance with this new 8-hour ozone standard. EPA also lowered the ozone standard in 2008.

In an effort to improve the air quality in both existing and impending non-attainment areas, the State has implemented two regional programs targeted at reducing statewide nitrogen oxide emissions from power plants. Nitrogen oxide emissions are targeted since these compounds react with volatile organic compounds in the presence of sunlight to form ground level ozone. The first program, which was part of SB 7, required "grandfathered" power plants, i.e., facilities that were constructed prior to the 1971 Texas Clean Air Act, obtain a Texas Air Permit and reduce nitrogen oxide emissions by approximately 50%. The Board's Silas Ray facilities is presently in compliance with the relevant air permits.

The second program was implemented on April 19, 2000, when the TCEQ adopted a regional nitrogen oxide reduction rule affecting permitted power plants in the attainment counties in the eastern half of the State. The regional rule, as with the grandfathered provisions of SB 7, calls for an approximate 50% reduction of nitrogen oxide from permitted power plants. To the extent applicable, the Silas Ray facilities and the Hidalgo Unit are in compliance with the regional rule.

Through these regional nitrogen oxide reductions, the power plant sources located in the non-attainment regions are facing much more severe nitrogen oxide control requirements.

On October 1, 2015, EPA published a final rule setting the 8-hour ozone standard at 70 parts per billion ("ppb"). TCEQ approved a SIP on August 8, 2018.

EPA estimates the cost of meeting a 70 ppb standard in all states except California at $1.4 billion annually in 2025. EPA's cost estimates are substantially less than one from the National Association of Manufacturers that has been widely circulated. EPA estimates the economic value of the benefits of reducing ozone concentration at $2.9-$5.9 billion annually by 2025.

Any State plan formulated to reduce ground-level ozone may curtail new industrial, commercial and residential development in metropolitan areas within the State. Examples of past efforts by the EPA and the TCEQ to provide for annual reductions in ozone concentrations in areas of nonattainment under the former NAAQS include imposition of stringent limitations on emissions of volatile organic compounds ("VOCs") and NOx from existing stationary sources of air emissions, as well as specifying that any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Studies have shown that standards significantly more stringent than those in place before October 1, 2015, across the State are required to meaningfully impact an area's ground-level ozone reading, which will be necessary to achieve compliance with the new eight-hour ozone standard. Due to the magnitude of air emissions reductions required as well as the limited availability of economically reasonable control options, the development of a successful air quality compliance plan for areas of nonattainment within the State has proven to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community.

Failure by an area to comply with the eight-hour ozone standards by the requisite time could result in the EPA's imposing a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of emissions for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Federal Clean Air Act ("FCAA") by plaintiffs seeking to require emission reduction measures that are even more stringent than those approved by the EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against the TCEQ and the EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities, or which could result in travel restrictions or other limitations on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development across the State.

In March 2024, the EPA finalized stronger air quality standards to protect against fine particulate matter exposure. The rule was challenged in *Kentucky et al., v. EPA et al*. which is currently held in abeyance. In a motion filed by EPA on August of 2025, to extend the abeyance, EPA announced plans to publish a proposal to reconsider the 2024 rule in fall 2025.

<u>Rules for the Regulation of Sulfur Dioxide ("SO2") and Nitrogen Oxide ("NOx") Emissions</u>. . . SO2 and NOx emissions were identified in the 1960s as the main cause of acid rain and, over the years, a variety of rules have been introduced to regulate them.

In March 2005, EPA issued the Clean Air Interstate Rule ("CAIR") to provide more stringent standards for SO2 and NOx from power plants. CAIR was vacated by the U.S. Court of Appeals for the Washington D.C. Circuit (the "D.C. Circuit") on July 11, 2008 but was reinstated as an interim measure by the same court on December 28, 2008 while the EPA worked on a replacement rule.

In August 2011, EPA published the replacement rule, known as the Cross-State Air Pollution Rule ("CSAPR") which also included cap-and-trade programs for annual SO2 and annual NOx emissions. These programs came into effect on January 1, 2012. However, on August 21, 2012, the D.C. Circuit vacated CSAPR and remanded rulemaking to EPA. In the meantime, CAIR was reinstated until October 23, 2014 when the D.C. Circuit Court of Appeals lifted the stay on CSAPR. Then, on July 28, 2015, the D.C. Circuit Court decided that CSAPR emissions budgets for Texas and other states were invalid and remanded the rule to EPA for reconsideration. On October 26, 2016, EPA published a final CSAPR rule that retains only the NOx summer season (May through September) program for Texas. This became effective in the summer season of 2017. On March 15, 2021, the EPA finalized the Revised Cross-State Air Pollution Rule Update ("CSAPR Update") in order to resolve 21 states' outstanding interstate pollution transport obligations for the 2008 ozone NAAQS. For 9 of the 21 states for which the CSAPR Update was previously found to be only a partial remedy (Alabama, Arkansas, Iowa, Kansas, Mississippi, Missouri, Oklahoma, Texas, and Wisconsin), projected 2021 emissions do not significantly contribute to nonattainment or maintenance problems for the 2008 ozone NAAQS in downwind states. Thus, no further emission reductions beyond those under the CSAPR Update are required for these states to address interstate air pollution under the 2008 ozone NAAQS.

THE WATER SYSTEM

GENERAL

The raw water system draws water from the Rio Grande River and consists of a river rock weir, a river pump station, two reservoirs providing 187 million gallons total capacity, and a raw water transport system. Surface water treatment is achieved by two water treatment plants providing 40 million gallons per day (MGD) of total capacity, 20 MGD treatment capacity each. Two clear wells provide 6.84 million gallons storage capacity, and three elevated storage tanks provide 5.0 million gallons of elevated storage capacity. Water is pumped by three high-service pumping stations into the distribution system which consists of 676 miles of transmission and distribution mains. For the fiscal year ended 2024, the Board's 55,469 water customers (excluding accounts relating to general governmental functions of the City) were composed of residential and commercial within the City and adjacent unincorporated areas. The Board also sells treated water at wholesale to three water distribution systems, and in fiscal year 2024 these sales accounted for approximately 5.63% of the water system's operating revenues and 8.89% of its sales volume. The Board coordinated the creation of the Southmost Regional Water Authority which built a 7.5 million gallon per day (Design Capacity) reverse osmosis water treatment plant of which the Board has 92.91% ownership. This plant includes a 7.5 million gallon storage tank and one high service pump station. SRWA completed construction on a microfiltration pretreatment and capacity expansion in November 2015. BPUB's share of SRWA capacity increased from 7.0 MGD to 9.3 MGD. With completion of the plant expansion at SRWA, BPUB's combined treatment capacity increased to 49.3 MGD.

The Board is subject to regulation of water quality by the Texas Commission of Environmental Quality ("TCEQ"). The Board presently has a "Superior" water system as rated by TCEQ.

WATER RATES

Monthly charges are levied for the actual units of service rendered to individual customers. All non-residential retail customers pay a uniform rate per thousand gallons of water consumed. For residential retail customers, the volume rate increases 51% for water used above 16,000 gallons per month. Certain wholesale customers have special rate agreements with the Board. Connection charges include both front footage and meter installation charges and are designed to recover the capital costs of installing the distribution system. These charges are adjusted periodically to reflect inflation, as evidenced by changes in the actual cost of meters, pipe, labor and miscellaneous appurtenances necessary to connect an individual customer to the distribution system.

The rates for water service are established by the City Commission upon recommendation of the Board. The rates established by the City Commission for water service to ratepayers within the boundaries of the City, other than certain wholesale water utilities and contract customers, are not subject to review by the PUCT or any other state or federal regulatory agency. Rates established for water service to ratepayers situated outside the boundaries of the City and to certain wholesale water utilities are subject to review for justness, reasonableness and nondiscriminatory effect by the PUCT under its appellate jurisdiction. Appeals to the PUCT by ratepayers outside the boundaries of the City must be initiated within 90 days after the effective date of the rate change by the filing of a petition for review with the PUCT signed by the lesser of 10,000 or 10% of those ratepayers whose rates have been changed and who are eligible to appeal. Appeals to the PUCT by wholesale water utilities receiving service from the Board must be initiated within 90 days after notice of the rate increase is received. The PUCT also asserts original jurisdiction over certain contract rate disputes.

The residential water system rate structure continues utilizing a rate structure consisting of four (4) tiers with inclining volumetric charges. The current rate structure established in Fiscal Year 2006 is intended to help promote conservation with minimal impact to the water system's low consumption consumers (consumers utilizing less than 9,000 gallons).

The Board periodically submits its review and written recommendations for adjustment of rates, fees, and charges for water service to the City Commission, and the City Commission establishes the rates by enactment of an ordinance. To assist in budgeting for the payment of future capital improvement projects with available revenues, in January, 2020 the BPUB Board contracted with Willdan Financial Services to conduct a Water and Wastewater Rate Study. On May 3, 2022, the Commission approved a five-year rate plan to increase the average water and wastewater rates and adoption of a resaca fee to recover costs related to costs of resaca maintenance and improvement programs. The resaca fee will help fund the Board's ongoing Resaca Restoration Project by providing a source of funding for a local matching contribution that will supplement federal funding already earmarked for resaca improvements. In addition to the ongoing restoration project, the resaca fee will provide a source of funding for additional resaca improvement projects in the future. The restoration project is important for the maintenance and operation of the Board's water system since clean resacas add to the capacity of raw water storage and storm waters add to the water supply in the resacas. The Resaca Restoration Projects provides additional benefits, as well, including improved aesthetics and park areas and enhanced habitats for birds and wildlife.

The table below shows the average water system rate increases approved since 2011:

Average Water Rate Increases

Effective Date	Increase
October 2013 ……..…………	6.0%
October 2014 …………………	4.0%
October 2015 ……..…………	4.0%
October 2016 ……..………	6.0%
June 2022 …..……………….	8.0%
January 2023 ……………….	8.0%
January 2024 ……………….	6.0%
January 2025 ……………….	4.0%
January 2026 ……………….	5.0%

The table below shows the resaca fee approved as a part of the Five-Year Rate Plan:

Monthly Resaca Fee

Effective Date	Fee
June 2022 …..……………….	$4.50
January 2023 ……………….	$6.25
January 2024 ……………….	$6.25
January 2025 ……………….	$6.25
January 2026 ……………….	$6.25

WATER SYSTEM COMPETITION

The Board's water service area is subject to the certification jurisdiction of the PUCT. The Board has been certified singly to provide water service within the boundaries of the City. A large portion of the area, three and one-half miles surrounding the boundaries (the "extraterritorial jurisdiction") of the City, is dually certified. There is a small water utility system (El Jardin Water Supply Corporation) whose customers are situated adjacent to or within the System. All of its treated water is supplied by the Board's water system.

WATER CUSTOMERS

For the fiscal year ended 2024, the Board's 55,469 water customers (excluding accounts related to general governmental functions of the City) were composed of residential and commercial within the City and adjacent unincorporated areas. The Board also sells treated water at wholesale to three water distribution systems, and in fiscal year 2024 these sales accounted for approximately 5.63% of the water system's operating revenues and 8.89% of its sales volume. The table below lists the ten major consumers of the water system and the corresponding percentage of total water system revenues for each during Fiscal Year 2024.

TABLE 8 - SCHEDULE OF TEN LARGEST WATER CUSTOMERS (FISCAL YEAR ENDED SEPTEMBER 30, 2024) (1)

Customer Name	Annual Consumption (1,000 Gallons)	Annual Sales Revenue	Percent of Annual Sales Revenue
Unnamed Industrial Customer*	23,382	$ 1,535,869	4.14%
El Jardin Water Supply Corp.	290,814	959,065	2.58%
Brownsville Navigation District	274,069	789,954	2.13%
Brownsville I S D	157,034	749,809	2.02%
Rich Products Corp.	74,571	243,447	0.66%
Texas Southmost College	54,426	233,056	0.63%
University of Texas Rio Grande Valley	49,286	219,648	0.59%
Cameron County	52,360	199,625	0.54%
Valley Regional Medical Center	37,496	130,108	0.35%
Trico Technologies Corp.	34,506	119,231	0.32%
TOTAL	1,047,944	$ 5,179,812	13.96%

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*Name of company kept confidential in accordance to applicable agreement.

(1) Does not include municipal sales

Source: Brownsville Public Utilities Board

The following tables list the historical and projected treated water production requirements (see "OTHER INFORMATION – Forward Looking Statements").

TABLE 9 - TREATED WATER PRODUCTION REQUIREMENTS (HISTORICAL)

Fiscal Year	Customers (Excluding Municipal) Number	Customers (Excluding Municipal) Increase	Raw Water Pumped MG	Raw Water Pumped Change	Treatment Plant Capacity MGD	Maximum Day Production MG	Maximum Day Production Change	Annual Production MG	Annual Production Change	Water Sales MG	Water Sales Change	Unmetered Water
2020	52,331	1.73%	5,299	-0.38%	49.3	27.20	0.52%	7,589	0.70%	6,758	6.68%	11.0%
2021	53,114	1.50%	5,327	0.53%	49.3	24.53	-9.82%	7,467	-1.61%	6,741	-0.25%	9.7%
2022	53,918	1.51%	5,734	7.63%	49.3	26.79	9.21%	7,669	2.71%	6,750	0.13%	12.0%
2023	54,625	1.31%	5,965	4.04%	49.3	29.06	8.47%	7,999	4.30%	6,799	0.73%	15.0%
2024	55,469	1.55%	5,626	-5.68%	49.3	27.04	-6.95%	7,756	-3.04%	6,700	-1.46%	13.6%
AVG	53,891	1.52%	5,590	1.23%	49.3	26.92	0.29%	7,696	0.61%	6,750	1.17%	12.3%

TREATED WATER PRODUCTION REQUIREMENTS (PROJECTED)

Fiscal Year	Customers (Excluding Municipal) Number	Customers (Excluding Municipal) Increase	Raw Water Pumped MG	Raw Water Pumped Increase	Treatment Plant Capacity MGD	Maximum Day Production MG	Maximum Day Production Increase	Annual Production MG	Annual Production Increase	Water Sales MG	Water Sales Increase	Unmetered Water
2025	56,440	1.75%	5,688	1.91%	49.3	27.40	1.75%	7,831	1.75%	6,868	1.75%	15.0%
2026	57,427	1.75%	5,788	1.75%	49.3	27.88	1.75%	7,968	1.75%	6,988	1.75%	15.0%
2027	58,432	1.75%	5,889	1.75%	49.3	28.36	1.75%	8,107	1.75%	7,110	1.75%	15.0%
2028	59,455	1.75%	5,992	1.75%	49.3	28.86	1.75%	8,249	1.75%	7,235	1.75%	15.0%
2029	60,495	1.75%	6,097	1.75%	49.3	29.36	1.75%	8,393	1.75%	7,361	1.75%	15.0%

Notes:
1. Growth rate provided by AECOM in 2015 W/WW Master Plan and System Modeling-Table 3-2 Growth Rates.
2. 2025 Average Customers based on previous year's number and projected out 2026-29 at growth rate.
Source: Brownsville Public Utilities Board

WATER SUPPLY

One of the more critical concerns in Texas today is an adequate future water supply for municipal, industrial, and agricultural purposes. This concern applies equally to the lower Rio Grande Valley Area, where the City and the Board are situated. Water from the Rio Grande River is allocated between the United States and Mexico pursuant to a 1944 treaty. Reserves of Rio Grande River water for both countries have experienced recent significant declines due to a prolonged drought in northern Mexico and South Texas.

The Texas Water Development Board ("TWDB") updated the Texas Water Plan in 2022, which is the State's official 50-year plan for guiding the development of Texas water resources. In order to meet the challenges of growing water-related demands and limited resource availability facing Texas in the 21st century, the TWDB plan emphasizes conservation, expanded reuse of existing supplies, and development of new sources.

The projected water use was developed by the Board based on three scenarios: low, medium, and high use. The Board is committed to meeting the needs of its customers through a combination of approaches. These include an intensive conservation program, acquisition of additional raw water rights, purchases from other water supply entities, additional water permits from the TCEQ and providing the funds necessary for undertaking a feasibility study of the proposed construction of one additional channel dam on the Rio Grande River. Increased production of existing water treatment plants was accomplished by improvements to both facilities. Transfer of Permit No. 1838 from the Brownsville Navigation District to the Board has given the Board the right to 40,000 acre/feet of surplus water, as further discussed in " – Other Projects" below.

The Board has an annual allocation of municipal priority water rights from the Rio Grande River from the TCEQ in the amount of 31,965.63 acre-feet of water which is dependent upon inflow to the Falcon and Amistad Reservoirs. For additional information, see the first paragraph under "Treatment Transmission, and Distribution Facilities". The Board requires new developments to provide water rights or the funds to buy water rights to satisfy the demand.

WATER CONSERVATION

The Board prepared and adopted the Water Conservation and Drought Contingency Plan (the "WCDC Plan") pursuant to the provision of Texas Administrative Code Chapter 288, Water Conservation Plans, Guidelines, and Requirements. The WCDC Plan contains goals, and the specific strategies for attaining goals, that will improve water use efficiency and reduce long-term water demands. Periodically, the Board revises the WCDC Plan to update its goals and strategies. The Board approved a Water Conservation and Drought Contingency Plan in May 2024.

The Emergency Water Conservation Plan/Ordinance, which was adopted by the City in April 2002, implements strategies to reduce water demands during water emergency conditions. The Emergency Water Conservation Plan/Ordinance gives the General Manager & CEO and/or the Mayor of the City the authority to initiate or terminate applicable drought response stages as well as related water use restrictions during a water crisis. The Drought Contingency Plan has four stages, including voluntary water conservation, water shortage alert, water shortage warning, and water shortage emergency. In the event that water shortage conditions threaten the public health, safety, and welfare, the General Manager & CEO may initiate water rationing.

The Board has a recurring Water Conservation Public Information Campaign for its customers. Educational information is provided in the Annual Drinking Water Quality Report distributed to all of its customers by the end of July every year. Brochures/bill inserts are included in the summer-long conservation campaign and made available in English and Spanish. Water conservation and water saving tips and mandatory water conservation restrictions are found on the Board’s website: http://www.brownsville-pub.com. Please note that the information contained on (or accessed through) this website is not incorporated herein and should not be construed as part of this Official Statement. The website provides information on the Board's high efficiency toilet rebate program, information on how much water is used in various parts of the home, and an application that calculates the amount of water wasted through a leak. A link to the Texas Drought Report is also available to keep customers abreast of the latest information pertaining to the drought.

The Board’s water and wastewater rate structures adhere to the American Water Works Association’s ("AWWA") policy that rates be developed with cost of service principles. The water rates consist of an inverted or increasing block structure to promote water conservation.

REDUCTION OF LOSS

The Board has and continues to implement programs and construct facilities to conserve water and to reduce losses. These programs include a water meter replacement program, leak detection program, water distribution audit, water reuse study, raw water metering study, and water conservation education program.

OTHER PROJECTS

In December 1993, the Board approved an agreement with the Brownsville Navigation District relating to the amendment, acquisition, and development of the water rights evidenced by Permit No. 1838 issued by the Texas Board of Water Engineers (the predecessor to the TCEQ) to the District in 1956. Working in cooperation with the Brownsville Navigation District, the Board obtained an amendment to the water rights permit from the TCEQ in September 1994. This authorizes the diversion and use of up to 40,000 acre-feet of water from the Rio Grande River for industrial and municipal purposes, subject to the terms and conditions specified in the permit. Once the amendment was final, the Brownsville Navigation District transferred its interest in the permit to the Board in October 1994. The Board has diverted andused water from the Rio Grande River pursuant to the permit.

In addition, the Board has implemented a resaca dredging program which provides some additional storage capacity of raw water within the City.

TREATMENT, TRANSMISSION, AND DISTRIBUTION FACILITIES

The Rio Grande is a major source of water supply for the region. The two international impoundment reservoirs on the Rio Grande that are used for water storage for the region include Falcon and Amistad Reservoirs. Diversions from the river are regulated by the TECQ through water rights and a watermaster. The TCEQ Rio Grande Watermaster continuously monitors stream flows, reservoir levels, and water use in the river basin. The Watermaster also can allocate flows among priority users, such as municipal water rights holders, during water shortages. The Board owns municipal priority water rights in the amount of 31,965.63 acre-feet of water. In addition, the Board holds Permit No. 1838 entitling it the right to 40,000 acre-feet of surplus water.

Raw water is taken from the Rio Grande River by two pumping stations that discharge to raw water reservoirs for short term storage. The reservoirs are located next to the Rio Grande River and adjacent to the Silas Ray Plant. Raw water is pumped from the reservoir to Water Treatment Plant No. 1, which is also adjacent to the Silas Ray Plant. Water Treatment Plant No. 1 has a maximum treatment capacity of 20 MGD and is the oldest of the Board’s treatment plants. Water Treatment Plant No. 2 has a maximum treatment of capacity of 20 MGD, and is centrally located—approximately four and one- half miles from Water Treatment Plant No. 1. Water from the raw water reservoirs flows by gravity through the Resaca de la Guerra system and/or the raw water pipeline to Water Treatment Plant No. 2, where it is pumped into the plant for treatment. Water distribution piping at Water Treatment Plants No. 1 and No. 2 are connected by a 30-inch pipeline for reliability purposes.

In 2004, the Board partnered with SRWA and built a 7.5 MGD brackish groundwater reverse osmosis water treatment plant of which the Brownsville PUB has 92.91% ownership. In 2015, the SRWA plant completed an expansion to provide microfiltration pretreatment and a total production capacity of 10 MGD. The Board’s overall water treatment capacity has increased to 49.3 MGD for the water system.

Two clear wells provide 6.84 million gallons of storage capacity, and three elevated storage tanks provide 5 million gallons of elevated storage capacity. The SRWA plant provides additional water storage, including a 7.5 million gallon storage tank. The water system meets the minimum storage requirements as specified by the TCEQ.

Water is pumped into the distribution system by four high-service pumping stations (including the SRWA pumping station). The water distribution system consists of 676 miles distribution mains and waterlines. The Board mainly sells to residential and commercial customers, but also sells treated water on a wholesale basis to three other water distribution companies that amount to approximately 7% of sales.

The Board's water utility service area is subject to the certification jurisdiction of the PUCT. The Brownsville PUB has been certified singly to provide water service within the boundaries of the City. A large portion of the area, three and one-half miles surrounding the boundaries (the "extraterritorial jurisdiction") of the City, is dually certified. There is a small water utility system (El Jardin Water Supply Corporation) whose customers are situated adjacent to or within the System. All of its treated water is supplied by the Board's water system.

WATER SYSTEM CAPITAL IMPROVEMENT PLAN AND ADDITIONAL DEBT

The Board's current Capital Improvement Plan for the water system (the "Water System CIP") identifies projects for a five-year period ending September 30, 2030. The Water System CIP identifies approximately $88.66 million in projects, of which approximately 22% are projected to be debt financed, and approximately 78% from internally generated cash, state loans and grants and contributions in aid of construction

Capital projects involve the acquisition or construction of major facilities and equipment including Water Plant Nos. 1 and 2, Filter System Rehabilitation Project. Due to its nature as a planning tool, a capital budget, while identifying and prioritizing capital expenditures, is subject to revision as circumstances change, including changes in the economy. Consequently, the inclusion of an expenditure in a capital budget is not a firm commitment to a project, particularly as the planning horizon extends into the future.

THE WASTEWATER SYSTEM

GENERAL

The wastewater system, consisting of collection and treatment facilities, includes gravity wastewater collection lines, 178 lift stations and two treatment plants. Wastewater is transported by lift stations and associated force mains to one of two wastewater treatment plants - the Robindale Plant or the South Plant. For additional information on the two treatment plants, see "Wastewater Treatment and Collection Facilities".

The wastewater system provided service to approximately 56,224 customers (excluding accounts relating to general governmental functions of the City) during Fiscal Year 2024 and accounted for approximately 12.66% of the Board's total operating revenues during that period.

The wastewater system is subject to regulation by the EPA and the TCEQ with regard to operations of the facilities and the water quality of the wastewater plants' effluent.

WASTEWATER RATES

The Board imposes two types of charges to reflect wastewater costs: monthly charges and connection charges. Each customer's monthly bill contains a billing charge plus a rate per thousand gallons of metered water used and returned to the wastewater system. Approximately 98% of all wastewater system customers are also customers of the Board's water system. Commercial customers are billed 95% of their metered water usage as wastewater while residential customers are charged 80% of their water usage as wastewater.

Connection charges include front footage, lift station, and wastewater service lateral charges and are designed to recover the capital costs of installing the collection system. These charges are adjusted periodically to reflect inflation, as evidenced by changes in the actual cost of material and labor to construct the facilities to connect an individual customer to the collection system.

Capital facilities charges, first instituted in June 1979, are designed to recover a portion of the cost of the treatment plants, interceptors, master lift stations, force mains, and additional facilities required to provide adequate wastewater service for new customers. Capital facilities charges are made when the customer joins the system and provides the means for differentiating between the capital investment necessary to service existing customers of the wastewater system and the increased capital investment required to provide service to new customers.

The rates for wastewater service are established by the City Commission upon recommendation of the Board. The rates established by the City Commission for wastewater service by ratepayers within the boundaries of the City, other than certain sewer utilities, are not subject to review by the PUCT or any other state or federal regulatory agency. Rates established for wastewater service to ratepayers situated outside the boundaries of the City and to certain sewer utilities are subject to review for justness, reasonableness and nondiscriminatory effect by the PUCT under its appellate jurisdiction. Appeals to the PUCT by ratepayers outside the boundaries of the City must be initiated within 90 days after the effective date of the rate change by filing a petition for review with the PUCT signed by the lesser of 10,000 or 10% of those ratepayers whose rates have been changed and who are eligible to appeal. Appeals to the PUCT by certain sewer utilities receiving service from the Board must be initiated within 90 days after notice of the rate increase is received. The Board reports that there is currently no petition on file at the PUCT by ratepayers eligible to appeal, nor is the management of the Board aware of any planned filing. Regulations promulgated by the EPA, through which grants have been received for the construction of wastewater facilities by the wastewater system, require that the wastewater rates of the Board be self-supporting.

In addition, EPA regulations impose certain criteria upon wastewater rates for recipients of federal grants, including the wastewater system. EPA regulations require sewerage rates to be distributed among various classes of users based upon the loading attributable to each user. The Board maintains an acceptable industrial cost recovery program which meets these requirements and all residential customers are assessed at a uniform rate.

In order to have available adequate revenues to make projected deposits to the Capital Improvement Fund, the Board recommended, and the City Commission approved several five-year plan increases wastewater system rates as reflected in the following table. On May 3, 2022, the Commission approved current five-year rate plan to increase average water and wastewater rates reflected in the following table.

The table below shows the average wastewater system rate increases approved since 2011:

Average Wastewater Rate Changes

Effective Date	Increase
October 2011 …………………	5.0%
October 2013 …………………	2.0%
October 2014 …………………	4.0%
June 2022 …...………………	9.0%
January 2023 …………………	9.0%
January 2024 …………………	9.0%
January 2025 …………………	4.0%
January 2026 …………………	5.0%

The residential wastewater system rate structure continues utilizing a rate structure consisting of two (2) tiers with increasing volumetric charges. (1) The current rate structure, established in Fiscal Year 2007, is intended to help promote water conservation with minimal impact to the wastewater system's low consumption consumers (consumers utilizing less than 7,000 gallons).

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(1) Residential outside-City customers rate structure consists of a single-tier.

WASTEWATER SYSTEM COMPETITION

The Board has the authority to provide wastewater service both inside and outside the Brownsville city limits. The Brownsville Navigation District owns and operates its own wastewater treatment facilities. There is no competition between the System's wastewater system and the Brownsville Navigation District, since the Brownsville Navigation District operates in defined areas in which the System has no wastewater lines.

WASTEWATER CUSTOMERS

For the Fiscal Year ended September 30, 2024, the wastewater system provided service to 56,224 customers (excluding accounts relating to general governmental functions of the City) and accounted for approximately 12.66% of the Board's total operating revenues during that period. Residential and commercial and industrial customers provided approximately 86% and 14%, respectively of the total wastewater system sales revenues. The table on the following page lists the ten major users of the wastewater system in Fiscal Year 2024.

TABLE 10 - SCHEDULE OF TEN LARGEST WASTEWATER CUSTOMERS (FISCAL YEAR ENDED SEPTEMBER 30, 2024) (1)

Customer Name	Annual Consumption (1,000 Gallons)	Annual Sales Revenue	Percent of Annual Sales Revenue (1)
Brownsville I S D	121,329	$ 697,833	2.32%
Rich Products Corp.	93,046	565,013	1.88%
Cameron County	47,350	240,426	0.80%
Texas Southmost College	37,046	201,418	0.67%
University of Texas Rio Grande Valley	34,070	193,029	0.64%
Trico Technologies Corp.	33,823	165,621	0.55%
Go Car Wash Texas, LLC	32,309	156,086	0.52%
Valley Regional Med Ctr.	31,261	152,526	0.51%
VB M C Brownsville	28,002	136,487	0.45%
The Brownsville Housing Opportunity Corp	25,317	121,973	0.41%
TOTAL	483,553	$ 2,630,412	8.75%

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(1) Excluding accounts relating to general governmental functions of the City.
Source: Brownsville Public Utilities Board.

WASTEWATER TREATMENT AND COLLECTION FACILITIES

The wastewater system includes wastewater collection lines, lift stations of various sizes, and associated force mains. Wastewater is transported by gravity force assisted by multiple lift stations. The wastewater system also includes two wastewater treatment plants.

The South Plant, the wastewater system's first treatment facility, was originally designed as a trickling filter plant with a treatment capacity of 5 MGD. In 1971, it was expanded to a capacity of 7.8 MGD and was further modified in 1978 to include activated sludge, complete-mix, and aerobic digestion. Sludge is thickened and disposed of at a Dedicated Land Disposal ("DLD"). In 2000, the plant was expanded to 12.8 MGD. A two meter belt filter press was added in July 2010 for bio-solids dewatering to replace centrifuges. In addition, an odor control system was added to the headwork facility in July 2016.

In 1984, the Board completed an EPA-sponsored collection system rehabilitation and reconstruction program associated with the construction of the System's Robindale 5 MGD Plant, which was placed into service in 1980. In 1995, it was expanded to a capacity of 10 MGD. The Robindale renovation and expansion project, completed in June 2014, increased the treatment capacity to 14.5 MGD. The Robindale Plant provides preliminary treatment with new technology, headworks facility features fine screens with headcell grit removal with combined compactor washer system and includes an odor control system. It also provides secondary waste treatment utilizing a Modified Ludzack-Ettinger (MLE) process (anoxic and aerobic with an internal nitrate cycle) of activated sludge, turbo blowers (with magnetic bearings) with auto dissolved oxygen control, secondary setting, ultra-violet light system (as alternate source of disinfection), effluent cascade aeration system, sludge thickening, aerobic digestion, mechanical sludge dewatering (via 2-meter belt filter press) and land disposal of sludge via a DLD site of 137 acres.

The Board is subject to the regulation of its wastewater operations by TCEQ. The Board's wastewater facilities are in compliance with such regulations at the present time.

WASTEWATER TREATMENT STATISTICS

The following tables depict annual historical and projected inflow for the Fiscal Years indicated. The forecasted volumes depicted were developed from projected water use figures by applying the historical ratios between treated water production and sewage inflow (see "OTHER INFORMATION - Forward Looking Statements").

TABLE 11 - WASTEWATER SYSTEM STATISTICS (HISTORICAL)[(1)]

Fiscal Year	Customers (Excluding Municipal) Number	Increase	Treatment Plant Capability MGD	Maximum Day[(2)] MG	Change	Annual Demand MG	Change	Wastewater Billed MG	Change
2017	50,329	1.28%	27.3	21.2	-34.97%	5,370	-3.76%	4,670	3.71%
2018	51,366	2.06%	27.3	34.8	64.15%	5,301	-1.29%	4,586	-1.80%
2019	52,137	1.50%	27.3	29.8	-14.37%	5,270	-0.58%	4,433	-3.34%
2020	53,075	1.80%	27.3	36.5	22.48%	5,240	-0.57%	4,672	5.39%
2021	53,974	1.69%	27.3	38.4	5.21%	5,385	2.77%	4,681	0.19%
AVG	52,176	1.67%	27.3	32.1	8.50%	5,313	-0.69%	4,608	0.83%

(1) Statistics taken from data provided by the Board.
(2) Maximum Day MG includes a combination of regular daily treatment and rain inflows. Although maximum day volumes may exceed treatment plant capacity, plants are designed with a treatment peaking factor of 3 times their MGD capacity for a short period of time.

WASTEWATER SYSTEM STATISTICS (PROJECTED)[(1)]

Fiscal Year	Customers (Excluding Municipal) Number	Increase	Treatment Plant Capability MGD	Maximum Day[(2)] MG	Change	Annual Demand MG	Change	Wastewater Billed MG	Change
2022	54,919	1.75%	27.3	32.7	-14.84%	5,479	1.75%	5,031	1.50%
2023	55,880	1.75%	27.3	33.2	1.62%	5,575	1.75%	5,106	1.50%
2024	56,858	1.75%	27.3	33.8	1.72%	5,673	1.76%	5,183	1.50%
2025	57,853	1.75%	27.3	34.4	1.78%	5,772	1.75%	5,261	1.50%
2026	58,865	1.75%	27.3	35.0	1.74%	5,873	1.75%	5,340	1.50%

(1) Statistics taken from data provided by the Board. Projections were based on information prior to the impact of COVID-19.
(2) Maximum Day MG includes a combination of regular daily treatment and rain inflows. Although maximum day volumes may exceed treatment plant capacity, plants are designed with a treatment peaking factor of 3 times their MGD capacity for a short period of time.
Source: Brownsville Public Utilities Board

ROBINDALE WASTEWATER TREATMENT PLANT REHABILITATION AND EXPANSION PROJECT

The Board proceeded with the renovation and expansion of the existing Robindale Wastewater Treatment Plant to meet current needs and facilitate population growth projections to provide a maximum of 14.5 MGD 30-day average daily flow. Prior to the expansion, the plant average discharge of Ammonia-Nitrogen was about 14 mg/L. TCEQ imposed an Ammonia-Nitrogen effluent limit that the existing Robindale WWTP was not originally designed to treat. The expansion project was designed to meet and exceed the daily average discharge limitation of 4 mg/L for Ammonia-Nitrogen. The expansion project to the Robindale Wastewater Treatment Plant was completed.

WASTEWATER SYSTEM CAPITAL IMPROVEMENT PLAN AND ADDITIONAL DEBT

The Board's current Capital Improvement Plan for the wastewater system (the "Wastewater System CIP") identifies projects for a five-year period ending September 30, 2030. The Wastewater System CIP identifies approximately $69.30 million in projects, of which approximately 27% are projected to be debt financed and approximately 73% from internally generated cash, state loans and grants and contributions in aid of construction.

Capital projects involve the acquisition or construction of major facilities and equipment. Due to its nature as a planning tool, a capital budget, while identifying and prioritizing capital expenditures, is subject to revision as circumstances change, including changes in the economy. Consequently, the inclusion of an expenditure in a capital budget is not a firm commitment to a project, particularly as the planning horizon extends into the future.

WATER AND WASTEWATER REGULATION

ENVIRONMENTAL REGULATIONS

The City is subject to the environmental regulations of the State and the United States in the operation of its water, wastewater, and storm water systems. These regulations are subject to change, and the City is required to expend substantial funds to meet the requirements of such regulatory authorities.

SAFE DRINKING WATER ACT

In August 1996, amendments to the Federal Safe Drinking Water Act were signed into law. The Federal Safe Drinking Water Act requires the EPA to regulate a wide variety of contaminants that may be present in drinking water, including volatile organic chemicals ("VOCs"), other synthetic organic chemicals, inorganic chemicals, microbiological contaminants, and radionuclide contaminants. The list of contaminants to be regulated is so lengthy that the amendments require the EPA to establish a schedule for developing regulations regarding the contaminants. There are several phases in the EPA's regulatory timetables that are to be undertaken over the next few years. The initial impacts of the amendments to the System have not been significant, as the System has been able to materially comply with the regulations that have been promulgated to date. The full impact is difficult to project at this time, and would be dependent upon what maximum contaminant levels may be set for some future parameters and enhanced water treatment rules. Many of these parameters, such as waterborne pathogens, radionuclides and infection by-products contaminants, may require treatment changes that have not as yet been established by the EPA.

Continued changes in rules and regulations may continue to cause process modifications, which may increase the costs of the maintenance and operation of the City's drinking water treatment and distribution facilities. These modifications and upgrades may require increased capital expenditures, which may be financed by the issuance of additional revenue bonds.

FEDERAL AND STATE REGULATION OF THE WASTEWATER FACILITIES

The Federal Clean Water Act and the Texas Water Code regulate the Wastewater System's operations, including the collection system and the wastewater treatment plants. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed in permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System (the "NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring, and enforcing wastewater discharge permits. The Clean Water Act authorized the EPA to delegate the EPA's NPDES permit responsibility to State or interstate agencies after certain prerequisites have been met by the relevant agencies. The EPA has delegated NPDES permit authority to the TCEQ, which means that the TCEQ is the lead agency for issuing Clean Water Act permits to the System. The System has current TPDES permits for its facilities, issued by the TCEQ, which are also issued under authority granted to the TCEQ by the Texas Water Code. Both EPA and TCEQ have authority to enforce the Texas Pollutant Discharge Elimination System (the "TPDES") permits.

TPDES permits set limits on the type and quantity of wastewater discharge, in accordance with State and Federal laws and regulations. The Clean Water Act requires municipal wastewater treatment plants to meet secondary treatment effluent limitations (as defined in EPA regulations). The Clean Water Act also requires that municipal plants meet any effluent limitations established by State or federal laws or regulations, which are more stringent than secondary treatment.

On June 1, 2010, the EPA published a notice in the Federal Register seeking stakeholder input to help the EPA determine whether to modify the NPDES regulations as they apply to municipal sanitary sewer collection systems and sanitary sewer overflows. Four public listening sessions were conducted in June and July 2010 in which stakeholder and public comment was received by the EPA. The EPA represented that it has not yet determined whether new rules or policies will be proposed. Should the EPA propose new requirements in NPDES permits, the Board may incur additional costs associated with the operation and maintenance of the sanitary sewer system. On October 27, 2011, the Office of Water and the Office of Enforcement and Compliance Assurance issued a Memorandum on Achieving Water Quality Through Integrated Municipal Stormwater and Wastewater Plans. The memorandum outlines the development of an integrated planning approach framework to help EPA work with local governments towards cost effective decisions and solutions regarding the implementation of NPDES-related obligations. The framework will identify: (1) the essential components of an integrated plan; (2) steps for identifying municipalities that might make the best use of such an approach; and (3) how best to implement the plans with state partners under the Clean Water Act permit and enforcement programs. On June 5, 2012, the EPA issued its Integrated Municipal Stormwater and Wastewater Planning Approach document. This document encourages the EPA Regions to work with the states in their regions to implement integrated planning that will assist municipalities on their critical paths to achieving health and water quality objectives of the Clean Water Act by identifying efficiencies in implementing requirements that arise from distinct wastewater and stormwater programs.

STATUS OF DISCHARGE PERMITS FOR CITY'S WASTEWATER TREATMENT PLANTS

The Robindale Plant and the South Plant wastewater treatment plants have been issued TPDES discharge permits by the TCEQ. An occasional upset may cause permit violations, but generally each of these plants are in compliance with their respective discharge permits.

POTENTIAL PENALTIES FOR THE CITY'S WASTEWATER SYSTEM'S VIOLATIONS

The failure by the System to achieve compliance with the Clean Water Act could result in either a private plaintiff or the EPA instituting a civil action for injunctive relief and civil penalties of up to $37,500 per day per violation. In addition, the EPA has the power to issue administrative orders compelling compliance with its regulations and the applicable permits. The EPA can also bring criminal actions for recovery of penalties of up to $50,000 per day for willful or negligent violations of permit conditions or discharge without a permit. Violations of permits or administrative orders may result in the disqualification of a municipality from eligibility for federal assistance to finance capital improvements pursuant to the Clean Water Act. Even though the System will be operating under TPDES permits, it still may be liable for penalties from the EPA under the Clean Water Act.

Under State law, civil penalties for violation of State wastewater discharge permits or orders of the TCEQ can be a maximum of $25,000 per day per violation. The Executive Director of the TCEQ also has authority to levy administrative penalties of up to $25,000 per day effective September 1, 2011 for violations of rules, orders or permits. Orders resulting from a civil action could require the imposition of additional user or service charges or the issuance of additional bonds to finance the improvements required to ameliorate a condition that may have caused the violation of a TCEQ permit.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The Board provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. Benefits depend upon the sum of the employees' contributions to the plan, with interest, and the Board financed monetary credits, with interest. In addition to providing pension benefits, the Board also provides post-retirement health care benefits and supplemental death benefits to its employees. See Notes 9 and 10 of the Board's Fiscal Year 2024 audit attached hereto as Appendix B for additional information regarding pension benefits and post-employment benefits provided by the Board.

INVESTMENT POLICIES

The System invests its funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both State law and the Board's investment policies are subject to change.

LEGAL INVESTMENTS

Under Texas law, the Board 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 of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas 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 the National Credit Union Share Insurance Fund or their respective successors; (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 Board selects from a list the governing body or designated investment committee of the Board adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this state that the Board selects; (B) the broker or depository institution as described in clause (8)(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 Board's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing Board appoints as the Board's custodian of the banking deposits issued for the Board's account: (i) the depository institution selected as described by Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3), (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for Board deposits or, (ii) where the funds are invested by the Board through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Board as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the Board; (iii) the broker or the depository institution selected by the Board 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 Board; (iv) 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 (v) the Board appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3- 3) as custodian for the Board with respect to the certificates of deposit issued for the account of the Board; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), and require the securities being purchased by the Board or cash held by the Board to be pledged to the Board, held in the Board's name, and deposited at the time the investment is made with the Board or with a third party selected and approved by the Board, 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 Board, held in the Board's name and deposited at the time the investment is made with the Board or a third party designated by the Board; (iii) a loan made under the program is placed through either a primary government securities dealer (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the Board with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, and that complies with SEC Rule 2a-7; and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The Board may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The Board may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the Board retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Board must do so by order, ordinance, or resolution. The Board has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such securities.

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

INVESTMENT POLICIES

Under Texas law, the Board 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 includes a list of authorized investments for Board funds, maximum allowable stated maturity of any individual investment owned by the Board and the maximum average dollar-weighted maturity allowed for pooled fund groups. All Board funds must be invested consistent with a formally adopted "Investment Strategy Statement" specifically addressing each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, Board 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 Board shall submit an investment report detailing: (1) the investment position of the Board, (2) that all investment officers jointly prepared and signed the report, (3) the book value and market value of each separately listed asset at the end of the reporting period, (4) the maturity date of each separately invested asset, (5) the account or fund or pooled fund group for which each individual investment was acquired, and (6) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest Board funds without express written authority from the Board.

ADDITIONAL PROVISIONS

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

TABLE 12-CURRENT INVESTMENTS [1]

As of September 30, 2024 the Board held investments as follows:

Investment Type		Amortized Costs	Weighted Average Maturity (Days)	Allocation	Rating
Institutional Insured Liquid Deposit (IILD)	$	3,835,010		1.8%	
U.S. Agencies		-			
U.S. Treasury Note-Bills		47,284,204	59	22.8%	AA+
Local Government Investment Pools					
Texas TERM Dec'24		15,000,000	43	7.2%	AAAf
Texas TERM Dec'25		22,000,000	146	10.6%	AAAf
TexasDaily		50,493,683	37	24.3%	AAAmmf
TexPool		14,602,137	26	7.0%	AAAm
Texas Class		46,676,561	36	22.5%	AAAm
TexStar		7,865,067	24	3.8%	AAAm
Total	$	207,756,662		100.0%	

[1] Does not include Southmost Regional Water Authority.
Source: Brownsville Public Utilities Board

As of such date, the market value of such investments (as determined by the Board by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the Board 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

TAX EXEMPTION

In the opinion of Greenberg Traurig, LLP, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds is not excluded from the determination of adjusted financial statement income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, Beneficial Owners would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

Payments on the Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate Beneficial Owner of Bonds may be subject to backup withholding with respect to "reportable payments," which include interest paid on the Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against a Beneficial Owner's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain Beneficial Owners (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

RATINGS

The Bonds are expected to be rated "AA" (stable outlook) by S&P Global Ratings ("S&P") by virtue of a bond insurance policy issued and delivered by AG. The Bonds have been rated "A2" by Moody's Investor Services ("Moody's") and "A-" by S&P without regard to credit enhancement. The City's currently outstanding Previously Issued Senior Lien Obligations underlying rating is (without regard to credit enhancement) "A-" by S&P (outlook stable). Moody's has assigned an underlying rating (without regard to credit enhancement) on certain of the City's currently outstanding Previously Issued Senior Lien Obligations of "A2" (outlook stable). Fitch was not requested to provide a rating on the Bonds.

An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflect only the views of such organizations, and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at an underwriting discount of $326,739.87 from the initial offering prices for the Bonds and no accrued interest. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such offering prices, and such public prices may be changed, from time to time, by the Underwriters.

RBC Capital Markets, LLC ("RBCCM"), has provided the following information for inclusion in this Official Statement: RBCCM and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the City. RBCCM and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the City. RBCCM and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

RBCCM has entered into a distribution arrangement with its affiliate City National Securities, Inc. ("CNS"). As part of this arrangement, RBCCM may distribute municipal securities to investors through the financial advisor network of CNS. As part of this arrangement, RBCCM may compensate CNS for its selling efforts with respect to the Bonds.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the issuer and to persons and entities with relationships with the issuer, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the City as Underwriters) for the distribution of the Bonds at the original issue prices. Such agreements generally provide that the relevant Underwriters will share a portion of its underwriting compensation or selling concession with such broker-dealers.

CYBERSECURITY

The Board's operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. While the Board continually assesses and monitors its cybersecurity risks, the Board has been (and may be in the future) subject to cyber-attacks from time to time, including an incident that occurred on March 6, 2022 and an incident occurring in February 2023. On March 6, 2022, the Board became aware of a ransomware attack affecting user file and folder structures. Critical business systems and operations were restored by the end of the day. The Board implemented a number of software, hardware and training improvements as a result. In February 2023, the Board's supervisory control and data acquisition ("SCADA") systems suffered a Royal ransomware attack. The Board's information technology personnel promptly responded, containing, and neutralizing the threat. Immediately thereafter, a comprehensive investigation was launched, with support from cybersecurity professionals, the cyber insurance carrier and U.S. Federal Bureau of Investigation. The Board has rebuilt all affected servers and completed all remedial actions in May 2024, including implemented additional hardware and software security features. Neither of the events described above resulted in a material adverse impact on the Board's operations or financial condition.

In response to such cybersecurity risks, the Board has 24/7 monitoring of all critical systems and devices to assess and respond to any cyber-attack in order to minimize disruption to Board services; it regularly obtains technology improvements to mitigate cybersecurity risks; it has in place cybersecurity training programs for its personnel, multifactor authentication, heightened security of SCADA systems and privilege access controls for administrative accounts; and it takes other actions it deems appropriate to prepare for and immediately address cybersecurity risks. No assurance can be given that the Board will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the Board's control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated by criminal activities of individuals or organizations. Any such occurrence could materially and adversely affect the Board's operations and/or financial condition.

POTENTIAL IMPACT OF NATURAL DISASTERS

The City is located in close proximity to the Texas Gulf Coast and has been and could again be impacted by high winds, heavy rains, and flooding caused by hurricane, tornado, tropical storm, or other adverse weather events. The City and the Board has also experienced the effects of the COVID -19 pandemic. The Board has developed various contingency plans to assure continuity of operations and safety of employees for various events, including hurricanes, tornados, ice storms and other severe weather events as well as pandemics. In the event that a natural disaster should damage or destroy a substantial portion of the Board’s combined electric, water and wastewater System, the operation of which could be materially adversely impacted. There can be no assurance that a casualty will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any System facilities that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which the Board and its System may be adversely affected. There can be no assurance the Board or its System will not sustain damage from any of such events resulting in a material adverse impact of the Board’s operations or financial condition.

OTHER INFORMATION

LITIGATION

It is the opinion of the City Attorney, the Board’s staff, Special Counsel, and Local Counsel to the Board that there is no pending or threatened litigation against the Board or the System which can reasonably be expected to have a material adverse effect on the financial condition or prospects of the City or the System.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports. Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must maintain each audit report within 120 days after the close of the City's fiscal year. The City's fiscal records and audit reports are available for public inspection during the regular business hours, and the City is required to provide a copy of the City's audit reports to any bondholder or other member of the public within a reasonable time on request upon payment of charges prescribed by the Texas General Services Commission.

The City will file certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in Tables 1, 2, and 4 (including Table 4A) through 12 and in Appendix B to this Official Statement. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

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

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 of the following year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of such change with the MSRB through EMMA.

Notice of Certain Events. The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "ANNUAL REPORTS." For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. Additionally, the City intends the words used in the immediately preceding paragraphs (15) and (16) and the definition of Financial Obligation in this Section to have the same meanings as when they are used in Rule 15c2-12, as evidenced by SEC Release No. 34-83885, dated August 20, 2018 (the "2018 Release") and any further written guidance provided by the SEC or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release. In addition, the City has agreed to provide notice of any failure and to timely provide annual financial information in accordance with the agreement described above under the heading - “ANNUAL REPORTS.” The City will provide each notice described in this paragraph to the MSRB.

Availability of Information. Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public by the MSRB.

With respect to debt of the City issued prior to the EMMA Effective Date, the City remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA’s website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

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

The City may amend its continuing disclosure agreement 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 the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or 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 or beneficial owners of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds, respectively, in the primary offering of the Bonds.

Compliance with Prior Undertakings. In connection with the issuance of the City’s utility system revenue bonds such as the Bonds, the Board has undertaken the responsibility to comply with the City’s continuing disclosure agreements under the Rule. However, the Board has not undertaken the responsibility to fulfill the City’s continuing disclosure obligations under the Rule related to debt secured with revenues other than the City’s utility system revenue. Additionally, the Board has undertaken the responsibility to comply with certain continuing disclosure obligations under the Rule in connection with bonds issued by the Southmost Regional Water Authority.

During the last five years, the City has complied materially with all continuing disclosure agreements made by it in accordance with the Rule, except the following: the City made an untimely filing on November 24, 2020 with respect to a private placement loan, Combination Tax and Revenue Certificates of Obligation, Series 2020, placed with the Texas Water Development Board on April 15, 2020. The City made an untimely filing on September 22, 2025 regarding the August 1, 2024 restructuring of Assured Guaranty Inc., the bond insurer/reserve fund surety policy provider for portions of the Board’s Series 2008 Bonds, Series 2016 Bonds, Series 2020 Bonds and Series 2020A Bonds. The City has modified its prior continuing disclosure practices and believes that it has implemented procedures that will help to ensure that filings in the future are made appropriately in compliance with its continuing disclosure undertakings.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City payable from a lien on and pledge of the Net Revenues of the System, and the approving legal opinion of Greenberg Traurig, LLP, Bond Counsel to the City ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under "TAX MATTERS" herein. The Form of Legal Opinion of Bond Counsel is attached hereto as Appendix C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the City by the City Attorney, for the Board by Spencer Fane LLP., Austin, Texas, as special counsel to the Board, and for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Austin, Texas. Certain legal matters will be passed upon for the Board by Greenberg Traurig, LLP, Houston, Texas, as Disclosure Counsel. The fees of counsel to the Underwriters and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Though they represent the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by the Board and only represents the Board and the City in connection with the issuance of the Bonds. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions "PLAN OF FINANCING" (except for the information contained in the subcaption "Sources and Uses of Funds," as to which no opinion is expressed), "THE BONDS" (except for the information contained in the subcaptions "Perfection of Security Interest for the Bonds," "Book-Entry-Only System," and "Bondholders' Remedies," as to which no opinion is expressed), "TAX MATTERS," "OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas," "OTHER INFORMATION – Registration and Qualification of Bonds for Sale," "OTHER INFORMATION – Continuing Disclosure of Information" (except for the information contained in the subcaption "Compliance with Prior Undertakings," as to which no opinion is expressed), and "Appendix D – Selected Provisions from the Bond Ordinance," and such firm is of the opinion that the information relating to the Bonds and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. 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

Effective August 2, 2024, Texas State Bankshares, Inc., the registered bank holding company for Texas Regional Bank (collectively, "TRB"), completed its acquisition of Dallas-based investment banking group Estrada Hinojosa & Company, Inc. ("Estrada Hinojosa"). Estrada Hinojosa operates under TRB Capital Markets, LLC, a wholly-owned subsidiary of TRB, using the assumed name of "Estrada Hinojosa".

Estrada Hinojosa 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. Estrada Hinojosa, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor 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 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.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisors (defined herein) on behalf of the City was examined by Causey, Demgen & Moore, P.C., certified public accountants (the "Accountants") on be. The Accountants have restricted their procedures to examining the arithmetical accuracy of certain computations and have not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities and cash deposits listed in the schedules provided by the Financial Advisor, to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Bonds.

FORWARD LOOKING STATEMENTS

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

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

LINKS TO INTERNET WEBSITES

Except for specific references attributable to the Board, all expressions of opinion, summaries of events and statistical information contained in any web site referenced in this Official Statement are provided for general information purposes, and the Board does not take responsibility for the content of any other information presented on such web sites.

APPROVAL OF OFFICIAL STATEMENT

The City Commission of the City has approved the form and content of this Official Statement and authorized its further use by the Underwriters in the offering of the Bonds.

CITY OF BROWNSVILLE, TEXAS

By: /s/ John F. Cowen, Jr.
Mayor

BROWNSVILLE PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS

By: /s/ Marilyn D. Gilbert
General Manager and Chief Executive Officer

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

Refunded Bonds

Bond		Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Utilities System Revenue Refunding Bonds,						
Series 2015	Serials	9/1/2026	5.000%	$ 3,765,000	11/21/2025	100.00
		9/1/2027	5.000%	3,970,000	11/21/2025	100.00
		9/1/2028	5.000%	5,045,000	11/21/2025	100.00
		9/1/2029	5.000%	5,280,000	11/21/2025	100.00
		9/1/2030	5.000%	5,520,000	11/21/2025	100.00
		9/1/2031	5.000%	5,675,000	11/21/2025	100.00
	Term 2035	9/1/2035	4.000%	2,870,000	11/21/2025	100.00
	Term 2040(1)	9/1/2037	4.125%	1,615,000	11/21/2025	100.00
Obligations to be Refunded				$ 33,740,000		

(1) Partial refunding.

Refunded Notes

Commercial Paper Notes:

Issue Date	Maturity Date	Principal Amount	Interest Amount	Interest %	Mode
9/10/2025	10/23/2025	$ 30,000,000	$ 95,071.23	2.69%	Tax-Exempt

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Appendix A

GENERAL INFORMATION REGARDING THE CITY

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The City

The City of Brownsville (the "City") is a political subdivision of the State of Texas operating as a home-rule city and is the county seat of Cameron County. It is the southernmost city in Texas and the largest city in the lower Rio Grande Valley. The City is located about 25 miles inland from the Gulf of Mexico on the north bank of the Rio Grande directly across from Matamoros, Mexico, which it joins by three international bridges. The City serves as a trade center for much of the lower Rio Grande Valley.

Primary Employers [(1)]

Name	Classification	Employees
Brownsville ISD	Education	5,656
SpaceX	Space Research and Technology	3,800
Southwest Key Programs	Residential Care	2,440
Cameron County	Government	1,948
Bechtel	Engenieering and Construction	1,800
Caring for You Home Health	Home Health Care Services	1,500
UT Rio Grande Valley	Education	1,400
City of Brownsville	Government	1,234
Wal-Mart	Retail	1,192
Valley Regional Medical Center	Medical Healthcare	1,100
Total		22,070

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Source: City of Brownsville Fiscal Year 2024 ACFR.

[(1)] As of September 30, 2024.

Transportation

The City is the only location on the U.S./Mexican border offering all modes of transportation including highway, air, railroad and shipping. The City is the terminus of U.S. Highways 77, 83, and 281. Three international bridges, B & M, a privately owned bridge, Veterans' Bridge at Los Tomates, and Gateway International, owned by Cameron County, connect the City with Matamoros, Mexico. Several bus companies including Greyhound Bus Line and Valley Transit, and motor freight carriers also serve the area. Two international airports are within a 30-mile area, including the Brownsville/South Padre Island International Airport, which now services international flights through United Airlines and American Airlines, and the Valley International Airport serviced by Southwest, United and two seasonal airlines (Delta and Sun Country Airlines). Air cargo is provided by South Texas Xpress, Inc..

Railroad needs are met by Union Pacific and Ferrocarriles Nacionales de Mexico. Shipping is provided through the Port of Brownsville

Tourism

Tourism is one of the area's biggest industries. The City ranks among the top five cities in Texas for long- and short-term stays, with the Rio Grande Valley as the number one area in the State of Texas as a destination point for automobile tourist traffic entering Texas. The Brownsville area has 32 hotels and motels with 2,142 rooms and two country clubs. Vacationers are attracted by subtropical climate, proximity to Mexico and access to South Padre Island. In addition to a rich historical past, Brownsville has one of the finest zoos in the nation, the Gladys Porter Zoo, donated by the Sams Foundation. Also the Laguna-Atascosa Wildlife Refuge, Confederate Airforce Flying Museum and the Port Isabel Lighthouse are open for tourists

BRIDGE BORDER TRAFFIC

Gateway Bridge Border Traffic at Brownsville			Veteran's Bridge Border Traffic at Brownsville		
Fiscal Year Ended	Vehicles [1]	Pedestrians [1]	Fiscal Year Ended	Vehicles [1]	Pedestrians [1]
2015	1,334,443	1,959,648	2015	1,313,545	944
2016	1,300,963	2,028,000	2016	1,433,830	978
2017	1,367,316	2,185,403	2017	1,547,673	913
2018	1,349,115	2,258,090	2018	1,789,396	1,248
2019	1,247,467	2,311,480	2019	1,714,485	1,815
2020	946,364	1,483,643	2020	1,334,714	1,869
2021	935,870	941,271	2021	1,121,015	2,247
2022	1,231,484	1,218,010	2022	1,828,174	1,872
2023	1,292,830	1,706,531	2023	1,854,902	2,669
2024	1,149,933	1,874,000	2024	1,770,520	4,653

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(1) These figures include people crossing from Brownsville to Matamoros, Mexico only.
Source: City of Brownsville.

"IN-BOND" INDUSTRIALIZATION PROGRAM

The two cities, the City of Brownsville and H. Matamoros, Tamps., Mexico have established over the past twenty-five years the "In-Bond" Industrialization or "Maquiladora" program. This program allows the assembly of labor intensive products at advantageous costs; thus, allowing North American products to be more competitive on a world-wide basis. Since its inception in 1966, the "In-Bond" program has grown to an estimated 108 companies, expanding to a total of 4,300,000 square feet of manufacturing space, and employing approximately 52,000 people.

Brownsville gains greatly from these operations since all of the Mexican plants have offices, warehouses, or twin plants on the U.S. side; U.S. management and technical personnel live in Brownsville; goods and services are purchased in Brownsville for use in the Matamoros facilities.

The impact of recent tariffs by the United States may have an adverse impact on trade in the Brownsville area.

EDUCATION

The City is encompassed by the Brownsville Independent School District. The District is currently comprised of 37 elementary schools, seven high schools, 11 middle schools, and three alternative schools.

In addition to the public schools, there are several private schools ranging from kindergarten through high school available in the City. St. Joseph's Academy, its most prominent parochial school, provides education from 7th to 12th grades.

SECONDARY EDUCATION

The University of Texas Rio Grande Valley was created by the Texas Legislature in 2013 after combining the resource and assets of the UT Brownsville campus and UT Pan American located approximately 60 miles from Brownsville in Edinburg, Texas.

Within the City is Texas Southmost College. The College formally opened on September 28, 1926 with the Southmost Union Junior College District being created in November 1949, separating the college from the public schools. The College is a two-year comprehensive community college with boundaries encompassing all of the Brownsville, Point Isabel and Los Fresnos Independent School Districts and part of the San Benito Independent School District.

Texas State Technical Institute, located in Harlingen (25 miles from the City), is a vocational/technical school that offers a full curriculum of programs. An industrial start-up program implemented through TSTI, is designed to reduce the start-up training costs of new and expanding industries. The Institute's administration actively works with representatives of companies who have specific labor training needs in order to design training courses which meet the requirements of each company.

MEDICAL FACILITIES

The Valley Baptist Medical Center (243 beds) and the Valley Regional Medical Center (214 beds) are accredited by the Joint Commission on Accreditation of Health Care Institutions. Both hospitals offer full emergency room facilities, lab work facilities, and the latest heart and radiology equipment. Several bacteriological, clinical, and medical laboratories are also available. The City has several nursing homes and is a member of the Texas Visiting Nurse Services, Inc., with complete nurse service and medical supplies.

Building Permits (City of Brownsville)

Fiscal Year	New Residential	Total Value	New Commercial	Total Value
2015	504	68,822,317	94	52,531,425
2016	496	46,162,399	54	48,699,936
2017	506	48,736,975	56	26,354,137
2018	596	56,516,702	45	57,491,091
2019	643	58,691,377	67	108,901,822 [(1)]
2020	737	56,459,341	58	42,309,341
2021	903	71,772,700	43	45,361,170
2022	888	205,132,194	66	85,355,391
2023	652	159,201,314	45	48,868,335
2024	683	124,462,924	57	97,573,534

Source: City of Brownsville
[(1)] Includes Airport Terminal valued at $45 million

The Port of Brownsville

The Port of Brownsville (the "Port") is not liable in any way on the Bonds and the information contained herein is solely for background information concerning the area.

Location . . . The Port is the southernmost port in Texas and the western terminus of the Gulf Intracoastal Waterway System. The Port, a man-made basin 3,500 feet by 1,200 feet, three miles north of the Rio Grande and the Mexican border, five miles east of the City, and seven miles from the rail and highway border crossing. The Port is connected with the Gulf of Mexico by a 17-mile long ship channel. Entrance from the Gulf of Mexico is at Brazos-Santiago Pass (Latitude 26 degrees 04 mins. North; Longitude 97 degrees 08 mins. 30 sec. West).

Channels . . . The Entrance Channel is protected by two rock jetties each over 5,000 feet in length and 1,200 feet apart. The 17-mile ship channel has no bridges or other obstructions for the entire length of this virtually straight waterway. Currently the channel has a depth of 42 feet to within .85 mile of the Turning Basin, and a depth of 36 feet to and through the Turning Basin. The channel has a controlling (or minimum) width of 250 feet. The Turning Basin has a width of 1,200 feet.

Harbor Facilities . . . The Main Harbor consists of the Turning Basin and Approach, containing over five miles of improved frontage. The Turning Basin is 3,500 feet long and 1,200 feet wide and contains ten General Cargo Docks aggregating 5,200 lineal feet plus a 30-foot small craft dock. Four Oil Docks, a 400 foot Bulk Cargo Dock serving the Grain Elevator and Bulk Plant, a Liquid Cargo Dock, an Express Dock and the newly completed 600 foot by 280 foot General Cargo Dock are located in the Turning Basin Approach which is 7,000 feet long with a 650 foot bank width and a 500 foot controlling bottom width. A privately-owned 3,750,000 bushel capacity grain elevator as well as corrugated iron sprinklered cargo transfer sheds; open, surfaces storage yards; 41 miles of railroad trackage and mechanical freight handling equipment augment the Port's ability to handle a wide variety of cargos.

A complete shrimp and Fishing Harbor, separate and apart from the Main Harbor, was completed and placed in service in mid-summer 1953. A second phase was finished in December, 1968. All docks were completely rebuilt in a project that was completed in 1993. Located four miles east of the main Turning Basin, with a protected entrance to the Ship Channel, this basin measures 2,100 feet by 1,600 feet overall with two 300 feet by 1,200 foot peninsulas in the center. The channel connecting with the Ship Channel is 200 feet wide and 600 feet long. Controlling depth in the Fishing Harbor is 14 feet. This basin provides 12,000 lineal feet of dock space for trawlers, tugs, and other small craft and is equipped with all necessary facilities for handling and processing fish and shrimp, as well as maintaining and servicing shrimp vessels. More than 200 shrimp trawlers are home-ported at the Fishing Harbor, more than double that number of foreign trawlers call regularly for repairs, fuel and stores.

Terminal Operations . . . All waterfront facilities on the Brownsville Ship Channel, at the Main Harbor and the Fishing Harbor, are owned by the Brownsville Navigation District (the "District"). Certain small craft facilities are leased to private operators, but all deep-water facilities at the Main Harbor are operated as public facilities. Vessels and agents are assigned berths at the discretion of the District. Vessel loading and discharge is performed by stevedoring contractors. Rail car and truck loading and unloading is customarily performed by stevedoring contractors.

Around-the-clock supervision of vessels and vehicle traffic at the Port is provided by the District. The Harbormaster's Office schedules vessel arrivals and departures, maintains radio contact with the pilot boat of the Brazos-Santiago Pilots' Association and provides up-to-the-minute information on schedules useful to agents, stevedores, tugboats, line-runners and the general public. Vessels can call on Channel 16 twenty-four hours a day.

All General Cargo Sheds, except Shed No. 2, are protected with automatic fire sprinkler systems, hose stations, and fire extinguishers suitable for the type of cargo normally handled through the particular shed. Fire hydrants are located on wharf aprons and throughout the Port's storage facilities. Water supply is from a 16-inch main connecting with the City of Brownsville Public Utilities Board's distribution system. Storage capacity and pressure equalization are provided by one 500,000 gallon and one 1,000,000 gallon elevated water storage tank. Around-the-clock guard service is provided to all general cargo facilities.

The District's Administration Offices are located at the Port. These offices handle inquiries on trade and industrial development, environmental issues, accounting, purchasing, credit, traffic, personnel, and engineering.

All docks at the Port are equipped with electric lights, light and power lines, and fresh water. All docks are served by rail. Wastewater and ballast facilities are available. All of the facilities are operated for hire on a first-come, first-served basis.

The dry dock Los Alamos has been signed over to the District by the U. S. Navy. It is leased at present to AMFELS for operation as a dry dock to repair drilling rigs. It was placed into service by AMFELS in May, 1996, and is now one of the few dry docks carrying out oilrig repairs.

The District owns and controls approximately 50,000 acres of land adjoining the Turning Basin and Ship Channel, and approximately 18,000 acres of this land have been developed as an industrial park with additional land available for development. In recent years over $150 million worth of industrial development has been located on Port property, including petro-chemical plants, tank farms, heavy and light manufacturing, seafood processing, steel fabrication, and a grain elevator and storage facility. Plant sites of virtually any size, with access to the deep-water harbor, rail connections, paved highways, and utilities may be rented on long-term leases at attractive prices from the District.

FOREIGN TRADE ZONE . . . On October 20, 1980, U. S. Customs created Foreign Trade Zone ("FTZ") Number 62 with the District as the Grantee and operator. There is a total of 2,680 acres available for FTZ status at the Port, the Brownsville/South Padre Island International Airport, the Harlingen Industrial Park and the NAFTA Industrial Park. The District receives fees from tenants utilizing the District's zone status. There are currently six Foreign Trade Zone tenants operating within the FTZ with general purpose warehousing and liquid bulk storage available.

CARGO TONNAGE OF THE PORT OF BROWNSVILLE

Fiscal Year	Inbound Tonnage	Outbound Tonnage	Total Tonnage	Number of Vessels	Foreign Trade Zone Traffic Value (000)
2015	5,616,936	1,458,518	7,075,454	1,140	3,219,785
2016	5,719,732	1,235,014	6,954,746	1,091	2,796,318
2017	6,194,867	1,137,640	7,332,507	1,317	3,693,770
2018	7,204,403	1,068,820	8,273,223	1,306	3,863,908
2019	5,620,456	958,943	6,579,399	1,566	4,385,555
2020	5,736,934	1,415,384	7,152,318	1,671	3,576,401
2021	7,520,467	1,254,909	8,775,376	1,854	5,142,177
2022	7,691,793	1,314,559	9,006,352	1,754	6,907,274
2023	9,840,099	1,294,956	11,135,055	2,561	7,055,609
2024	9,320,677	1,319,307	10,639,984	2,322	4,077,656

Source: Brownsville Navigation District - Traffic Department

CAMERON COUNTY

Cameron County is not liable in any way on the Bonds and the information contained herein is solely for background information concerning the area.

Cameron County was created in 1848, and it is the southernmost County in Texas. According to the 2010 U.S. Census, the population of the County is 406,220, an increase of 35.97% since 1990. The area of the County is approximately 883 square miles, comprising the Brownsville-Harlingen-San Benito Metropolitan Area. The largest city in the County is the City, which serves as the county seat. The economy is well diversified, based on agricultural production, fishing industries, manufacturing plants and tourism. Major agricultural crops include oranges, grapefruit, cotton, grains and sugar cane. Principal manufacturing products include off-shore drilling platforms, fiberglass products, dairy products, clothing, electric equipment and frozen foods. The County is the only port of entry from Mexico that provides all four methods of transportation - sea, air, highway and rail. Tourist attractions include South Padre Island, Laguna-Atascosa Wildlife Refuge, and the Gladys Porter Zoo. The Port of Brownsville is one of the world's largest shrimp loading points and a very important link between the United States and Mexico.

The County is traversed by U.S. Highways 77, 83 and 281; State Highways 4, 48, 100, 107 and 245; and nine farm-to-market roads. Fifteen motor freight trucking firms provide service to and from Brownsville. Rail transportation is provided by Union Pacific and National Railways of Mexico. Commercial air service is provided to Brownsville by Continental Airlines; and to Harlingen by Southwest, American, and Continental Airlines. Air freight service is provided by Emery, UPS, Kitty Hawk, Casino Express, and Burlington. The Brownsville International Airport also includes an industrial park. The Port of Brownsville is the main shipping port for the Rio Grande Valley and South Texas. Port facilities include a man-made basin connected by 17 miles of channel to the Gulf of Mexico, various docking and terminal facilities, turning basin and approach, fishing harbor, warehousing and railway switching operations, worldwide shipping lines and barge transportation services.

POPULATION STATISTICS

Year	Brownsville	Cameron County
2015	181,487	436,584
2016	182,110	420,392
2017	183,823	426,897
2018	183,299	422,135
2019	183,292	423,725
2020	182,781	427,963
2021	186,738	423,163
2022	187,831	425,208
2023	189,382	425,457
2024	190,158	427,292

Source: City of Brownsville Fiscal Year 2024 ACFR

EMPLOYMENT

	City of Brownsville			State of Texas		
	June 2025	June 2024	June 2023	June 2025	June 2024	June 2023
Civilian Labor Force	196,229	188,936	184,746	15,844,159	15,637,330	15,207,562
Total Employment	181,741	177,803	174,163	15,199,591	14,941,356	14,567,771
Total Unemployment	14,488	11,133	10,583	644,568	695,974	639,791
Percentage Unemployment	7.4%	5.9%	5.7%	4.1%	4.5%	4.2%

Source: Texas Workforce Commission

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Appendix B

EXCERPTS FROM THE BROWNSVILLE PUBLIC UTILITIES BOARD ANNUAL FINANCIAL REPORT For the Year Ended September 30, 2024

The information contained in this Appendix consists of excerpts from the Brownsville Public Utilities Board Annual Financial Report for the fiscal year ended September 30, 2024, and is not intended to be a complete statement of the System's financial condition. Reference is made to the complete Report for further information. Burton McCumber & Longoria, LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein any procedures on the financial statements addressed in that report. Burton McCumber & Longoria, LLP, has also not performed any procedures relating to this Official Statement.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Public Utilities Board of the City of Brownsville
Brownsville, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Public Utilities of Board of the City of Brownsville, a component unit of the City of Brownsville, Texas as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the Public Utilities of Board of the City of Brownsville's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Public Utilities of Board of the City of Brownsville as of September 30, 2024, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2025, on our consideration of the Public Utilities of Board of the City of Brownsville'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 Public Utilities of Board of the City of Brownsville's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Public Utilities of Board of the City of Brownsville's internal control over financial reporting and compliance.

Burton, McCumber & Longoria L.L.P.

Brownsville, Texas
February 3, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the Public Utilities Board of the City of Brownsville, Texas' (Public Utilities Board) annual financial report presents management's analysis of its financial performance during the fiscal years that ended on September 30, 2024 and 2023. Please read it in conjunction with the financial statements that follow this section.

Overview of Annual Financial Report

The financial statements report information about the Public Utilities Board using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include the statements of net position, the statements of revenues, expenses, and changes in net position, the statements of cash flows, and the notes to the financial statements.

The Statements of Net Position present the financial position of the Public Utilities Board on a full accrual, historical cost basis. The Statements of Net Position present information on all of the Public Utilities Board's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Public Utilities Board is improving or deteriorating.

While the Statements of Net Position provide information about the nature and amount of resources and obligations at year-end, the Statements of Revenues, Expenses, and Changes in Net Position present the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Public Utilities Board's recovery of its costs.

The Statements of Cash Flows present changes in cash and cash equivalents, resulting from operating, non-capital financing, and capital and related financing, and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Public Utilities Board's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

Financial Analysis

The following condensed financial information and other selected information serve as the key financial data and indicators for management monitoring and planning.

Financial Condition

One of the most important questions asked about the Public Utilities Board's finances is, "Is the Public Utilities Board, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Public Utilities Board's activities in a way that will help answer this question. These two statements report the net position of the Public Utilities Board and changes in them. Increases or decreases in net position over time is a useful indicator of whether the Public Utilities Board's financial health is improving or deteriorating.

The Public Utilities Board's assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by $499.7 million at the close of fiscal year 2024. Total net position increased by $24.3 million or 5.1% compared to the previous fiscal year. Much of the increased growth in net position compared to previous fiscal year growth is attributed to a increases in the restricted net position and the investment in capital assets, while the unrestricted net position decreased from prior year. The total net position is a good indicator of the Public Utilities Board's overall financial health.

Net position in investment in capital assets totaled $307.0 million and $294.8 million for fiscal years 2024 and 2023 respectively. The restricted net position of $185.9 million and $150.6 million for fiscal years 2024 and 2023, respectively, is subject to external restrictions on how it may be used. The remaining balances of unrestricted net position, totaling $6.8 million and $30.0 million for fiscal years 2024 and 2023 respectively, may be used to meet the Public Utilities Board's ongoing obligations. The Public Utilities Board's changes in net position are further analyzed in Table A-1 and Table A-2.

Net Position

A condensed summary of the Public Utilities Board's Statements of Net Position is presented in Table A-1.

TABLE A-1

CONDENSED STATEMENTS OF NET POSITION

September 30, 2024, 2023 and 2022

(In millions of dollars)

				Change		Change	
	2024	**2023**	**2022**	2024 vs. 2023		2023 vs. 2022	
Current assets	$ 115.2	$ 127.5	$ 132.9	$ (12.3)	-9.6%	$ (5.4)	-4.1%
Non-current assets	168.2	131.0	136.5	37.2	28.4%	(5.5)	-4.0%
Capital assets	621.1	611.1	607.5	10.0	1.6%	3.6	0.6%
Total assets	904.5	869.6	876.9	34.9	4.0%	(7.3)	-0.8%
Deferred outflows of resources	34.5	40.9	26.5	(6.4)	-15.6%	14.4	54.3%
Total assets plus deferred outflows of resources	939.0	910.5	903.4	28.5	3.1%	7.1	0.8%
Current liabilities	92.1	75.9	60.1	16.2	21.3%	15.8	26.3%
Long-term liabilities	316.9	346.1	353.4	(29.2)	-8.4%	(7.3)	-2.1%
Total liabilities	409.0	422.0	413.5	(13.0)	-3.1%	8.5	2.1%
Deferred inflows of resources	30.3	13.1	24.3	17.2	131.3%	(11.2)	-46.1%
Total liabilities plus deferred inflows of resources	439.3	435.1	437.8	4.2	1.0%	(2.7)	-0.6%
Net position:							
Investment in capital assets	307.0	294.8	282.3	12.2	4.1%	12.5	4.4%
Restricted	185.9	150.6	155.1	35.3	23.4%	(4.5)	-2.9%
Unrestricted	6.8	30.0	28.2	(23.2)	-77.3%	1.8	6.4%
Total net position	$ 499.7	$ 475.4	$ 465.6	24.3	5.1%	$ 9.8	2.1%

The Public Utilities Board's net position as of September 30, 2024, increased by $24.3 million from fiscal year 2023. Total assets plus deferred outflows of resources rose $28.5 million from prior year. Total assets increased $34.9 million from prior year due in part to increases in current and long-term cash and cash equivalent balances. Capital assets net of depreciation also increased from prior year. Total deferred outflows of resources decreased $6.4 million. Deferred outflows related to pension and OPEB combined decreased $4.2 million.

Current liabilities increased $16.2 million from fiscal year 2023. The issuance of $18 million in commercial paper notes is the primary cause of this increase. The Public Utilities Board received more grant funding in advance. At year end, $3.85 million related to grant monies remained in unearned revenues. Long-term liabilities decreased $29.2 million from prior year. Long-term bond payables (net) is the primary driver of this decline due to a decrease of $23.0 million. Pension liability for the Public Utilities Board decreased $6.4 million from fiscal year 2023. In fiscal year 2024, the Public Utilities Board over-recovered fuel costs in the amount of $16.8 as compared to the under-collection of fuel costs of $19.5 in fiscal year 2023. Overall, the total liabilities plus deferred inflows of resources increased $4.2 million.

Net position for fiscal year 2023 increased by $9.8 million from fiscal year 2022. Total assets plus deferred outflows of resources rose $7.1 million from prior year. Total assets decreased $7.3 million from prior year due in part to decreases in cash and receivables. The fuel cost under-recovery increased $6.8 million from prior year. Deferred outflows related to pension increased $16.4 million from prior year primarily due to changes in expected and actual experience on pension assets and changes in projected and actual earnings.

Current liabilities increased $15.8 million from fiscal year 2022. The issuance of $12 million in commercial paper notes contributed to this increase. Also, the Public Utilities Board received $2.2 million from the City of Brownsville for American Rescue Plan Act projects. At year end, $1.3 million remained in unearned revenues. Long-term liabilities decreased $7.3 million from prior year. The OPEB liability for healthcare decreased $14.8 million due to the creation of an irrevocable trust in fiscal year 2023 and contribution of $13.3 million from the Public Utilities Board to create a net OPEB asset. Long-term bond payables (net) also decreased $22.5 million. Pension liability for the Public Utilities Board increased $30.9 million from fiscal year 2022, while deferred inflows related to pension and OPEB decreased $11.2 million. Overall, the total liabilities plus deferred inflows of resources decreased $2.7 million.

The following is a condensed, tabular summarization of the Statement of Revenues, Expenses, and Changes in Net Position.

TABLE A-2

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For Fiscal Years Ended September 30, 2024, 2023 and 2022

(In millions of dollars)

	2024	2023	2022	Change 2024 vs. 2023		Change 2023 vs. 2022	
Operating revenues:							
Operating revenues - sales (net)	$ 230.6	$ 272.2	$ 268.0	$ (41.6)	-15.3%	$ 4.2	1.6%
Total operating revenues	230.6	272.2	268.0	(41.6)	-15.3%	4.2	1.6%
Non-operating revenues:							
Investment and interest income	14.8	9.6	1.6	5.2	54.2%	8.0	500.0%
Non-operating revenue	2.0	3.2	2.0	(1.2)	-37.5%	1.2	60.0%
Total non-operating revenues	16.8	12.8	3.6	4.0	31.3%	9.2	255.6%
Total revenues	247.4	285.0	271.6	(37.6)	-13.2%	13.4	4.9%
Operating expenses:							
Purchased power and fuel	79.3	104.6	109.4	(25.3)	-24.2%	(4.8)	-4.4%
Personnel services	57.0	50.7	38.1	6.3	12.4%	12.6	33.1%
Materials and supplies	10.3	10.5	9.1	(0.2)	-1.9%	1.4	15.4%
Repairs and maintenance	3.5	5.2	4.9	(1.7)	-32.7%	0.3	6.1%
Contractual and other services	26.2	24.3	24.5	1.9	7.8%	(0.2)	-0.8%
Depreciation expense	30.1	29.2	29.4	0.9	3.1%	(0.2)	-0.7%
Total operating expenses	206.4	224.5	215.4	(18.1)	-8.1%	9.1	4.2%
Non-operating expenses:							
Interest expense	11.7	12.0	11.1	(0.3)	-2.5%	0.9	8.1%
Loss on disposition of capital assets	0.6	0.9	0.6	(0.3)	-33.3%	0.3	50.0%
Tenaska Equity Fund rebate expense	-	31.3	-	(31.3)	100.0%	31.3	0.0%
Payments to the City of Brownsville	11.4	12.1	12.5	(0.7)	-5.8%	(0.4)	-3.2%
Total non-operating expenses	23.7	56.3	29.4	(32.6)	-57.8%	26.9	91.5%
Total expenses	230.1	280.8	244.8	(50.7)	-18.1%	36.0	14.7%
Changes in net position before capital contributions	17.3	4.2	26.8	13.1	311.9%	(22.6)	-84.3%
Capital contributions	7.0	5.6	8.1	1.4	25.0%	(2.5)	-30.9%
Change in net position	24.3	9.8	34.9	14.5	148.0%	(25.1)	-71.9%
Beginning net position	475.4	465.6	430.7	9.8	2.1%	34.9	8.1%
Ending net position	$ 499.7	$ 475.4	$ 465.6	$ 24.3	5.1%	$ 9.8	2.1%

While the Statements of Net Position show the yearly change in financial position, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. For fiscal year 2024, the Public Utilities Board experienced a decrease in total operating revenues of $41.6 million from fiscal year 2023. This can be attributed to some degree in electric rates that were rolled back in fiscal year 2023. The Public Utilities Board also increased the rate stabilization amount from $1.5 million in fiscal year 2023 to $9.5 million in fiscal year 2024. Both the rate decreases and the increase in the rate stabilization contributed to the decrease in operating revenues. Investment earnings increased by $5.2 million from fiscal year 2023 due to higher interest rates and better investment opportunities. Capital contributions increased slightly by $1.4 million from the prior year.

Operating expenses decreased $18.1 million from fiscal year 2023. Most of the decrease is due to purchased power and fuel expenses from prior year by $25.3 million. Personnel services experienced a $6.3 million increase from fiscal year 2023. All other operating expense categories experienced negligible changes from prior year. Other non-operating expenses decreased slightly from prior year. Payments made to the City of Brownsville also decreased slightly in fiscal year 2024 from fiscal year 2023.

For fiscal year 2023, the Public Utilities Board experienced a slight increase in total operating revenue of $4.2 million from fiscal year 2022. During fiscal year 2023, electric rates were partially rolled back, while both water and wastewater utility rates were increased. The Public Utilities Board decreased the rate stabilization amount from $15.4 million in fiscal year 2022 to only $1.5 million in fiscal year 2023. Both the rate increases and decrease in the rate stabilization contributed to the $4.2 million overall increase in operating revenues. Investment earnings increased by $8.0 million from fiscal year 2022 due to rising interest rates and better investment opportunities. Capital contributions decreased slightly by $2.5 million from the prior year.

Operating expenses increased $9.1 million from fiscal year 2022. Most of the increase is due to an increase in personnel services of $12.6 million. Purchased power and fuel expenses decreased slightly from prior year by $4.8 million. All other operating expense categories experienced negligible changes from prior year. In May 2023, the Public Utilities Board issued a rebate to customers from the Tenaska Equity Fund that was approved by the City Commission of the City of Brownsville, Texas. Total amount of the rebate was $31.3 million. See Note 16 for more discussion on the Tenaska Equity Fund Rebate.

Capital Assets

At the end of 2024 and 2023, the Public Utilities Board's net capital assets in Table A-3 of $621.1 million and $611.1 million, respectively. This was a net increase of $10.0 million from prior year. In fiscal year 2024, the most significant change was an increase in the Land category for land acquisitions. Additionally, there was a notable increase in the Plant category primarily due to capital funding commitments for the Hidalgo Power Plant and capital infrastructure related to emergency trouble calls.

In fiscal year 2023, the most notable change was an increase to the Construction in progress (CIP) category as the Public Utilities Board had an influx of emergency trouble calls which resulted in the replacement of capital infrastructure. The Public Utilities Board also saw an increase to the required funding commitments towards the capital improvements to the Hidalgo Power Plant

See Table A-3 on next page summarizing the Public Utilities Board's capital assets by category.

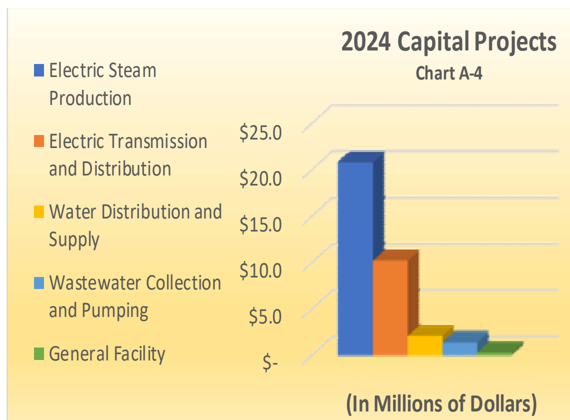
TABLE A-3
CAPITAL ASSETS
September 30, 2024, 2023 and 2022
(In millions of dollars)

	2024	2023	2022	Change 2024 vs. 2023		Change 2023 vs. 2022	
Land	$ 53.0	$ 34.8	$ 34.3	$ 18.2	52.3%	$ 0.5	1.5%
Plant	776.0	756.7	741.4	19.3	2.6%	15.3	2.1%
Buildings and structures	139.1	138.8	137.0	0.3	0.2%	1.8	1.3%
Improvements other than buildings	47.8	47.9	47.9	(0.1)	-0.2%	-	0.0%
Equipment	155.3	152.1	147.1	3.2	2.1%	5.0	3.4%
Right-to-use leased equipment	0.1	0.1	-	-	100.0%	0.1	0.0%
Construction in progress	74.1	76.8	71.4	(2.7)	-3.5%	5.4	7.6%
Subtotal	1,245.4	1,207.2	1,179.1	38.2	3.2%	28.1	2.4%
Less accumulated depreciation	(624.3)	(596.1)	(571.6)	(28.2)	4.7%	(24.5)	4.3%
Net capital assets	$ 621.1	$ 611.1	$ 607.5	$ 10.0	1.6%	$ 3.6	0.6%

The following is a summary of some of the major improvements to the utility system during each fiscal year:

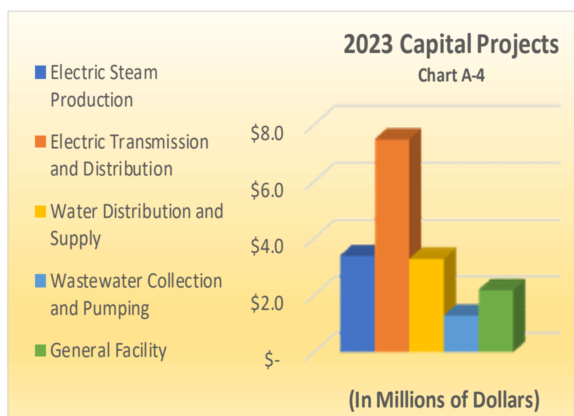
Project Category:	2024
Electric Steam Production	$ 20.9
Electric Transmission and Distribution	10.3
Electric General	-
Water Distribution and Supply	2.2
Wastewater Collection and Pumping	1.5
General Facility	0.4

(Reported in millions of dollars)



Project Category:	2023
Electric Steam Production	$ 3.4
Electric Transmission and Distribution	7.5
Electric General	1.3
Water Distribution and Supply	3.3
Wastewater Collection and Pumping	1.3
General Facility	2.2

(Reported in millions of dollars)



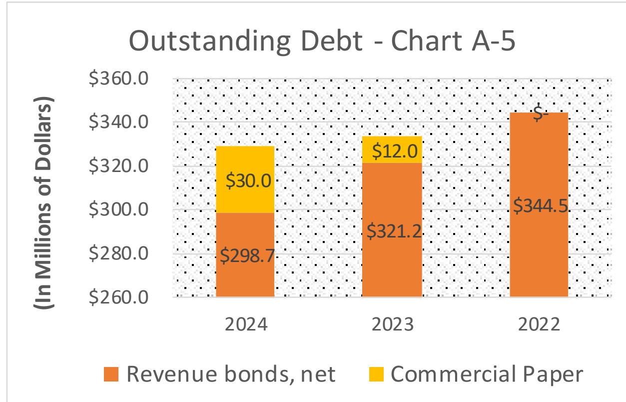
At September 30, 2024 and 2023, the Public Utilities Board had contractual obligations totaling approximately $33,575,515 and $30,242,628, respectively, for utility plant expansion and improvements. Funding of these amounts will come from available revenues of the Public Utilities Board and restricted funds. Additional information on the Public Utilities Board's capital assets can be found in Note 4 to the financial statements.

Debt Administration

The Public Utilities Board's outstanding debt is summarized as follows:

TABLE A-4
OUTSTANDING DEBT
September 30, 2024, 2023 and 2022
(In millions of dollars)

	2024	2023	2022
Revenue bonds, net	$ 298.7	$ 321.2	$ 344.5
Commercial Paper	30.0	12.0	-
Total	$ 328.7	$ 333.2	$ 344.5



Revenue bonds outstanding at September 30, 2024 and 2023 were $272,395,000 and $291,645,000, respectively. Interest on bonds is due semi-annually on March 1 and September 1, and the principal is due annually on September 1. Revenue bond debt service coverage for the Public Utilities Board's priority and second lien obligations was calculated at 2.48 and 2.84 times at September 30, 2024 and 2023 respectively.

On January 15, 2003, the Public Utilities Board sold $76,400,000 variable rate demand bonds as series 2002A and 2002B Utility System Subordinate Lien Revenue and Refunding Bonds. The bonds' variable rate was synthetically fixed at 2.576% until 2008 utilizing a swap financing strategy. The City Commission of the City of Brownsville, Texas, authorized the execution of a Rate Cap Agreement effective September 1, 2006, through September 1, 2011, to give an insurance against increasing short term rates. The Public Utilities Board executed an agreement with an eligible provider for a notional amount of $41,880,000 with an interest rate cap of 4.50%. The notional amount of the original swap decreased to $10,830,000 effective September 1, 2006, provided a synthetic fixed rate of 2.576%. Proceeds from the sale of the bonds were used to retire currently outstanding revenue bonds, to build, improve, extend, enlarge, and repair the system, and to pay costs of issuance of the bonds. On August 24, 2005, the Public Utilities Board sold $163,725,000 in tax exempt bonds and $56,855,000 in taxable bonds as part of a major debt restructuring. The tax-exempt bonds, Series 2005A, provided proceeds to refund $50,890,000 in Series 1995 outstanding obligations, $50,000,000 in Series 2001A and $50,000,000 in Series 2001B variable rate outstanding obligations, and $7,250,000 in outstanding commercial paper notes, and provided $20,000,000 in new money bonds. The taxable bonds, Series 2005B, provided proceeds to defease $27,420,000 in Series 1992 outstanding obligations and $22,120,000 in Series 1995 outstanding obligations.

The Public Utilities Board issued $77,805,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2008. The refunding bonds provided proceeds to defease $40,000,000 of Commercial Paper Notes, Series 2004, $32,285,000 of the Series 2002A Utility System Subordinate Lien Revenue and Refunding Bonds, and $13,415,000 of the Series 2002B Utility System Subordinate Lien Revenue and Refunding Bonds.

On October 1, 2012, the Public Utilities Board issued $840,000 in Utility System Junior Lien Revenue Bonds, Series 2012. Proceeds from sale of the Obligations will be used for the purpose of funding construction improvements to the wastewater system on the FM 511 – 802 Colonia Project.

On May 1, 2013, the Public Utilities Board issued $118,185,000 in Utilities System Revenue Refunding Bonds, Series 2013. The refunding bonds provided proceeds to refund $109,985,000 of Utility System Improvement and Refunding Bonds, Series 2005A. In addition, the proceeds provided funds of $11,818,500 to make a cash deposit into the Debt Service Reserve Fund.

On July 15, 2015, the Public Utilities Board issued $94,770,000 in Utilities System Revenue Refunding Bonds, Series 2015. The bonds provided proceeds to refund $49,060,000 of Series 2005A Revenue Improvement & Refunding Bonds,

$27,815,000 of Series 2005B Revenue Refunding Bonds and $5,480,000 of Series 2011 Revenue Refunding Bonds. In addition, the proceeds provided funds to defease $20,000,000 in outstanding Commercial Paper Notes.

On May 15, 2016, the Public Utilities Board issued $39,410,000 in Utilities System Revenue Refunding Bonds, Series 2016. The bonds, plus a premium of $7,705,681, provided proceeds to refund $42,505,000 of the Series 2008 Revenue Refunding Bonds.

On July 1, 2018, the Public Utilities Board issued $14,000,000 in Utilities System Revenue Refunding Bonds, Series 2018. The bonds, plus a premium of $1,404,015, provided proceeds to refund $14,980,000 of the Series 2007 Jr. Lien Revenue Bonds, Series 2008 Revenue Refunding Bonds, and a portion of Series 2012 Sr. Lien Revenue Refunding Bonds.

On July 29, 2020, the Public Utilities Board issued $53,590,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2020. The refunding bond proceeds plus the bond premium of $9,295,486 were used to defease $12,105,000 of the Series 2012 Utilities System Senior Lien Revenue Refunding Bonds for the years 2026-2037, and $50,000,000 of Commercial Paper Notes.

On July 29, 2020**,** the Public Utilities Board issued $62,320,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2020A (Taxable). The refunding bond proceeds were used to defease $54,480,000 of the Series 2013A Utilities System Revenue Refunding Bonds for the years 2027- 2031.

On June 10, 2022, the Public Utilities Board issued $17,165,000 in Utility System Revenue Refunding Bonds, Series 2022. The refunding bond proceeds plus the bond premium of $1,187,629 were used to defease $18,000,000 of Commercial Paper notes.

On June 10, 2022, the Public Utilities Board issued $35,605,000 in Utility System Revenue Refunding Bonds, Series 2022A (Taxable). The refunding bond proceeds were used to defease $35,000,000 of Commercial Paper notes.

Standard & Poor's Global Ratings, a division of Standard & Poor's Global., has assigned short term insured ratings of AA. The Public Utilities Board underlying ratings on its senior lien debt are "A2", "A-" and "A-" by Moody's, Standard & Poor's, and Fitch Ratings, respectively.

The Public Utilities Board's participation in the Southmost Regional Water Authority's (the Authority) desalination plant project was complete and operational during 2005. The Public Utilities Board total interest in the project is 92.91%. The Authority is considered a blended component unit of the Public Utilities Board. As a participating owner, the Public Utilities Board is obligated to contribute its percentage allocation of the Authority's debt service obligations and annual system budget. The Public Utilities Board's total 2024 and 2023 contributions to the Authority were $7,257,735 and $7,517,215, respectively. The Public Utilities Board's participation in the Authority's desalination project provides the City with an alternate, long-term, drought-resistant source of drinking water.

On December 7, 2009, the Authority issued $9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and $3,795,000 in Water Supply Contract Revenue Bonds, Series 2009B through the Texas Water Development Board Drinking Water State Revolving Fund for the construction of a full-scale Micro Filtration Pretreatment System. The objective of this project is to achieve compliance with both existing and future maximum contaminant levels for arsenic in public drinking water by constructing a full-scale Micro Filtration Pretreatment System prior to entering the existing reverse osmosis treatment process. An additional need is to control and reduce iron levels to eliminate complaints of colored water. Project objectives also include an additional 1.0 million gallons per day of capacity through upgrading certain pumps within the existing well field and adding one additional reverse osmosis train.

On September 26, 2012, the Southmost Regional Water Authority issued $13,530,000 in Water Supply Contract Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus the bond premium were used to defease $14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027.

On April 18, 2017, the Authority issued $9,255,000 in Water Supply Contract Revenue Refunding Bonds, Series 2017. The refunding bond proceeds plus the bond premium of $725,245 were used to defease $9,715,000 of the Series 2006 Water Supply Contract Revenue Refunding Bonds for the years 2019 through 2032.

The Authority's Water Supply Contract Revenue Refunding Bonds, Series 2017 was rated A2 by Moody's for Uninsured and AA by S&P for Insured. The Authority's underlying ratings on its Water Supply Contract Revenue Refunding Bonds, Series 2012 are "A2" by Moody's and "A+" by Fitch, respectively.

Additional information on the Public Utilities Board's debt can be found in Notes 6 and 7 of this report.

Request for Information

This financial report is designed to provide the reader with a general overview of the Public Utilities Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, P.O. Box 3270, Brownsville, TX 78523-3270. This report is available on the Public Utilities Board's website at www.brownsville-pub.com.

Financial Statements

- Δ *Statements of Net Position*
- Δ *Statements of Revenues, Expenses, and Changes in Net Position*
- Δ *Statements of Cash Flows*

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Statements of Net Position
September 30, 2024 and 2023

Assets	**2024**	**2023**
Current assets:		
Cash and cash equivalents	$ 36,719,462	$ 25,758,210
Investments	3,328,000	3,835,000
Receivables:		
Fees and services, net of allowance	31,712,307	34,594,160
Intergovernmental	978,223	717,641
Accrued interest receivable	1,625,842	1,148,184
Fuel cost under-recovery	-	19,498,661
Inventories	10,094,291	9,234,352
Prepaids	1,599,637	1,405,443
Total current assets	86,057,762	96,191,651
Current restricted assets:		
Cash and cash equivalents	17,330,578	20,631,383
Investments	11,824,422	10,695,585
Total restricted current assets	29,155,000	31,326,968
Total current assets	115,212,762	127,518,619
Non-current restricted assets:		
Cash and cash equivalents	118,896,532	89,531,896
Investments	45,333,785	38,396,957
Net OPEB asset	1,707,000	602,950
Capital assets, net of accumulated depreciation	621,133,520	611,132,119
Regulatory assets	2,202,577	2,416,457
Total non-current assets	789,273,414	742,080,379
Total assets	904,486,176	869,598,998
Deferred Outflows of Resources		
Deferred charge on refunding	14,499,612	16,859,961
Deferred outflow - other	181,968	-
Deferred outflows related to pension	16,320,803	21,372,790
Deferred outflows related to OPEB	3,536,377	2,685,810
Total deferred outflows of resources	34,538,760	40,918,561
Total assets plus deferred outflows of resources	$ 939,024,936	$ 910,517,559

- Continued

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Statements of Net Position - Continued
September 30, 2024 and 2023

Liabilities	**2024**	**2023**
Current unrestricted liabilities:		
Accounts payable	$ 22,137,211	$ 25,933,478
Accrued vacation and sick leave	5,756,657	5,665,203
Due to primary government	3,244,010	4,801,496
Unearned revenue	4,199,039	1,440,077
Self insurance worker's compensation claims	41,510	128,421
Commercial paper	30,000,000	12,000,000
Total current unrestricted liabilities	65,378,427	49,968,675
Current liabilities payable from restricted assets:		
Accrued interest	1,146,131	994,169
Customer deposits	5,835,252	5,716,379
Current portion of revenue bonds payable	19,795,000	19,250,000
Total current liabilities payable from restricted assets	26,776,383	25,960,548
Total current liabilities	92,154,810	75,929,223
Non-current liabilities:		
Revenue bonds payable net of unamortized premium	278,865,948	301,931,408
OPEB liability - supplemental	1,784,774	1,628,667
Net pension liability	36,088,600	42,497,643
Self insurance worker's compensation claims	131,788	97,064
Total non-current liabilities	316,871,110	346,154,782
Total liabilities	409,025,920	422,084,005
Deferred Inflows of Resources		
Fuel cost over-recovery	16,781,978	-
Deferred inflows related to pension	1,394,514	732,903
Deferred inflows related to OPEB	12,151,426	12,326,553
Total deferred inflows of resources	30,327,918	13,059,456
Total liabilities plus deferred inflows of resources	439,353,838	435,143,461
Net position:		
Investment in capital assets	306,972,182	294,810,670
Restricted for:		
Debt service	18,235,004	17,494,283
Repair and replacement	144,901,250	109,459,415
Operating reserve	17,142,958	17,019,319
Fuel adjustment subaccount	-	2,492,464
Capital projects	2,613,191	2,572,599
Meter deposits	1,251,413	938,366
OPEB benefits	1,707,000	602,950
Unrestricted	6,848,100	29,984,032
Total net position	499,671,098	475,374,098
Total liabilities plus deferred inflows of resources plus net position	$ 939,024,936	$ 910,517,559

See accompanying notes to financial statements.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended September 30, 2024 and 2023

	2024	2023
Operating revenues:		
Sales and service charges	$ 246,218,682	$ 279,751,071
Less Rate Stabilization	(9,492,464)	(1,500,000)
Less utilities service to the City of Brownsville, Texas	(6,089,411)	(6,053,425)
Total operating revenues	230,636,807	272,197,646
Operating expenses:		
Purchased power and fuel	79,293,184	104,614,950
Personnel services	56,993,471	50,684,173
Materials and supplies	10,333,449	10,543,818
Repairs and maintenance	3,485,644	5,118,143
Contractual and other services	26,242,499	24,347,117
Depreciation	30,109,039	29,166,093
Total operating expenses	206,457,286	224,474,294
Operating income	24,179,521	47,723,352
Nonoperating revenues (expenses):		
Investment and interest income	14,771,710	9,645,822
Interest expense	(11,717,447)	(11,995,117)
Loss on disposition of capital assets	(636,520)	(937,876)
Other	2,047,426	3,182,369
Tenaska Equity Fund rebate expense	-	(31,355,071)
Payments to City of Brownsville	(11,393,548)	(12,055,925)
Net nonoperating revenues (expenses)	(6,928,379)	(43,515,798)
Income before capital contributions and transfers	17,251,142	4,207,554
Capital contributions	7,045,858	5,590,241
Change in net position	24,297,000	9,797,795
Net position, beginning of year	475,374,098	465,576,303
Net position, end of year	$ 499,671,098	$ 475,374,098

See accompanying notes to financial statements.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash received from customers	$ 271,008,786	$ 240,645,113
Cash payments to suppliers for goods and services	(124,769,894)	(155,855,073)
Cash payments to employees for services	(58,895,281)	(52,840,969)
Net cash provided by operating activities	87,343,611	31,949,071
Cash flows from non-capital financing activities:		
Required payments to City of Brownsville	(12,951,034)	(11,467,369)
Net cash (used in) non-capital financing activities	(12,951,034)	(11,467,369)
Cash flows from capital and related financing activities:		
Commercial paper proceeds	18,000,000	12,000,000
Principal paid on capital debt - bond issues	(19,250,000)	(20,025,000)
Interest paid on capital debt	(11,565,485)	(12,001,034)
Capital contributions	1,904,838	2,277,882
Acquisition and construction of capital assets	(33,192,239)	(28,051,351)
Net cash (used in) capital and related financing activities	(44,102,886)	(45,799,503)
Cash flows from investing activities:		
Interest received	14,294,052	8,695,665
Purchases of investment securities	(639,156,462)	(729,331,592)
Proceeds from sales of investment securities	631,597,802	713,217,790
Net cash provided by/(used in) investing activities	6,735,392	(7,418,137)
Net (decrease) in cash and cash equivalents	37,025,083	(32,735,938)
Cash and cash equivalents, beginning of year	135,921,489	168,657,427
Cash and cash equivalents, end of year	$ 172,946,572	$ 135,921,489

- Continued

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Statements of Cash Flows - Continued
For the Fiscal Years Ended September 30, 2024 and 2023

	2024	2023
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 24,179,521	$ 47,723,352
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,109,039	29,166,093
Non-operating expense	1,351,196	(28,868,935)
Provisions for uncollectible accounts	(976,395)	554,382
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	3,858,248	3,086,373
(Increase) decrease in inventory	(859,939)	(1,185,003)
(Increase) decrease in prepaids	(194,194)	(112,434)
(Increase) decrease in net OPEB asset	(2,748,264)	(13,194,523)
Increase (decrease) in accounts payable and accrued liabilities	(6,682,583)	(182,900)
Increase (decrease) in unearned revenues	2,918,802	1,250,247
Increase (decrease) in accrued vacation and sick leave	91,454	121,325
Increase (decrease) in fuel cost recovery	36,280,639	(6,757,732)
Increase (decrease) in customer deposits liability	118,873	388,209
Increase (decrease) in total OPEB liability - healthcare	1,644,214	(2,223,614)
Increase (decrease) in OPEB liability - supplemental	156,107	(684,394)
Increase (decrease) in net pension liability	(6,409,043)	30,887,505
Changes in deferred outflows of resources - OPEB	(850,567)	1,359,861
Changes in deferred outflows of resources - Pension	5,051,987	(12,605,058)
Changes in deferred outflows of resources - Derivatives	(181,968)	-
Changes in deferred inflows of resources - OPEB	(175,127)	(324,549)
Changes in deferred inflows of resources - Pension	661,611	(16,449,134)
Net cash provided by operating activities	$ 87,343,611	$ 31,949,071
Non-cash investing, capital, and financing activities:		
Contribution in aid of construction	$ 5,141,020	$ 3,312,359
Amortization	696,232	696,232
Changes in fair value	249,785	249,785
Reconciliation of cash and cash equivalents per Statements of Cash Flows to the Statements of Net Position:		
Cash and cash equivalents:		
Unrestricted	$ 36,719,462	$ 25,758,210
Restricted - Current	17,330,578	20,631,383
Restricted - Non-current	118,896,532	89,531,896
Total Cash and Cash Equivalents	$ 172,946,572	$ 135,921,489

See accompanying notes to the financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies employed in the preparation of these financial statements.

The Reporting Entity – The Public Utilities Board of the City of Brownsville, Texas (Public Utilities Board), a component unit of the City of Brownsville, Texas (City), was formed in 1960 to provide electric, water, and wastewater services to its customers in the Brownsville area. The financial statements of the Public Utilities Board have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Public Utilities Board is a component unit of the City of Brownsville, Texas, based upon the selection of the governing authority. It is a separate operating authority established by the City's charter. Its purpose is to own, operate, and maintain a combined utilities system which provides the City and certain adjacent unincorporated areas with electricity, water, and wastewater services. The specific elements of oversight responsibility of the Public Utilities Board are that the City Commission appoints six of the seven-member governing board and the Mayor of the City serves Ex-Officio as the seventh member. Each appointed board member serves a four-year term. The Public Utilities Board does not have the right to encumber, sell, or hypothecate the utilities system. The specific elements of accountability for fiscal matters are that the City Commission is vested with the right to set utility rates and approve the issuance of debt. The financial statements presented here are also included in the Annual Comprehensive Financial Report of the City of Brownsville, Texas.

<u>Southmost Regional Water Authority</u>

The reporting entity of the Public Utilities Board consists of the primary government (in this case, the Public Utilities Board) and a blended component unit, Southmost Regional Water Authority (the Authority). The Authority is a conservation and reclamation district created pursuant to Article XVI, Section 59, of the Texas Constitution and the Act of June 12, 1981, 67th Leg., Ch. 511, 1981 Tex. Gen. Laws 2196. The Authority is reported as a blended component unit because the Public Utilities Board manages the day-to-day operations and owns 92.91% of the Authority entitling it to 92.91% of the total water allocation.

The Authority provides treated water to various areas of Cameron County. The structure of the Authority includes five territories located in Brownsville and surrounding cities. Each participating entity is accorded a percentage of interest.

The members and their allocated portion are as follows:

Brownsville Public Utilities Board	92.91 %
Valley Municipal Utility District #2	2.51 %
City of Los Fresnos	2.28 %
Brownsville Navigation District	2.10 %
Town of Indian Lake	.20 %
	100.00%

Member contracts are from March 3, 2003 for a term of thirty years and thereafter until payment in full of the principal, premium, if any, and interest on all bonds issued during the initial term and all related fees to be paid pursuant to any bond resolution or indenture securing such bonds.

Essential disclosures related to the Authority are included in its complete financial statements. These statements may be obtained at P.O. Box 3270, Brownsville, Texas 78523-3270.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The financial statements are presented in accordance with accounting standards generally accepted in the United States of America for proprietary funds of governmental entities. The Public Utilities Board complies with all applicable pronouncements of the GASB. The Public Utilities Board is accounted for as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is to recover the cost of operations through user charges. A proprietary fund is accounted for on the "economic resources" measurement focus using the accrual basis of accounting, under which revenues are recognized in the accounting period in which they are earned and the related expenses are recorded in the accounting period incurred, if measurable. All assets and deferred outflows of resources and liabilities and deferred inflows of resources are included on the statement of net position.

GASB Statement Implementations – In fiscal year 2023, the Public Utilities Board implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for governments, similar to standards established for leases. The Public Utilities Board identified two contracts for right-to-use assets and these assets were recorded as such. No liability was recorded as contracts were paid in full upon initiation. Amortization of the right-to-use assets will be recognized over the subscription term.

Budgets and Budgetary Accounting – The Public Utilities Board is not legally required to adopt a budget; therefore, comparative statements of actual expenses to budget expenses are not included within the financial statements.

Cash and Cash Equivalents – The Public Utilities Board's cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts, and investments with original maturities of three months or less from the date of acquisition.

Investments – The Public Utilities Board invests funds in accordance with its policy, bond indentures, and the Texas Public Funds Investment Act. Investments consist primarily of United States Treasury obligations and government-backed securities. Statutes authorize the Public Utilities Board to invest in obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies; obligations of states, agencies, counties, cities and other political subdivisions of any state rated not less than A or its equivalent; certificates of deposit; certain commercial paper; certain mutual funds; and fully collateralized repurchase agreements.

The Public Utilities Board follows the provisions of GASB Cod. Sec. I50, Investments. In accordance with GASB Cod. Sec. I50, the Public Utilities Board's general policy is to report short-term investments at amortized cost. All other investments are reported at fair value. The term "short-term" refers to investments that have a remaining term to maturity of one year or less at time of purchase. Fair value determinations of all securities are made on a quarterly basis.

Accounts Receivable – Accounts receivable balances are subject to risk of non-payment. The Allowance for Doubtful Accounts is calculated as a percentage of net receivable balance. The percentage is calculated by dividing the total of the previous twelve month's net adjusted write-offs and the previous twelve month's net receivable balance. The percentage is updated at the beginning of each new year and remains in place throughout the year. The allowance for doubtful accounts balance on customer receivables for fees and services was $0.9 million and $1.9 million at September 30, 2024 and 2023, respectively.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Also included in accounts receivable balances are the unbilled revenues. These are revenues earned but not yet billed as of September 30th each year. The amounts of unbilled revenues recorded at September 30, 2024 and 2023, were $12.9 million and $15.4 million, respectively.

Inventories – Materials and supplies inventories are stated at cost.

Prepaids – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

For fiscal years 2024 and 2023, current prepaid amounts relate primarily to insurance and other miscellaneous expenses.

Restricted Assets – Mandatory segregation of assets are presented as restricted assets. Such segregations are required by bond ordinance and other external parties. Current liabilities payable from these restricted assets are so classified.

Capital Assets – Utility plant-in-service is stated at cost which generally includes the cost of contracted services and certain materials and labor. Maintenance and repairs of property and items determined to be less than units of property are charged to operating and maintenance expenses; major plant replacements are capitalized.

Assets acquired through contributions, such as those from land developers, are capitalized at estimated fair value at the date contributed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value.

Capital assets are defined by the Public Utilities Board as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of eighteen months. Meter and line transformer inventory have been included in utility plant to conform to Federal Energy Regulatory Commission guidelines. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The following estimated useful lives are used for depreciation purposes in 2024 and 2023:

Classification:	Range of Lives:
Electric, water & wastewater plant-in-service	30 to 60 years
Buildings	30 to 50 years
Improvements other than buildings	25 to 60 years
Equipment	10 to 40 years
Vehicles	3 to 8 years

Regulatory Assets – The Public Utilities Board defers and amortizes debt issuance costs related to revenue bonds as a regulatory asset in accordance with GASB Cod. Sec. Re10, Regulated Operations. These costs are recoverable through regulated rates and are amortized over the life of the related debt using the straight-line method. As of September 30, 2024, and 2023, the unamortized balance of debt issuance costs recorded as a regulatory asset were $2.2 million and $2.4 million, respectively.

Recoverable Fuel Costs – Recoverable fuel costs represent fuel costs incurred by the Public Utilities Board which have not yet been billed to customers or which have been billed to customers based on estimated fuel costs and has not been incurred. The Public Utilities Board recovers these costs via the fuel adjustment

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

charge assessed with the monthly utility bills. At September 30, 2024 and 2023, the Public Utilities Board had over-collected $16.8 million and under-collected $19.5 million, respectively, in current recoverable fuel costs. These monies are considered either a deferred inflow of resources or a receivable as the amounts deferred are expected to be offset by future months fuel charges.

	Balance at 1-Oct	Recoverable Fuel Costs	Applied Fuel Adjustment	Balance at 30-Sep
2024	$ 19,498,661	$ (26,788,175)	$ (9,492,464)	$ (16,781,978)
2023	$ 12,740,929	$ 8,257,732	$ (1,500,000)	$ 19,498,661

Accounts Payable – Accounts payable at September 30, 2024, was $22.1 million. Balances that consist primarily of standard operating vendor accounts payable, including fuel and retainages payable total $15.2 million. Other amounts that comprise the remaining balance include $2.3 million for the City garbage contract; $1.2 million for employee-related accounts payable; $0.2 million for related parties; and $3.2 million of miscellaneous accounts payable and accrued liabilities.

At September 30, 2023, was $26.0 million. Balances that consist primarily of standard operating vendor accounts payable, including fuel and retainages payable total $19.4 million. Other amounts that comprise the remaining balance include $2.1 million for the City garbage contract; $2.6 million for employee-related accounts payable; $0.2 million for related parties; and $1.7 million of miscellaneous accounts payable and accrued liabilities.

Accrued Vacation and Sick Leave – The Public Utilities Board's annual vacation and sick leave policies allow employees to accumulate and vest in annual vacation and sick leave benefits up to specified limits. Upon termination, employees are paid for any unused vacation and sick leave with certain options available. The Public Utilities Board records its obligations for these unused benefits as they are earned by the employees.

Due to Primary Government – Bond Ordinance requires the Public Utilities Board to make payments to the City of Brownsville (the "City") City Transfer Fund each month after making other obligatory payments required by the Bond Ordinance. The amount of the payment is equal to ten percent (10%) of the Gross Revenue. See also Note 13 – Transfers to the City.

Customer Deposits – The Public Utilities Board collects an advance deposit from new customers to secure payment of the customer's final bill. The deposit is refundable once the customer has demonstrated an acceptable payment history of no more than two late payments within the first twelve-month period. The Public Utilities Board may collect an additional deposit for customers whose service has been turned off for non-payment and need to restore service.

Long-Term Debt – To support its long-term capital financing needs, the Public Utilities Board uses several types of debt instruments. As of September 30, 2024, and 2023, these included fixed-rate bonds as well as commercial paper. Amortization of debt discount and premium is computed using the effective yield method over the life of the related bond issues and is recorded as interest expense. Relative to the bond instruments, provisions may be included that allow for refunding after specified time periods during the bond term. See also Note 7 – Long-term Debt.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Refundings and Defeasance of Debt – Subject to applicable timing restrictions that may prevent early payoff, the Public Utilities Board also has the option to defease or extinguish debt. A defeasance occurs when funds are placed in an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, which fully discharges the bond issuer's obligation. At the time of an extinguishment, since the issuer no longer has the legal obligation, the defeased debt is removed from the Statements of Net Position and the gain or loss is immediately recognized.

Current refundings involve issuing new debt (refunding bonds) to redeem existing debt (refunded bonds) that can be called within 90 days of the call date of the refunded bonds. In these circumstances, the refunding bond proceeds are irrevocably escrowed with a third party. These proceeds, and income thereon, are used to pay the debt service on the refunded bonds until the refunded bonds can be called. Refunding bonds are generally issued to achieve debt service savings.

Other Post-employment Benefits (OPEB) – For purposes of measuring the net OPEB liability/(asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plans and additions to/from the OPEB fiduciary net position have been determined using the same basis as they are reported in the Public Utilities Board's OPEB plans. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. See also Note 10 – Other Post-Employment Benefits.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See also Note 9 – Texas Municipal Retirement System.

Deferred Outflows and Deferred Inflows of Resources – Certain items that are applicable to future reporting periods as deferred outflows of resources (a consumption of net assets) and deferred inflows of resources (an acquisition of net assets).

Pension – The Public Utilities Board reports as deferred inflows or deferred outflows of resources changes in assumptions, differences between expected and actual experience, projected and actual investment earnings on pension plan assets and contributions made subsequent to the measurement date. Recognition of deferred outflows of resources related to pension amounted to $16.3 million as of September 30, 2024, and $21.4 million as of September 30, 2023. Recognition of deferred inflows of resources related to pension amounted to $1.4 million as of September 30, 2024, and $0.7 million as of September 30, 2023.

OPEB – Changes to the net OPEB liability and asset that have not been included in OPEB expenses are recorded as deferred inflows or deferred outflows of resources. Amounts included would result from changes of assumptions, the net difference between projected and actual earnings on the Public Agencies Post-Retirement Health Care Plan Trust, and investment (gains) and losses. Recognition of deferred outflows of resources related to OPEB amounted to $3.5 million as of September 30, 2024, and $2.7 million as of September 30, 2023. Recognition of deferred inflows of resources related to OPEB amounted to $12.1 million as of September 30, 2024, and $12.2 million as of September 30, 2023.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Charge on Refunding – For refunding of debt, the difference between the reacquisition price and the net carrying amount of the old debt is recorded as unamortized reacquisition costs and reported as deferred outflows of resources. These amounts are amortized as components of interest expense over the shorter of the remaining life of the refunding or the refunded debt. At September 30, 2024 and 2023, reacquisition costs totaled $14.5 million and $16.9 million, respectively.

Power and Fuel Hedging – Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred outflows or deferred inflows of resources on the Statements of Net Position until the contract settlement period that occurs in parallel with the consumption and expense of the underlying physical energy commodity being hedged. When hedging contracts settle, during the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel and purchased energy expense. Recognition of deferred outflows of resources related to derivates was $0.2 million as of September 30, 2024. An ineffective hedge is recognized in the Statements of Revenues, Expenses and Changes in Net Position. At September 2024, power and fuel hedging contracts are considered effective.

Hedging Derivative Instruments – The Public Utilities Board accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* Currently, the Public Utilities Board's only derivative instruments are fuel hedges, which are used to reduce price risk for natural gas purchases. In accordance with GASB Statement No. 53, hedging derivative instruments are reported at fair value on the Statements of Net Position.

Restricted Net Position – Restricted Net Position is all subject to restrictions externally imposed by creditors through bond covenants. In accordance with bond covenants related to the funds and accounts and flow of funds, the Public Utilities Board is required to retain in the Plant Fund a reserve amount to pay operating and maintenance expenses of not less than two months of budgeted operating and maintenance expenses for the current fiscal year. When both restricted and unrestricted resources are available for use, it is the policy of the Public Utilities Board to use restricted resources first, then unrestricted resources as they are needed.

	As of September 30,	
	2024	**2023**
Debt service	$ 18,235,004	$ 17,494,283
Repair and replacement	144,901,250	109,459,415
Operating reserve	17,142,958	17,019,319
Fuel adjustment subaccount	-	2,492,464
Capital projects	2,613,191	2,572,599
Meter deposits	1,251,413	938,366
OPEB benefits	1,707,000	602,950
Total restricted net position	$ 185,850,816	$ 150,579,396

Operating Revenues and Expenses – Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Public Utilities Board's principal ongoing operations. The principal operating revenues of the Public Utilities Board are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Operating revenue consists of cash receipts from quasi-external transactions with the City and other governments, and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing, or investment activities.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Public Utilities Board did not use any revenue received from fees collected from a water supply or sewer service constructed in whole or in part from funds from the economically distressed areas program account for purposes other than utility purposes.

Utility Service Revenue and Electric Purchased Power Expense – Electric, water, and wastewater revenues are recognized as billed on a cycle basis with recognition of unbilled revenues at September 30, 2024 and 2023 based upon the meter reading dates for the unbilled portion of each cycle. Unbilled revenue amounts at September 30, 2024 and 2023, were $12.9 million and $15.4 million, respectively. Electric rate schedules include power cost adjustment clauses that permit recovery of purchased power costs, not included in base rates, and in the month after such costs are incurred. The Public Utilities Board charges to expense the cost of purchased power in the period of purchase.

Other Accounts – Accounts not classified as operating revenues or expenses or relating to other non-operating categories presented on the Statement of Revenues, Expenses, and Changes in Net Position are presented as Other. Income accounts may include insurance proceeds, pole rental, billing and sales tax discounts, monies received from damaged property, and energy credits. Expenses may include investor service charges, amortization of regulatory asset, loss on refunding, premium and discounts, and other miscellaneous expenses.

Grant Revenue – Revenue from state and federal grants is recognized as earned to the extent of incurred program expenses. Grant funds are considered to be earned when all eligibility requirements have been met. Accordingly, when such funds are received in advance, they are recorded as unearned revenue. At September 30, 2024 and 2023, unearned grant revenues received in advance are $3.85 million and $1.25 million, respectively.

Capital Contributions – Cash and capital assets are contributed to the utility from customers, the municipality, or external parties. The value of property contributed to the utility is reported as revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

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

Comparative Data/Reclassifications – Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Public Utilities Board's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Deferred Compensation Plan – The Public Utilities Board offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Public Utilities Board employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Amendments to the laws governing Section 457 deferred compensation plans substantially became effective January 1, 1997. The Public Utilities Board approved plan amendments such that plan assets are held in trust, with AXA Advisors as trustee, for the exclusive benefit of the plan participants and their beneficiaries. The assets cannot be diverted to any other purpose. The Public Utilities Board does not have legal access to the resources of the deferred compensation plan; as such the plan is not reported in the Public Utilities Board's financial statements.

(2) DEPOSITS AND INVESTMENTS

Basis of Investments – On September 11, 2023, the Public Utilities Board approved a revised Investment Policy which included an "Investment Strategy Statement" that addressed the understanding of investment suitability, the preservation and safety of principal, liquidity, marketability of the investment prior to maturity, diversification, and yield of the investment portfolio. In regards to the safety and risk of investments, the Public Utilities Board abided by the Investment Policy that requires all available funds to be invested in conformance with state and federal regulations, and applicable bond ordinance requirements. Each investment transaction shall seek to first and foremost ensure that capital losses are avoided, whether they are from securities' defaults or erosion of fair value.

The Public Utilities Board's investments are also subject to the rules and regulations of the Public Funds Investment Act (PFIA). The PFIA regulates what types of investments can be made, requires written investment policies, mandates training requirements of investment officers, requires internal management reports produced at least quarterly, and provides for the selection of authorized broker-dealers and investment managers. The Public Utilities Board's bank deposits and Certificates of Deposit investments were entirely covered by the Federal Deposit Insurance Corporation or by collateral held by a third-party safekeeping bank in the Public Utilities Board's name.

The following is a reconciliation of cash and cash equivalents and investments reported in the Statements of Net Position, the Statements of Cash Flows and the Deposits and Investments note disclosure:

	As of September 30,	
	2024	**2023**
Cash and Cash Equivalent (CCE)	$ 172,946,572	$ 135,921,489
Investments	60,486,207	52,927,542
Total CCE and Investments	$ 233,432,779	$ 188,849,031
Statements of Net Position		
Unrestricted		
Cash and Cash Equivalent	$ 36,719,462	$ 25,758,210
Investments	3,328,000	3,835,000
Total Unrestricted	40,047,462	29,593,210
Restricted - Current		
Cash and Cash Equivalent	17,330,578	20,631,383
Investments	11,824,422	10,695,585
Total Restricted - Current	29,155,000	31,326,968
Restricted - Non-current		
Cash and Cash Equivalent	118,896,532	89,531,896
Investments	45,333,785	38,396,957
Total Restricted - Non-current	164,230,317	127,928,853
Total CCE and Investments	$ 233,432,779	$ 188,849,031
Statements of Cash Flows - CCE Disclosure		
Cash and Cash Equivalent		
Unrestricted	$ 36,719,462	$ 25,758,210
Restricted - Current	17,330,578	20,631,383
Restricted - Non-current	118,896,532	89,531,896
Total Cash and Cash Equivalents	$ 172,946,572	$ 135,921,489
Deposits and Investments - Note Disclosure		
Cash and cash on hand	$ 3,298,167	$ 4,561,418
Certificates of Deposits (Non-negotiable)	13,202,000	6,699,000
Investments	216,932,612	177,588,613
Total Deposits and Investments	$ 233,432,779	$ 188,849,031

(2) DEPOSITS AND INVESTMENTS – Continued

As of September 30, 2024, and 2023, the Public Utilities Board had the following investments:

	September 30, 2024			
Investment Type	Amount	Weighted Avg Maturity (Days)	Allocation	Rating
U.S Treasury Note	$ 47,284,207	201	21.8%	AA+
Money Market Mutual Funds	1,031,676	42	0.5%	AAAm
Institutional Insured Liquid Deposits	4,419,526		2.0%	
Local Govt Investment Pools:				
TexasTERM 2024	15,500,000	43	7.1%	AAAf
TexasTERM 2025	23,800,000	146	11.0%	AAAf
TexasDAILY	53,954,919	37	24.9%	AAAmmf
TexPool	16,400,656	26	7.6%	AAAm
Texas CLASS	7,865,067	36	3.6%	AAAm
TexSTAR	46,676,561	26	21.5%	AAAm
Total	$ 216,932,612		100.0%	

	September 30, 2023			
Investment Type	Amount	Weighted Avg Maturity (Days)	Allocation	Rating
U.S Treasury Note	$ 46,228,542	59	26.0%	AA+
Money Market Mutual Funds	305,951	35	0.2%	AAAm
Institutional Insured Liquid Deposits	2,098,026		1.2%	
Local Govt Investment Pools:				
TexasTERM 2023	15,250,000	40	8.6%	AAAf
TexasTERM 2024	23,500,000	177	13.2%	AAAf
TexasDAILY	31,607,197	30	17.8%	AAAmmf
TexPool	22,012,686	28	12.4%	AAAm
Texas CLASS	31,156,618	49	17.5%	AAAm
TexSTAR	5,429,593	30	3.1%	AAAm
Total	$ 177,588,613		100.0%	

TexasTERM CD Purchase Program – The TexasTERM CD Purchase Program offers investments in FDIC-insured CDs from banks throughout the Unites States. Investments are for a minimum of ninety days and a maximum of one year, with a minimum balance required. Each CD investment is held in the name of the participant. The CD's held by the Public Utilities Board at fiscal year-end are not rated because they were within the FDIC insurance coverage limits.

TexasTERM – The TexasTERM Program offers fixed-rate, fixed-term investment options. Investment maturities are for a minimum of sixty days and a maximum of one year. At year end, TexasTERM was rated AAAf by Fitch.

TexasDAILY – TexasDAILY is a local government investment pool. Administrative and investment services to the pool are provided by PFM Asset Management LLC, under an agreement with the TexasTERM Advisory Board and act on behalf of the pool participants. At year end, TexasDAILY was rated AAAmmf by Fitch. The Public Utilities Board reports its investment in TexasDAILY at the fair value amount provided by TexasDAILY, which is the same as the value of the pool share.

(2) DEPOSITS AND INVESTMENTS – Continued

TexPool – The State of Texas Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool, along with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and approves any fee increases. TexPool is rated AAAm by Standard & Poor's.

As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poor's as well as the office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

Texas CLASS – Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) is a local government investment pool through which entities may pool any of their funds or funds under their control. The Texas CLASS is supervised by a Board of Trustees (the Board) who are elected by the participants. The Board supervises the Trust and its affairs and acts as the liaison between the participants, the custodian, and the program administrator. Public Trust Advisors, LLC Trust provides program administration services and UMB Bank, N.A. provides custodial services. At year end, Texas CLASS was rated AAAm by Standard & Poor's.

TexSTAR – Texas Short Term Asset Reserve Program (TexSTAR) is a local government investment pool providing short-term liquidity requirements. JPMorgan Fleming Asset Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators under an agreement with the TexSTAR Board of Directors to provide investment and participant services for this pool. JPMorgan Chase Bank or its subsidiary J.P. Morgan Investor Services Company provides the custodial, transfer agency, fund accounting, and depository services for this pool. At year end, TexSTAR was rated AAAm by Standard & Poor's. The Public Utilities Board reports its investment in TexSTAR at the fair value amount provided by TexSTAR, which is the same as the value of the pool share.

<u>Interest rate risk</u> – In accordance with the Public Utilities Board's Investment Policy the weighted average to maturity for the Public Utilities Board's portfolio limits the maximum allowable maturity to two years by not exceeding the anticipated cash flow requirements. As of September 30, 2024, and 2023, the investment portfolio had maturities that met anticipated cash flow requirements.

The Public Utilities Board's invests in TexPool, TexasDAILY, Texas CLASS, and TexSTAR to provide its liquidity needs. These pools are structured somewhat like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. Texpool, TexSTAR, and Texas CLASS are rated AAAm by Standard and Poor's and TexasDAILY is rated AAAmmf by Fitch and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2024, TexPool, TexasDAILY, Texas CLASS, and TexSTAR had a weighted average maturity of 26 days, 37 days, 36 days, and 26 days, respectively. The Public Utilities Board invests in government investment pools with 100% overnight liquidity. The Public Utilities Board's external investment pools meet the criteria described in GASB Cod. Sec. In5, *Investment Pools (External)*, and measure all of their investments at amortized cost; therefore, in accordance with GASB Cod. Sec. I50, *Investments,* the Public Utilities Board has also measured their investments in these external investment pools at amortized cost for financial reporting purposes. In addition, the pools do not have any limitations or restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity or redemption gates.

(2) DEPOSITS AND INVESTMENTS – Continued

Credit risk – The Public Utilities Board identifies and manages credit risks by following the Investment Policy. The Public Utilities Board implements its investment strategy, establishes and monitors compliance with investment policies and procedures, and consistently monitors prudent risk controls. The Public Utilities Board will seek to control the risk of loss by monitoring the ratings of portfolio positions to assure compliance with the rating requirements imposed by the Public Funds Investment Act. The Public Utilities Board also manages exposure to credit risk by limiting its investments to a rating of "A" or better. As of September 30, 2024, and 2023, the Public Utilities Board had no security agencies investments.

Custodial credit risk – In accordance with the Public Utilities Board's Investment Policy, the financial institution must collateralize all funds with a minimum of 102% of the fair value of the principal portion. The Public Utilities Board seeks to control the risk of loss due to the failure of a security issuer or grantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Investment Policy.

The Public Utilities Board signed an agreement with its financial institution pledging funds to 102% minimum of the fair value of the principal position Security transactions are executed on a delivery versus payment basis through safekeeping agent. Funds are not released until the Public Utilities Board receives, through the safekeeping agent, the securities purchased.

Concentration of credit risk – In accordance with the Investment Policy, the Public Utilities Board manages its credit risk exposure through diversification, and limiting its investments in each government-sponsored security to 75%. At September 30, 2024 the Public Utilities Board had security investments of 21.8% in U.S. Treasury/Notes and had no investments in U.S. Agencies. At September 30, 2023, the Public Utilities Board had security investments of 26.0% in U.S. Treasury/Notes and had no investments in U.S. Agencies. As of September 30, 2024, and 2023, the portfolio complied as noted above.

(3) FAIR VALUE MEASUREMENT

The Public Utilities Board records assets and liabilities in accordance with GASB Cod. Sec. 3100, *Fair Value Measurement*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. The Public Utilities Board's fair value measurements are performed on a recurring basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, GASB Cod. Sec. 3100 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as described below:

(3) FAIR VALUE MEASUREMENT - Continued

- Level 1 – inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities and U.S. Government Treasury securities are examples of Level 1 inputs.
- Level 2 – inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Government agency and mortgage-backed securities and certificates of deposit are examples of Level 2 inputs.
- Level 3 – inputs are unobservable inputs that reflect the Public Utilities Board's own assumptions about factors that market participants would use in pricing the asset or liability (including risk assumptions).

Valuation methods of the primary fair value measurements disclosed below are as follows:

- The majority of investments in equity securities are valued using Level 1 measurements. Investments in equity securities are typically valued at the closing price in the principal active market. For equity securities, these markets include published exchanges such as the National Association of Securities Dealers Automated Quotations and the New York Stock Exchange.
- Most investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.
- Commodity derivative instruments, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using Level 1 inputs. Options included in this category are those with an identical strike price quoted through a clearinghouse.
- Other commodity derivative instruments, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on internally developed pricing algorithms using observable market quotes for similar derivative instruments. Pricing inputs are derived from published exchange transactions and other observable data sources

The following table presents fair value balances and their levels within the fair value hierarchy as of September 30, 2024 and 2023. Investment balances presented exclude amounts related to money market mutual fund investments and external investment pools accounted for using amortized cost.

	September 30, 2024			
Fair Value - Investments:	Level 1	Level 2	Level 3	Total
U.S. Treasury Note	$ 47,284,207	$ -	$ -	$ 47,284,207
Total fair value investments	$ 47,284,207	$ -	$ -	$ 47,284,207
Fair Value - Financial Instruments:				
Liabilities				
Current fuel hedges	$ -	$ 181,968	$ -	$ 181,968
Total financial instruments	$ -	$ 181,968	$ -	$ 181,968

	September 30, 2023			
Fair Value - Investments:	Level 1	Level 2	Level 3	Total
U.S. Treasury Note	$ 46,228,542	$ -	$ -	$ 46,228,542
Total fair value investments	$ 46,228,542	$ -	$ -	$ 46,228,542

For more information on the fuel hedges, see Note 11 – Derivative Instruments.

(4) CAPITAL ASSETS

Changes in the Public Utilities Board's capital assets for the year ended September 30, 2024, were as follows:

	Beg. Balance 10/1/2023	Additions	Deletions	Reclassifications	End Balance 9/30/2024
Capital assets, non-depreciable:					
Land	$ 34,813,449	$ 1,789,358	$ -	$ 16,361,861	$ 52,964,668
Construction in progress	76,755,123	32,793,275	-	(35,475,208)	74,073,190
Total capital assets, non-depreciable	111,568,572	34,582,633	-	(19,113,347)	127,037,858
Capital assets, depreciable:					
Plant	756,685,408	14,474,378	(12,269,985)	17,079,887	775,969,688
Buildings and structures	138,821,721	29,880	(255,043)	509,710	139,106,268
Improvements other than buildings	47,880,155	-	(69,050)	10,240	47,821,345
Equipment	152,107,058	3,157,706	(1,374,462)	1,513,510	155,403,812
Right-to-use leased equipment	138,667	-	(33,250)	-	105,417
Total capital assets, depreciable	1,095,633,009	17,661,964	(14,001,790)	19,113,347	1,118,406,530
Less accumulated depreciation for:					
Plant	(432,687,906)	(19,242,854)	714,844	-	(451,215,916)
Buildings and structures	(45,679,244)	(3,830,932)	88,485	-	(49,421,691)
Improvements other than buildings	(31,426,956)	(630,325)	40,768	-	(32,016,513)
Equipment	(86,256,637)	(6,324,511)	990,286	-	(91,590,862)
Right-to-use leased equipment	(18,719)	(80,417)	33,250	-	(65,886)
Total accumulated depreciation	(596,069,462)	(30,109,039)	1,867,633	-	(624,310,868)
Capital assets, net	$ 611,132,119	$ 22,135,558	$ (12,134,157)	$ -	$ 621,133,520

Changes in the Public Utilities Board's capital assets for the year ended September 30, 2023, were as follows:

	Beg. Balance 10/1/2022	Additions	Deletions	Reclassifications	End Balance 9/30/2023
Capital assets, non-depreciable:					
Land	$ 34,309,175	$ 490,784	$ -	$ 13,490	$ 34,813,449
Construction in progress	71,488,391	25,258,719	-	(19,991,987)	76,755,123
Total capital assets, non-depreciable	105,797,566	25,749,503	-	(19,978,497)	111,568,572
Capital assets, depreciable:					
Plant	741,371,639	13,237,243	(11,326,753)	13,403,279	756,685,408
Buildings and structures	136,984,466	66,336	(49,346)	1,820,265	138,821,721
Improvements other than buildings	47,923,181	-	(50,548)	7,522	47,880,155
Equipment	147,065,283	3,554,708	(3,260,364)	4,747,431	152,107,058
Right-to-use leased equipment	-	138,667	-	-	138,667
Total capital assets, depreciable	1,073,344,569	16,996,954	(14,687,011)	19,978,497	1,095,633,009
Less accumulated depreciation for:					
Plant	(414,585,671)	(18,860,243)	758,008	-	(432,687,906)
Buildings and structures	(42,799,547)	(3,808,239)	928,542	-	(45,679,244)
Improvements other than buildings	(30,800,705)	(655,779)	29,528	-	(31,426,956)
Equipment	(83,451,028)	(5,823,113)	3,017,504	-	(86,256,637)
Right-to-use leased equipment	-	(18,719)	-	-	(18,719)
Total accumulated depreciation	(571,636,951)	(29,166,093)	4,733,582	-	(596,069,462)
Capital assets, net	$ 607,505,184	$ 13,580,364	$ (9,953,429)	$ -	$ 611,132,119

(5) JOINT OPERATIONS

Calpine/Hidalgo Project – On December 15, 1999, the Public Utilities Board purchased an undivided interest from Calpine Energy which entitles the Public Utilities Board to 105 MW of the 500 MW combined cycle plant located in Edinburg, Texas, approximately 56 miles from Brownsville, Texas. The unit consists of two gas turbines, a heat recovery steam generator and steam turbine.

(6) SHORT-TERM DEBT

Commercial paper balances and activity as of and for the year ended September 30, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
2024	$ 12,000,000	$ 18,000,000	$ -	$ 30,000,000
2023	$ -	$ 12,000,000	$ -	$ 12,000,000

The Public Utilities Board issued $18,000,000 of commercial paper during fiscal year 2024 and $12,000,000 of Commercial Paper during fiscal year 2023. The commercial paper that was issued in fiscal year 2024 was used to fund approximately $8.2 million in Electric utility capital projects, $4.4 million in Water utility capital projects, $5.1 in Wastewater utility capital projects, and $0.3 million for the construction and equipping of facilities. The commercial paper that was issued in fiscal year 2023 was used to fund approximately $4.5 million in Electric utility capital projects, $2.3 million in Water utility capital projects, $3.0 in Wastewater utility capital projects, and $2.2 million for the construction and equipping of facilities.

On April 20, 2004, the City Commission of the City of Brownsville, Texas, approved and authorized the issuance of short-term obligations in an aggregate principal amount not to exceed $50,000,000. The purpose of the Commercial Paper Program is to pay for additions, improvements, and extensions to the City's combined electric system, waterworks system and sewer system. A Reimbursement and Credit Agreement was executed between the City, acting through the Public Utilities Board, and State Street Bank and Trust Company, Credit and Liquidity Provider, for the Commercial Paper program. In order to assure timely payment of the principal of and interest on the Commercial Paper Notes, a Letter of Credit was executed by the City and Deutsche Bank Trust, as beneficiary Issuing and Paying Agency. The stated amount of the Letter of Credit was $50,000,000 (principal plus accrued interest no to exceed $50,000,000). On September 17, 2013, the City Commission of the City of Brownsville adopted Ordinance No. 2013-1582 authorizing the issuance of the City of Brownsville, Texas Utilities System Commercial Paper Notes, Series A in a maximum aggregate principal amount of $100,000,000 outstanding at any time.

On September 20, 2016, the City Commission of the City of Brownsville adopted Ordinance No. 2016-1619 supplementing the Original Ordinance and authorizing the substitution of the Credit Facility. On November 1, 2016, the City of Brownsville and the Mitsubishi UFJ Financial Group (MUFG) entered into a Reimbursement Agreement related to the Commercial Paper Notes, Series A. The City of Brownsville requested that the Bank issue its Letter of Credit to secure certain payments to be made with respect to the Commercial Paper Notes in the amount of $111,095,891, of which $100,000,000 will be was available to pay principal of the Commercial Paper Notes upon maturity thereof, and of which $11,095,891 will be available to pay accrued interest on the Commercial Paper Notes at maturity. principal of the Commercial Paper Notes upon maturity thereof, and of which $11,095,891 will be available to pay accrued interest on the Commercial Paper Notes at maturity.

On September 17, 2019, the City Commission of the City of Brownsville adopted Ordinance No. 2019-1662 supplementing the Original Ordinance and authorizing the substitution of the Credit Facility. On November 1, 2019, the City of Brownsville and Bank of America, N.A. entered into a Reimbursement Agreement related to the Commercial Paper Notes, Series A.

(6) SHORT-TERM DEBT – Continued

On March 18, 2021, the City Commission of the City of Brownsville adopted Ordinance 2021-1582 amending the Commercial Paper program to permit issuance on a taxable and tax-exempt basis. This amendment allows for the issuance, sale, terms and forms of commercial paper notes as Subordinate Lien Obligations in an aggregate principal amount not to exceed $100,000,000 at any one time outstanding.

On September 20, 2022, the City Commission of the City of Brownsville adopted Ordinance No. 2022-1711 supplementing the Original Ordinance and authorizing the substitution of the Credit Facility. On November 1, 2022, the City of Brownsville and PNC Bank, N.A. entered into a Reimbursement Agreement related to the Commercial Paper Notes, Series A.

(7) LONG-TERM DEBT

Revenue Bonds – Revenue bond information and balances for the years ended September 30, 2024 and 2023, are as follows:

		Original	Installment Amounts			Interest Rates	Final	Outstanding	Outstanding
Brownsville Public Utilities Board:		Borrowing	From		To	to Maturity	Maturity	at 9/30/24	at 9/30/23
2005	Utilities System Revenue Improvement and Refunding Bonds (Series A)	$ 163,725,000	$ 100,000	-	$ 100,000	3.5% - 5.0%	2031	$ 100,000	$ 100,000
2008	Utilities System Revenue Refunding Bonds	77,805,000	100,000	-	100,000	4.0% - 5.0%	2033	100,000	100,000
2012	Utilities System Junior Lien Revenue Bonds*	840,000	40,000	-	60,000	0.27% - 3.49%	2032	410,000	455,000
2013	Utilities System Revenue Refunding Bonds (Series A)	118,185,000	8,380,000	-	9,565,000	2.0% - 4.0%	2026	18,715,000	27,470,000
2015	Utilities System Revenue Refunding Bonds	94,770,000	675,000	-	5,675,000	4.0% - 5.0%	2045	45,335,000	48,835,000
2016	Utilities System Revenue Refunding Bonds	39,410,000	1,515,000	-	3,930,000	5.0%	2033	21,310,000	24,705,000
2018	Utilities System Revenue Refunding Bonds	14,000,000	310,000	-	1,650,000	4.0% - 5.0%	2033	5,555,000	7,125,000
2020	Utilities System Revenue Refunding Bonds	53,590,000	320,000	-	2,880,000	2.0% - 5.0%	2050	52,175,000	52,495,000
2020A	Utilities System Revenue Refunding Bonds	62,320,000	1,460,000	-	12,105,000	2.0% - 5.0%	2031	57,980,000	57,980,000
2022	Utilities System Revenue Refunding Bonds	17,165,000	535,000	-	1,305,000	4.0% - 5.0%	2051	17,165,000	17,165,000
2022A	Utilities System Revenue Refunding Bonds	35,605,000	5,285,000	-	6,660,000	4.406%-5.006%	2037	35,605,000	35,605,000
								254,450,000	272,035,000
Southmost Regional Water Authority:									
2009	Water Supply Contract Revenue Bonds (Series A)*	9,295,000	305,000	-	310,000	0.0%	2039	4,645,000	4,955,000
2009	Water Supply Contract Revenue Bonds (Series B)*	3,795,000	210,000	-	270,000	0.1% - 4.25%	2029	1,250,000	1,470,000
2012	Water Supply Contract Revenue Refunding Bonds	13,530,000	1,085,000	-	1,285,000	3.0% - 5.0%	2027	3,730,000	4,865,000
2017	Water Supply Contract Revenue Refunding Bonds	9,255,000	1,540,000	-	1,795,000	4.125% - 5.5%	2032	8,320,000	8,320,000
								17,945,000	19,610,000
								$ 272,395,000	$ 291,645,000
*	Direct Placement Bonds								

(7) LONG-TERM DEBT – Continued

The following tables summarizes revenue bond transactions for the years ended September 30, 2024 and 2023:

	Beg. Balance 10/1/2023	Additions	Reductions/ Amortization	End Balance 9/30/2024	Due Within One Year
Revenue Bonds	$ 284,765,000	$ -	$ (18,675,000)	$ 266,090,000	$ 19,210,000
Direct Placement Bonds	6,880,000	-	(575,000)	6,305,000	585,000
Unamortized Premium	31,271,530	-	(3,425,654)	27,845,876	-
Unamortized Discount	(1,735,122)	-	155,194	(1,579,928)	-
Total Bonds Payable, Net	$ 321,181,408	$ -	$ (22,520,460)	$ 298,660,948	$ 19,795,000

	Beg. Balance 10/1/2022	Additions	Reductions/ Amortization	End Balance 9/30/2023	Due Within One Year
Revenue Bonds	$ 304,230,000	$ -	$ (19,465,000)	$ 284,765,000	$ 18,675,000
Direct Placement Bonds	7,440,000	-	(560,000)	6,880,000	575,000
Unamortized Premium	34,697,184	-	(3,425,654)	31,271,530	-
Unamortized Discount	(1,890,316)	-	155,194	(1,735,122)	-
Total Bonds Payable, Net	$ 344,476,868	$ -	$ (23,295,460)	$ 321,181,408	$ 19,250,000

Principal and interest amounts due for each of the next five years and thereafter to maturity are:

	Revenue Bonds			Direct Placement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
Year Ending September 30:						
2025	$ 19,210,000	$ 10,071,458	$ 29,281,458	$ 585,000	$ 65,699	$ 650,699
2026	20,185,000	9,165,783	29,350,783	595,000	55,086	650,086
2027	20,960,000	8,372,933	29,332,933	610,000	43,811	653,811
2028	21,845,000	7,680,933	29,525,933	620,000	31,691	651,691
2029	22,505,000	7,024,235	29,529,235	630,000	18,996	648,996
2030-2034	81,105,000	24,684,027	105,789,027	1,720,000	11,931	1,731,931
2035-2039	38,350,000	12,127,372	50,477,372	1,545,000	-	1,545,000
2040-2044	18,855,000	6,888,856	25,743,856	-	-	-
2045-2049	18,015,000	2,971,863	20,986,863	-	-	-
2050-2051	5,060,000	267,950	5,327,950	-	-	-
	$ 266,090,000	$ 89,255,411	$ 355,345,411	$ 6,305,000	$ 227,212	$ 6,532,212

The Public Utilities Board is required by various debt agreements to comply with various financial statements and other covenants including maintaining required debt service coverage ratios. No non-compliance with covenants was noted which constitutes an “event of default” under these agreements.

On August 24, 2005, the Public Utilities Board sold $163,725,000 in tax exempt bonds and $56,855,000 in taxable bonds as part of a major debt restructuring. The tax exempt bonds, Series 2005A, provided proceeds to refund $50,890,000 in Series 1995 outstanding obligations, $50,000,000 in Series 2001A and $50,000,000 in Series 2001B variable rate outstanding obligations, and $7,250,000 in outstanding commercial paper notes, and provided $20,000,000 in new money bonds.

(7) LONG-TERM DEBT – Continued

The Public Utilities Board issued $77,805,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2008. The refunding bonds provided proceeds to defease $40,000,000 of Commercial Paper Notes, Series 2004, $32,285,000 of the Series 2002A Utility System Subordinate Lien Revenue and Refunding Bonds, and $13,415,000 of the Series 2002B Utility System Subordinate Lien Revenue and Refunding Bonds.

On December 7, 2009, the Authority issued $9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and $3,795,000 in Water Supply Contract Revenue Bonds, Series 2009B. These bonds were issued through the Texas Water Development Board (TWDB) Drinking Water State Revolving Fund for the construction of a full-scale Micro Filtration Pretreatment System.

On September 26, 2012, the Authority issued $13,530,000 in Water Supply Contract Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus the bond premium were used to defease $14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027.

On October 1, 2012, the Public Utilities Board issued $840,000 in Utility System Junior Lien Revenue Bonds, Series 2012, through the TWDB. Proceeds from the sale of the Obligations were used for the purpose of funding construction improvements to the wastewater system on the FM 511 – 802 Colonia Project.

On May 1, 2013, the Public Utilities Board issued $118,185,000 in Utilities System Revenue Refunding Bonds, Series 2013. The refunding bond proceeds plus a bond premium of $16,723,650 were used to defease $109,985,000 of the Series 2005A Utilities System Revenue Improvement and Refunding Bonds which are callable on September 1, 2015, and funded $11,818,500 of Public Utilities Board Senior Lien Reserve Fund.

On July 15, 2015, the Public Utilities Board issued $94,770,000 in Utilities System Revenue Refunding Bonds, Series 2015. The refunding bond proceeds plus a bond premium of $8,945,752 were used to defease $49,060,000 of the Series 2005A Utility System Revenue Improvement and Refunding Bonds; $27,815,000 of the Series 2005B Utility System Revenue Refunding Bonds; $5,480,000 of the Series 2011 Utility System Revenue Refunding Bonds; and $20,000,000 of the Utilities System Commercial Paper notes.

On May 15, 2016, the Public Utilities Board issued $39,410,000 in Utilities System Revenue Refunding Bonds, Series 2016. The refunding bond proceeds plus a bond premium of $7,705,681 were used to defease $42,505,000 of the Series 2008 Utility System Revenue Refunding Bonds. As a result, the refunded debt is considered to be defeased and the liability was removed from long-term debt.

On April 18, 2017, the Authority issued $9,255,000 in Water Supply Contract Revenue Refunding Bonds, Series 2017. The refunding bond proceeds plus the bond premium of $725,245 were used to defease $9,715,000 of the Series 2006 Water Supply Contract Revenue Refunding Bonds for the years 2019 through 2032.

On July 1, 2018, the Public Utilities Board issued $14,000,000 in Utilities System Revenue Refunding Bonds, Series 2018. The bonds, plus a premium of $1,404,015, provided proceeds to refund $14,980,000 of the Series 2007 Jr. Lien Revenue Bonds, Series 2008 Revenue Refunding Bonds, and a portion of Series 2012 Sr. Lien Revenue Refunding Bonds.

On July 29, 2020, the Public Utilities Board issued $53,590,000 in Utility System Revenue Refunding Bonds, Series 2020 and $62,320,000 in Utility System Revenue Refunding Bonds, Series 2020A (Taxable). The Series

(7) LONG-TERM DEBT – Continued

2020 refunding bond proceeds plus the bond premium of $9,295,496 were used to defease future debt service payments of $12,105,000 of the Series 2012 Utilities System Senior Lien Revenue Refunding Bonds for the years 2026-2037, and $50,000,000 of Commercial Paper notes. The Series 2020 refunding bond proceeds were used to defease future debt service payments of $54,480,000 of the Series 2013A Utilities System Revenue Refunding Bonds for the years 2027- 2031. As a result, the refunded bonds are considered to be defeased and the liability has been removed from long-term debt.

On June 10, 2022, the Public Utilities Board issued $17,165,000 in Utility System Revenue Refunding Bonds, Series 2022 and $35,605,000 in Utility System Revenue Refunding Bonds, Series 2022A (Taxable). The Series 2022 refunding bond proceeds plus the bond premium of $1,187,629 were used to defease $18,000,000 of Commercial Paper notes. The Series 2022A (Taxable) refunding bond proceeds were used to defease $35,000,000 of Commercial Paper notes.

Direct Placement Bonds – As of September 30, 2024, direct placement bonds with the Texas Water Development Board (TWDB) consisted of Junior Lien Series 2012 for the Public Utilities Boards in an outstanding amount of $410,000. Direct placement debt for the Authority consisted of Series 2009 A and Series 2009 B Revenue Bonds for the Authority in an outstanding amount of $4,645,000 and $1,250,000, respectively. Interest rates on the junior lien fixed rate bonds range from 0.27% to 3.49% for the Public Utilities Board. Interest rates on the junior lien fixed rate bonds for the Authority range from 0.0% for Series 2009A and 0.1% to 4.25% for Series 2009B.

As of September 30, 2023, direct placement bonds with the Texas Water Development Board (TWDB) consisted of Junior Lien Series 2012 for the Public Utilities Boards in an outstanding amount of $455,000. Direct placement debt for the Authority consisted of Series 2009 A and Series 2009 B Revenue Bonds for the Authority in an outstanding amount of $4,955,000 and $1,470,000, respectively. Interest rates on the junior lien fixed rate bonds range from 0.27% to 3.49% for the Public Utilities Board. Interest rates on the junior lien fixed rate bonds for the Authority range from 0.0% for Series 2009A and 0.1% to 4.25% for Series 2009B.

Prior Year Defeasance of Debt – In prior years, the Public Utilities Board has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities and open market purchases that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or it matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from long-term debt. As of September 30, 2024, and 2023, the amount of defeased debt outstanding but removed from long-term debt amounted to $54,480,000.

(8) RISK MANAGEMENT

The Public Utilities Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the entity carries commercial insurance. The Public Utilities Board has established a limited risk management program for employee health and workers' compensation for which the Public Utilities Board retained risk of loss. For insured programs, there have been no significant reductions in insurance coverage. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards.

(8) RISK MANAGEMENT – Continued

Accordingly, claims are reevaluated periodically. The estimate of the claims liability also includes amounts for claim incremental adjustment expenses. Estimated recoveries from third parties are another component of claims expense. A General liability insurance policy covers individual claims in excess of $25,000 each occurrence. An Auto liability insurance policy covers individual claims in excess of $1,000.

Workers' compensation insurance covers individual claims in excess of $350,000 (each Accident) / $1,050,000 (Aggregate). A Directors & Officers and Employment Practices liability insurance policy covers individual claims in excess of a $350,000 per claim retention. Property insurance and other ancillary lines of insurance coverage for crime, mobile equipment, cyber liability and pollution are also in force.

Workers' Compensation Program

The Public Utilities Board has a workers' compensation self-insurance plan for the purpose of providing medical and indemnity payments as required by law for on-the-job related injuries. The plan is administered by a service agent. The Public Utilities Board has an excess workers' compensation insurance contract with an insurance carrier coverage which provides Texas statutory limits for claims in excess of $350,000 for any one accident or occurrence. The aggregate deductible under this policy is $1,050,000. Management feels that the contributions made during the year for workers' compensation will offset any claims paid during the year. Therefore, the entire liability is estimated to be long term and recorded as such.

Health Insurance Program

The Public Utilities Board has a group health self-insurance plan for the purpose of providing health insurance for the employees and their dependents. The plan is administered by a service agreement. The Public Utilities Board has a stop loss contract with an insurance carrier covering individual health claims in excess of $200,000 per individual. The Public Utilities Board also has aggregate limits, which fluctuate with enrollment but are currently at $11,593,039 for the health insurance plan and $451,657 for the dental insurance plan. This is the maximum liability for health and dental claim costs for the plan year ending December 31, 2024.

The following is a summary of changes in claims liability for the Workers' Compensation and Health Insurance programs, which is included in accounts payable and accrued liabilities payable from restricted assets, for the years ended September 30, 2024 and 2023:

	Beginning Balance 2023	Claims and Adjustments	Claims Payments	Ending Balance 2024	Amounts Due Within One Year
Workers' Compensation	$ 225,485	$ 306,064	$ (358,251)	$ 173,298	$ 41,510
Health Insurance	$ 292,956	$ 10,485,631	$ (10,530,246)	$ 248,341	$ 248,341

	Beginning Balance 2022	Claims and Adjustments	Claims Payments	Ending Balance 2023	Amounts Due Within One Year
Workers' Compensation	$ 330,425	$ 100,004	$ (204,944)	$ 225,485	$ 128,421
Health Insurance	$ 253,403	$ 9,763,870	$ (9,724,317)	$ 292,956	$ 292,956

(9) TEXAS MUNICIPAL RETIREMENT SYSTEM

Plan Description – The Public Utilities Board participates as one of 934 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at tmrs.com. All eligible employees of the Public Utilities Board are required to participate in TMRS.

Plan provisions for the Public Utilities Board for fiscal years 2024 and 2023 were as follows:

Employee deposit rate:	7%
Matching ratio (PUB to employee):	2 to 1
Years required for vesting:	5 years
Members can retire at certain ages, based on the years	
of service with the Public Utilities Board. The Service	
Retirement Eligibilities for the Public Utilities Board are:	5 years/age 60
	20 years/any age
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating
Supplemental Death Benefit to Active Employees	Yes
Supplemental Death Benefit to Retirees	Yes

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

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

At the date the plan began, the Public Utilities Board granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percentage (100%, 150%, or 200%) of the employee's accumulated contributions.

In addition, the Public Utilities Board can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the Public Utilities Board matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date.

(9) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

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

	December 31, 2023	December 31, 2022
Active employees	588	573
Inactive employees or beneficiaries currently receiving benefits	358	350
Inactive employees entitled to but not yet receiving benefits	159	144
Total Plan Participants	1,105	1,067

Contributions – The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Public Utilities Board matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Public Utilities Board. Under the state law governing TMRS, the contribution rate for each entity is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The Public Utilities Board's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees of the Public Utilities Board were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Public Utilities Board were 18.35% and 17.24% for calendar years 2024 and 2023, respectively. The Public Utilities Board's contributions to TMRS in the fiscal year ended September 30, 2024, were $7,370,069 and $6,345,978 for fiscal year ended September 30, 2023, and equaled the required contributions.

Net Pension Liability – The Public Utilities Board's net pension liability (NPL) was measured as of December 31, 2023 and 2022, and total pension liability (TPL) used to calculate the net pension liability was determined by actuarial valuations as of that date.

The Public Utilities Board's changes in net pension liability were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2022	$ 231,442,503	$ 188,944,860	$ 42,497,643
Changes for the year:			
Service cost	6,500,521	-	6,500,521
Interest	15,511,174	-	15,511,174
Change of benefit terms	-	-	-
Difference between expected and			-
actual experience	3,517,540	-	3,517,540
Changes in assumptions	(1,126,443)	-	(1,126,443)
Contributions - employer	-	6,455,585	(6,455,585)
Contributions - employee	-	2,621,178	(2,621,178)
Net investment income	-	21,875,163	(21,875,163)
Benefit payments, including refunds			-
of employee contributions	(9,795,191)	(9,795,191)	-
Administrative expense	-	(139,121)	139,121
Other changes	-	(970)	970
Net changes	14,607,601	21,016,644	(6,409,043)
Balance at 12/31/2023	$ 246,050,104	$ 209,961,504	$ 36,088,600

(9) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2021	$ 216,767,428	$ 205,157,290	$ 11,610,138
Changes for the year:			
Service cost	5,643,389	-	5,643,389
Interest	14,513,940	-	14,513,940
Change of benefit terms	-	-	-
Difference between expected and			-
actual experience	3,653,312	-	3,653,312
Changes in assumptions	-	-	-
Contributions - employer	-	5,601,034	(5,601,034)
Contributions - employee	-	2,280,815	(2,280,815)
Net investment income	-	(14,983,763)	14,983,763
Benefit payments, including refunds			-
of employee contributions	(9,135,566)	(9,135,566)	-
Administrative expense	-	(129,591)	129,591
Other changes	-	154,641	(154,641)
Net changes	14,675,075	(16,212,430)	30,887,505
Balance at 12/31/2022	$ 231,442,503	$ 188,944,860	$ 42,497,643

Actuarial assumptions – The total pension liability in the December 31, 2023 and 2022, actuarial valuations were determined using the following actuarial assumptions:

	12/31/2023	12/31/2022	
Inflation	2.50%	2.50%	per year
Overall payroll growth	2.75%	2.75%	per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%	6.75%	net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. For 2024 and 2023, mortality rates for active members are based on the PUB (10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale MP-2021 in 2024 and Scale UMP in 2023 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements subject to the 3% floor for 2024, and by Scale UMP to account for future mortality improvements subject to the floor for 2023.

For 2024, the actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. For 2023, the actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated

(9) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments for 2024 was determined by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage. The long-term expected rate of return on pension plan investments for 2023 was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

	September 30, 2024		September 30, 2023	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	6.70%	35.0%	7.70%
Core Fixed Income	6.0%	4.70%	6.0%	4.90%
Non-Core Fixed Income	20.0%	8.00%	20.0%	8.70%
Other Public and Private Mkts	12.0%	8.00%	12.0%	8.10%
Real Estate	12.0%	7.60%	12.0%	5.80%
Hedge Funds	5.0%	6.40%	5.0%	6.90%
Private Equity	10.0%	11.60%	10.0%	11.80%
Total	100.0%		100.0%	

Discount Rate – The discount rate used to measure the Total Pension Liability recorded as of September 30, 2024 and 2023, was 6.75%. The projection of cash flows used to determine the discount rate assumed that Member and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan’s Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Public Utilities Board, calculated using the discount rate of 6.75%, as well as what the Public Utilities Board’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

Measurement Date	1% Decrease 5.75%	Current Single Discount Rate Assumption 6.75%	1% Increase 7.75%
12/31/2023	$ 70,060,085	$ 36,088,600	$ 8,061,706
12/31/2022	$ 74,916,983	$ 42,497,643	$ 15,834,689

(9) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at tmrs.com.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions – The Public Utilities Board recognized $6,519,475 in pension expense for the fiscal year ended September 30, 2024, and $8,039,538 in pension expense for the fiscal year ended September 30, 2023.

At September 30, 2024 and 2023 the Public Utilities Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	September 30, 2024	September 30, 2023
Deferred outflows of resources		
Changes in assumptions	$ 42,431	$ 76,648
Differences between expected and actual experience on pension assets	5,527,357	3,407,589
Differences between projected and actual earnings on pension assets (net)	5,107,570	13,004,441
Employer's contributions to the Plan subsequent to the measurement of total pension liability	5,643,445	4,884,112
Total deferred outflows of resources	$ 16,320,803	$ 21,372,790

	September 30, 2024	September 30, 2023
Deferred inflows of resources		
Changes in assumptions	$ (921,262)	$ -
Differences between expected and actual experience on pension assets	(473,252)	(732,903)
Differences between projected and actual earnings on pension assets (net)	-	-
Total deferred inflows of resources	$ (1,394,514)	$ (732,903)

The amount reported as deferred outflows of resources, $5,643,445, related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal 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:

	Net deferred outflows(inflows) of resources:
2024	$ 2,345,747
2025	2,622,034
2026	5,104,804
2027	(1,003,153)
2028	213,412
Thereafter	-
Total	$ 9,282,844

(10) OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, the Public Utilities Board provides post-retirement health care benefits (OPEB) and supplemental death benefits to its employees.

POST-RETIREMENT HEALTH CARE BENEFITS

Plan Description and Benefits Provided – The Public Utilities Board provides post-retirement health care benefits for employees retiring and receiving annuities from the Texas Municipal Retirement System, through a single-employer plan, who are (1) at least age 60 and have completed 10 consecutive years of active service with the Public Utilities Board immediately prior to retirement, (2) at least age 55 and have completed 25 consecutive years of active service with the Public Utilities Board immediately prior to retirement, or (3) at any age having completed 30 consecutive years of active service with the Public Utilities Board immediately prior to retirement. Prior to age 65, the Public Utilities Board will pay 100% of the cost of the Group Health Insurance Program for the retirees. Spouses and dependents are also eligible for coverage, but the retiree must pay the premiums. No coverage is available after the retiree reaches age 65, including coverage for spouses and dependents. The above eligibility and coverage requirements do not apply to retirees that retired under Retiree Package I (1999) and Retiree Package II (2005). The Retiree Package I plan results from a special offer made in fiscal year 1999 to all employees with 25 years or more of credited service or eligible for retirement under TMRS guidelines who elected to voluntarily resign or retire during the offer period. The plan provides coverage for the employees and the employees' dependent (spouse) under the Public Utilities Board's group medical plan until such time as the employee becomes 65 years of age, dies or elects to receive coverage from another source. Under Retiree Package I, 34 retirees met these eligibility requirements. The Retiree Package II plan provides post-retirement benefits to all employees who retire from the Public Utilities Board after attaining 10 years of service and 60 years of age, 25 years of service and 55 years of age or 30 years of service regardless of age. Under the Retiree Package II plan, retirees may pay to provide spousal and dependent coverage. Under Retiree Package II, 24 retirees met these eligibility requirements.

The Public Utilities Board provides 100% of the cost of retirees to participate in this plan. Expenses for post-retirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported. Expenses related to provision of these post-employment benefits cannot be reasonably estimated. The OPEB plan benefits are established and may be amended by the Public Utilities Board's Board of Directors.

The following tables presents information about the participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate the total OPEB liability, as of the measurement date for fiscal years ended September 30, 2024 and 2023, were:

	October 1,	
	2023	2022
Active participants	593	539
Retirees	46	60
Beneficiaries	0	0
Spouses of retirees	15	19
Total Participants	654	618

Contributions – Prior to May 2023, The Public Utilities Board did not pre-fund benefits. The funding policy was to pay benefits directly from general assets on a pay-as-you-go basis, and there was not a trust for accumulating plan assets.

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

In February 2023, the Public Utilities Board of Directors passed a resolution approving the adoption of the Public Agencies Post-Retirement Health Care Plan Trust (Trust) administered by Public Agency Retirement Services (PARS). The Public Utilities Board appointed the Chief Financial Officer as Administrator of the Trust, and as such, established the authority to act in all matters relating to the Trust.

In fiscal year 2023, the Public Utilities Board made an initial contribution of $13,306,413 to fund the Trust. No contributions were made during fiscal year 2024. Contributions are not required from plan members. The Public Utilities Board reserves the right to make contributions, if any, to the Trust. Administrative costs of the Trust are financed through investment earnings. Benefits are paid directly to the insurance provider.

The PARS does issue a publicly available financial report for the fiduciary net position that is available upon request. The Trust itself does not issue a separate financial report.

Actuarial Methods and Assumptions

The following is a summary of significant actuarial methods and assumptions used in the actuarial valuations. There have been no significant changes between the valuation date and fiscal year ends.

Valuation Date	October 1, 2023	October 1, 2021
Measurement Date	September 30, 2024	September 30, 2022
Actuarial Cost Method	Entry Age Normal, level dollar	Entry Age Normal, level dollar
Amortization Method	Open periods 10 yr amortization 0.0% amortization growth rate	Open periods 10 yr amortization 0.0% amortization growth rate
Asset Valuation Method	Market Value	N/A
Inflation	2.30%	2.30%
Salary increases	Varies by service	Annually, graduated service-based scale December 31, 2021 TMRS report
Discount Rate	6.86% Plan's long-term rate of return on investment assumption	4.02% Bond Buyer's 20-year General Obligation Index
Long-term Expected Rate of Return on Investments	6.86%	N/A
Mortality	Pub-2010 Mortality (headcount weighted) for Employees, Healthy Annuitants, and Contingent Annuitants projected forward (fully generational) with MP-2021	Pub-2010 Mortality (headcount weighted) for Employees, Healthy Annuitants, and Contingent Annuitants projected forward (fully generational) with MP-2021

OPEB Plan Investment Strategy – The goal of the Trust's investment program is to generate adequate long-term returns that, when combined with contributions, will result in sufficient assets to pay the present and future obligations of the Trust. A balanced strategy that seeks to provide capital appreciation and a low to moderate level of current income consistent with its allocation was adopted. Target allocation of each asset class of equity and fixed income are 60% and 40%, respectively.

Discount Rate – The discount rate used to measure the total OPEB liability changed from 6.56% at September 30, 2023, to 6.86% at September 30, 2024. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability is equal to the long-term expected rate of return.

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Long-term Expected Rate of Return – This assumption is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumption is based on the consultant's investment practice as of June 30, 2023 and are based on a 20-year investment horizon.

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

	September 30, 2024			September 30, 2023		
	Target	Long-Term Expected Real Rate of Return		Target	Long-Term Expected Real Rate of Return	
Asset Class	Allocation	Arithmetic	Geometric	Allocation	Arithmetic	Geometric
US Core Fixed Income (Aggregate)	37.0%	2.50%	2.36%	15.0%	2.07%	1.93%
US High Yield Bonds	3.0%	4.43%	3.87%	0.0%	0.00%	0.00%
US Short (1-3 Yr) Credit Bonds	0.0%	0.00%	0.00%	5.0%	1.76%	1.70%
US Interim (1-10 Yr) Credit Bonds	0.0%	0.00%	0.00%	10.0%	2.40%	2.25%
Non-US Bonds	0.0%	0.00%	0.00%	10.0%	0.36%	-0.10%
US Broad Equity Market	36.0%	5.52%	3.82%	33.0%	5.56%	3.90%
Non-US Equity	18.0%	7.62%	5.75%	21.0%	7.64%	5.75%
US REITs	3.0%	6.91%	4.72%	6.0%	6.96%	4.74%
Infrastructure - Public	3.0%	5.78%	4.31%	0.0%	0.00%	0.00%
Total	100.0%			100.0%		

Changes in net OPEB asset and total OPEB liability – The following presents a summary of the changes in the net OPEB asset and total OPEB liability:

	September 30, 2024			September 30, 2023		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
Total OPEB Liability - beginning of year	$ 12,591,573	$ 13,194,523	$ (602,950)	$ 14,815,187	$ -	$ 14,815,187
Changes for the year:						
Service Cost	484,332	-	484,332	765,841	-	765,841
Interest on total OPEB Liability	828,533	-	828,533	604,241	-	604,241
Effect of economic/demographic gains or losses	2,329,708	-	2,329,708	530,718	-	530,718
Effect of assumptions changes or inputs	(1,092,334)	-	(1,092,334)	(3,013,111)	-	(3,013,111)
Benefit payments	(906,025)	(294,001)	(612,024)	(1,111,303)	-	(1,111,303)
Employer contributions	-	-	-	-	13,306,413	(13,306,413)
Net investment income	-	3,042,265	(3,042,265)	-	(111,890)	111,890
Net changes						
Total OPEB Liability - end of year	$ 14,235,787	$ 15,942,787	$ (1,707,000)	$ 12,591,573	$ 13,194,523	$ (602,950)

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Sensitivity Analysis – The following presents the total OPEB liability of the Public Utilities Board, calculated using the discount rate of 6.86% as of September 30, 2024, as well as what the Public Utilities Board's total liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.86%) or 1-percentage-point higher (7.86%) than the current rate:

Measurement Date		1% Decrease 5.86%	Discount Rate 6.86%	1% Increase 7.86%
9/30/2024	Total OPEB liability	$ 15,405,675	$ 14,235,787	$ 13,183,923
9/30/2024	Fiduciary net position	$ 15,942,787	$ 15,942,787	$ 15,942,787
9/30/2024	Net OPEB liability	$ (537,112)	$ (1,707,000)	$ (2,758,864)

The following presents the total OPEB liability of the Public Utilities Board, calculated using the discount rate of 6.56% as of September 30, 2023, as well as what the Public Utilities Board's total liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.56%) or 1-percentage-point higher (7.56%) than the current rate:

Measurement Date		1% Decrease 5.56%	Discount Rate 6.56%	1% Increase 7.56%
9/30/2023	Total OPEB liability	$ 13,685,543	$ 12,591,573	$ 11,608,463
9/30/2023	Fiduciary net position	$ 13,194,523	$ 13,194,523	$ 13,194,523
9/30/2023	Net OPEB liability	$ 491,020	$ (602,950)	$ (1,586,060)

The following presents the total OPEB liability of the Public Utilities Board, calculated using the current healthcare cost trend rates, as well as what the Public Utilities Board's total liability would be if it were calculated using trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current trend rates at September 30, 2024 and 2023.

Measurement Date		1% Decrease	Current Trend Rate	1% Increase
9/30/2024	Total OPEB liability	$ 12,934,253	$ 14,235,787	$ 15,731,076
9/30/2024	Fiduciary net position	$ 15,942,787	$ 15,942,787	$ 15,942,787
9/30/2024	Net OPEB liability	$ (3,008,534)	$ (1,707,000)	$ (211,711)

Measurement Date		1% Decrease	Current Trend Rate	1% Increase
9/30/2023	Total OPEB liability	$ 11,167,122	$ 12,591,573	$ 14,273,804
9/30/2023	Fiduciary net position	$ 13,194,523	$ 13,194,523	$ 13,194,523
9/30/2023	Net OPEB liability	$ (2,027,401)	$ (602,950)	$ 1,079,281

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – The Public Utilities Board recognized OPEB income of $1,408,967 for the year ended September 30, 2024, and $656,209 in OPEB expense for the year ended September 30, 2023.

The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Public Utilities Board as of September 30, 2024 and 2023:

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

	September 30, 2024	September 30, 2023
Deferred outflows of resources		
Changes in assumptions	$ 786,836	$ 1,333,306
Investment (gains)/losses	-	433,126
Differences in expected and actual experience	2,343,143	459,956
Total deferred outflows of resources	$ 3,129,979	$ 2,226,388
Deferred inflows of resources		
Differences in expected and actual experience	$ (3,780,152)	$ (4,883,469)
Investment (gains)/losses	(1,392,786)	-
Changes in assumptions	(6,310,721)	(6,613,540)
Total deferred inflows of resources	$ (11,483,659)	$ (11,497,009)

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

Year ended September 30,	Net deferred outflows(inflows) of resources:
2025	$ (1,826,605)
2026	(2,143,601)
2027	(1,925,118)
2028	(1,654,518)
2029	(678,265)
Thereafter	(125,573)
Total	$ (8,353,680)

SUPPLEMENTAL DEATH BENEFIT PLAN

Plan Description – The Public Utilities Board also participates in a single-employer, defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF) administered by the TMRS. This is a voluntary program in which the Public Utilities Board elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Public Utilities Board 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. The death benefit for active employees provides a lump-sum payment approximately equal to the employees' annual salary (calculated based on the employees' actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an "other post-employment benefit," or OPEB, and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

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

	December 31, 2023	December 31, 2022
Active employees	588	573
Inactive employees or beneficiaries currently receiving benefits	282	277
Inactive employees entitled to but not yet receiving benefits	78	71
Total Plan Participants	948	921

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Contributions – The Public Utilities Board contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. 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. As such, contributions fund the covered active Member and retiree deaths on a pay-as-you-go basis.

Schedule of Contribution Rates
(RETIREE-only portion of the rate)

Plan/ Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of Contribution (Rate)	Percentage of ARC Contributed
2024	0.38%	0.16%	100%
2023	0.42%	0.19%	100%
2022	0.27%	0.16%	100%

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period of December 31, 2022. The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period of December 31, 2014 to December 31, 2018.

Methods and Assumptions

The methods and assumptions described below were in effect as of September 30, 2024 and 2023.

Valuation of Assets – For purposes of calculating the Total OPEB Liability, the plan is considered to be unfunded and therefore no assets are accumulated for OPEB.

Actuarial Cost Method – The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. The Entry Age Normal Actuarial Cost Method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the current city. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated.

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Valuation date	12/31/2023 and 12/31/2022
Inflation	2.5% (2023 and 2022)
Salary Increases	3.60% to 11.85%, including inflation (2023); 3.50% to 11.50%, including inflation (2022)
Discount rate	3.77%* and 4.05%**
Retirees; share of benefit-related costs	$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	(12/31/23) - 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). (12/31/22 and 12/31/21) - Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disables retirees	(12/31/23) and (12/31/22) - 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence to account for future mortality improvements subject to the floor (12/31/2023). The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2023.
** The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022.

Supplemental Death Benefit – The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members, and it is calculated separately for actives and retirees. The 2025 SDB rate for retiree coverage is equal to 110% of the expected term cost. The SDB rate for active coverage is equal to 150% of the expected term cost.

Total OPEB Liability – The Public Utilities Board's total OPEB liability as of September 30, 2024, was determined by actuarial valuation and measurement date as of December 31, 2023. The Public Utilities Board's total OPEB liability as of September 30, 2023, was determined by actuarial valuation and measurement date as of December 31, 2022.

The following presents a summary of the changes in total OPEB liability:

	September 30, 2024		September 30, 2023	
Total OPEB Liability - beginning of year		$ 1,628,667		$ 2,313,061
Changes for the year:				
Service Cost	56,168		114,041	
Interest on total OPEB Liability	65,658		43,130	
Differences between expected and actual experience	20,779		41,382	
Changes in assumptions or other inputs	84,648		(830,814)	
Benefit payments*	(71,146)		(52,133)	
Net changes		156,107		(684,394)
Total OPEB Liability - end of year		$ 1,784,774		$ 1,628,667

* Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.
** Membership counts for inactive employees currently receiving or entitled to but not yet receiving benefits will differ from GASB 68 as they include only those eligible for a SDBF benefit (i.e. excludes beneficiaries, non-vested terminations due a refund, etc.).

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

The Public Utilities Board recorded $83,976 in OPEB expense for the year ended September 30, 2024, and an expense of $102,743 for the year ended September 30, 2023.

Sensitivity of the total OPEB liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Public Utilities Board Supplemental Death Benefit Fund, calculated using the applicable discount rate of 3.77% as of September 30, 2024, as well as what the Public Utilities Board's liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Date	1% Decrease 2.77%	Discount Rate 3.77%	1% Increase 4.77%
9/30/2024	$ 2,135,889	$ 1,784,774	$ 1,510,596

The following presents the total OPEB liability of the Public Utilities Board Supplemental Death Benefit Fund, calculated using the applicable discount rate of 4.05% as of September 30, 2023, as well as what the Public Utilities Board's liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Date	1% Decrease 3.05%	Discount Rate 4.05%	1% Increase 5.05%
9/30/2023	$ 1,946,659	$ 1,628,667	$ 1,380,694

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Public Utilities Board:

	September 30, 2024	September 30, 2023
Deferred outflows of resources		
Difference in expected and actual earnings	$ 53,180	$ 47,986
Changes in assumptions	304,011	327,705
Employer's contributions to the Plan subsequent to the measurement date	49,207	83,731
Total deferred outflows of resources	$ 406,398	$ 459,422
Deferred inflows of resources		
Difference in expected and actual earnings	$ (667,767)	$ (829,544)
Changes in assumptions	-	-
Total deferred inflows of resources	$ (667,767)	$ (829,544)

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

The following table presents the future amortization of OPEB-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Supplemental Death Benefit Fund in the current fiscal year and subsequent to the total OPEB liability measurement date. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the total OPEB liability in the subsequent year.

	Net deferred outflows(inflows of resources:
2024	$ (52,040)
2025	(47,657)
2026	(68,085)
2027	(104,605)
2028	(44,148)
Thereafter	5,959
Total	$ (310,576)

The following is a summary of certain OPEB account balances as of September 30, 2024 and 2023:

	9/30/2024			9/30/2023		
	Healthcare	Supplemental	Total	Healthcare	Supplemental	Total
Net OPEB Asset	$ 1,707,000	$ -	$ 1,707,000	$ 602,950	$ -	$ 602,950
OPEB Liability	-	1,784,774	1,784,774	-	1,628,667	1,628,667
Deferred Outflows of Resources	3,129,979	406,398	3,536,377	2,226,388	459,422	2,685,810
Deferred Inflows of Resources	11,483,659	667,767	12,151,426	11,497,009	829,544	12,326,553
OPEB Income	1,408,967	-	1,408,967	656,209	-	656,209
OPEB Expense	-	83,976	83,976	-	102,743	102,743

(11) DERIVATIVE INSTRUMENTS

Power and Fuel Hedging – In July 2024, the Public Utilities Board approved the Energy Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The primary goal of the Energy Risk Management Policy is to provide a framework for the operation of a fuel and power price hedging program to manage the Public Utilities Board's market price risk exposure in order to stabilize pricing and costs for the benefit of the Public Utilities Board and its customers.

The Public Utilities Board reports its derivative instruments in accordance with GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which addresses recognition, measurement and disclosures related to derivative instruments. The Public Utilities Board does not use derivative instruments for speculative purposes. The only derivative instruments entered are for the purposes of risk mitigation; therefore, these instruments are considered potential hedging derivative instruments under GASB Statement No. 53.

In accordance with the requirements of GASB Statement No. 53, all energy derivative contracts are reported on the Statements of Net Position at fair value. The fair value of option contracts, if used, is determined using

(11) DERIVATIVE INSTRUMENTS – Continued

market price quotes for substantially similar contracts (when such prices are available), or in the absence of observable option prices, a Black-Sholes pricing model. For fixed-price forward contracts, the fair value is calculated based on the contract volume multiplied by the difference between the available observable market price closest to the last day of the reporting period and the contract price. See additional disclosures regarding fuel hedge fair values at Note 3 – Fair Value Measurement.

As of September 30, 2024, the total fair value of outstanding energy derivative instruments was a net liability of $0.2 million. Energy derivative instruments are classified on the Statements of Net Position as a component of current unrestricted accounts payable. The Energy Risk Management Policy does not currently allow for long-term (i.e. greater than one year) energy derivative transactions.

All hedging derivative instruments were evaluated for effectiveness as of September 30, 2024. Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred outflows or deferred inflows of resources on the Statements of Net Position until the contract settlement period that occurs in parallel with the consumption and expense of the underlying physical energy commodity being hedged. When hedging contracts settle, during the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel and purchased energy expense. The deferred outflows of resources related to fuel hedges were $0.2 million of September 30, 2024.

The following information is related to the Public Utilities Board's outstanding energy derivative instruments:

Type of Transaction	Price Reference	Start Date	End Date	Volume MMBtu	Fair Value	9/30/2024 Change in Fair Value
HSC Gas Daily Swap	HSC	10/01/2024	10/31/2024	31,000	$ 620	$ 5,425
HSC Gas Daily Swap	HSC	10/01/2024	10/31/2024	155,000	$ (3,875)	$ 15,887
HSC Gas Daily Swap	HSC	11/01/2024	11/30/2024	120,000	$ (35,400)	$ (21,300)
HSC Gas Daily Swap	HSC	12/01/2024	12/31/2024	93,000	$ (38,363)	$ (28,598)
HSC Gas Daily Swap	HSC	01/01/2025	01/31/2025	62,000	$ (57,350)	$ (42,129)
HSC Gas Daily Swap	HSC	02/01/2025	02/28/2025	56,000	$ (47,600)	$ (32,816)
					$ (181,968)	$ (103,531)

Credit Risk – The Public Utilities Board executes over-the-counter hedge transactions directly with approved counterparties. These counterparties are generally highly rated entities that are leaders in their respective industries. The Public Utilities Board monitors the creditworthiness of these entities and manages the resulting financial exposure. In the event of default or nonperformance by counterparties the financial position of the Public Utilities Board could be affected. However, the Public Utilities Board does not expect these entities to fail to meet their obligations given their strong credit ratings and the monitoring procedures in place with which to manage this risk.

Volumetric Risk – If the total volume of energy hedges were to exceed the total physical volume of the commodity consumed (i.e., a condition of "over-hedging"), either on a given day or for a month, the alignment of the cash flow offsets from the hedges and the cost behavior of the underlying physical position could diminish. The Public Utilities Board controls this risk by updating its estimated power position and fuel consumption projections on at least a monthly basis and monitoring prospective hedge effectiveness.

(12) RELATED PARTY TRANSACTION

The Public Utilities Board supplies electric, water, and wastewater services to the City in compliance with the provisions of the City's Revenue Bond Ordinance. These services are accounted for in accordance with the Public Utilities Board's municipal rate schedules. Utilities service provided to the City for the years ended September 30, 2024 and 2023 were $6,089,411 and $6,053,425, respectively.

The Public Utilities Board also bills and collects the City's fees for garbage collection services, garbage tax, EPA fees, and maintenance services, and receives a 3% administrative fee for these services except garbage tax. The Public Utilities Board charged $1,000,910 and $959,843 to the City for these collection services in 2024 and 2023, respectively.

(13) TRANSFERS TO THE CITY

The issuance of the 2005A and 2005B refunding bonds modified certain existing covenants which included the calculation of the transfers to the City. Beginning fiscal year 2006 the transfers to the City are being made on a quarterly basis calculated at ten percent (10%) of the gross revenues received for the preceding fiscal year quarter, as adjusted in accordance with the following: (1) prior to applying the percentage set forth above to determine the amount to be transferred to the City, the amount of gross revenues for a fiscal year quarter shall be reduced by an amount equal to all costs for the purchase of power and fuel paid or incurred by the Public Utilities Board during such fiscal year quarter as well as funding requirements for the Southmost Regional Water Authority; and (2) the amount of funds to be transferred to the City shall be reduced by any amounts owed by the City to the Public Utilities Board for utility services. Prior to fiscal year 2006 Article VI of the Charter provided for the transfer to the City's general fund by the Public Utilities Board from "Surplus Funds" available at the close of each fiscal year (after retaining in the Plant Fund an amount deemed by the Public Utilities Board to be sufficient to pay system operation and maintenance expenses for the next 60 days), to the extent available, the greater of $400,000 or 50% of such surplus funds. Surplus funds, as defined in the Charter, are amounts remaining in the Plant Fund at the close of each fiscal year after all Charter requirements and after all payments have been fully and timely made into funds created by ordinances authorizing outstanding bonds secured by a pledge of the system's net revenues.

Required payments to the City for the years ended September 30, 2024 and 2023, totaled $11,393,548 and $12,055,925, respectively, of which $3,244,010 and $4,801,496 respectively, was payable at September 30, 2024 and 2023.

(14) COMMITMENTS AND CONTINGENCIES

The Public Utilities Board is currently involved in various claims and litigation. It is the opinion of management and counsel that potential claims against the Public Utilities Board not covered by insurance resulting from litigation would not materially affect the financial position or operations of the Public Utilities Board.

At September 30, 2024, the Public Utilities Board had committed approximately $33,575,515 for utility plant expansion and improvements. Funding of these amounts will come from available revenues of the Public Utilities Board, restricted funds, and short-term debt.

The Public Utilities Board has entered into Purchase Power Agreements with a third party for 65 megawatts that begin in October 2020 and January 2022 and will both terminate in 2029. All costs related to the Purchase Power Agreements will be subject to recovery through the Public Utilities Board's Fuel and Purchased Energy Charge (FPEC) on a monthly basis from electric customers.

(14) COMMITMENTS AND CONTINGENCIES – Continued

The Public Utilities Board participates in various federal grant programs, the principal of which are subject to program compliance audits pursuit to the Single Audit Act as amended. Accordingly, the Public Utilities Board's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Public Utilities Board anticipates such amounts, if any, will be immaterial.

(15) SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

As of September 30, 2024, and 2023, the Public Utilities Board had engaged with three separate vendors for subscription-based information technology arrangements (SBITA) for software used by Human Resources and GIS departments. These SBITA are amortized over the length of their contract. None of the contracts include an interest rate for calculating payments nor do they require any upfront costs. As of September 30, 2024, the net SBITA right-to-use intangible asset was reported in the amount of $105,417 for one remaining contract. As of September 30, 2023, the net SBITA right-to-use intangible asset was reported in the amount of $138,667. Amortization for all three SBITA at September 30, 2024 and 2023, was reported in the amount of $80,417 and $18,719, respectively. For the year ended September 30, 2024 and 2023, the Public Utilities Board did not report a corresponding SBITA liability because all contracts are paid in advance.

(16) TENASKA EQUITY FUND REBATE

In December 2012 the City Commission approved a five-year rate plan for electric, water and wastewater base rates. The electric rates were allocated for two purposes: 1) ongoing growth and O&M and 2) bond issuance for a proposed generation project. As a result of the generation project not coming to fruition, in May 2022, the City Commission approved the rollback of that portion of electric base rates in a phased approach effective June 1, 2022 and June 1, 2023. In October 2022, the City Commission approved the acceleration of the second phase to an effective date of December 1, 2022.

Beginning in 2013, $29 million of the proposed generation project revenue was set aside to pay for anticipated costs during the construction period; these funds are unspent and held by the Public Utilities Board in the Improvement Fund. The Public Utilities Board and City Commission formed a joint committee to address the distribution of the $29 million. A plan was approved by the Public Utilities Board's Board of Directors on May 1, 2023 and the City Commission on May 2, 2023. In addition to the $29 million, the Public Utilities Board's Board of Directors voted to add the interest earned on the $29 million to the funds to be distributed bringing the total to $31,355,071. This amount was distributed in May 2023 in the form of an account credit to customers who were still active as of May 1, 2023 and as a check to inactive customers.

(17) PENDING GASBs

As of September 30, 2024, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Public Utilities Board. Management is evaluating these pending GASB statements to determine what, if any, impact will be to the Public Utilities Board. The statements are as follows:

- GASB Statement No. 101, *Compensated Absences*
- GASB Statement No. 102, *Certain Risk Disclosures*

Management is evaluating these pending GASB statements to determine what, if any, impact will be to the Public Utilities Board.

(18) SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 3, 2025, which is the date the financial statements were available to be issued.

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Appendix C

FORM OF LEGAL OPINION OF BOND COUNSEL

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October 23, 2025

Ladies and Gentlemen:

WE HAVE ACTED as Bond Counsel for the CITY OF BROWNSVILLE, TEXAS, a political subdivision and municipal corporation of the State of Texas (the "City") in connection with an issue of bonds (the "Bonds") described as follows:

> CITY OF BROWNSVILLE, TEXAS, UTILITIES SYSTEM REVENUE REFUNDING BONDS, SERIES 2025, in the aggregate principal amount of $60,700,000 maturing on September 1 in the years 2026 through 2045, inclusive, 2050, and 2055. The Bonds are issuable in fully registered form only, in denominations of $5,000 or any integral multiple thereof, bear interest, and may be transferred and exchanged as set out in the Bonds and in the ordinance (the "Ordinance") adopted by the City Commission of the City (the "City Commission") authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the bonds that are being refunded with the proceeds of the Bonds (the "Refunded Bonds") and the commercial paper notes that are being refunded with the proceeds of the Bonds (the "Refunded Notes" and together with the Refunded Bonds, the "Refunded Obligations"), as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City and The Bank of New York Mellon Trust Company, N.A., the paying agent/registrar for the Refunded Bonds (the "Refunded Bonds Paying Agent"); and the proceedings between the City and U.S. Bank National Association (the "Refunded Notes Paying Agent"); the report (the "Report") of Causey, Demgen & Moore, P.C., which verifies the sufficiency of the deposit made with the Refunded Bonds Paying Agent for the refunding of the Refunded Bonds, and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations. We have also examined executed Bond No. T-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the

Bonds. Our role as Bond Counsel in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, or moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law;

(2) The Bonds are payable, both as to principal and interest, from and are equally and ratably secured, together with the currently outstanding Previously issued Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City (both as defined in the Ordinance), by a first and prior lien on the Net Revenues received and collected by the City from the operation and ownership of the System; and

(3) The deposit with the Refunded Notes Paying Agent constitutes the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Notes; in reliance upon the sufficiency certificate of the Refunded Notes Paying Agent, the Refunded Notes, having been discharged and paid, are no longer outstanding.

(4) The deposit made with the Refunded Bonds Paying Agent constitutes the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of Net Revenues as set forth in the ordinances authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Bonds only out of the funds provided therefor now held for that purpose by the Refunded Bonds Paying Agent; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor.

IT IS OUR FURTHER OPINION, also based on our examination as described above, and subject to the restrictions hereinafter described, that, pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance by the City with the provisions of the Ordinance after the date hereof interest on the Bonds (1) will be excludable from the gross income of the owners thereof for federal income tax purposes, and (2) , further, interest on the Bonds will not be an item of tax preference for purposes of the alternative minimum tax imposed on individuals. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds is not excluded from the determination of adjusted financial statement income. The opinions set forth in the first sentence of this paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Ordinance to comply with each such requirement. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes. We have further relied on the Report regarding the mathematical accuracy of certain computations. If such representations or the Report are determined to be inaccurate or incomplete or the City fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusions occurs.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or cany tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income tax credit. Prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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Appendix D

SELECTED PROVISIONS FROM THE BOND ORDINANCE

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APPENDIX D

SELECTED PROVISIONS FROM THE BOND ORDINANCE

The following are selected provisions of the Bond Ordinance. These excerpts should be qualified by reference to other portions of the Bond Ordinance referred to elsewhere in this Official Statement, and all amended and restated references and summaries pertaining to the Bond Ordinance in this Official Statement are separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City of Brownsville or its Financial Advisor, Estrada Hinojosa. Unless otherwise indicated, any references to sections listed below are to sections contained in the Bond Ordinance, and Section and Article headings contained in the following excerpts are to Sections and Articles contained in the Bond Ordinance.

*   *   *   *

Section 1. Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided herein or unless the context otherwise requires, in addition to other terms defined elsewhere herein, the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 45 and 60 of this Ordinance have the meanings assigned to them in such Sections, all as follows:

A. Accountant means a certified public accountant or accountants or a firm of certified public accountants, in either case, with demonstrated expertise and competence in public accountancy.

B. Additional Junior Lien Obligations means (i) any bonds, notes, warrants, certificates of obligations, or other Debt hereafter issued by the Issuer that are payable, in whole or in part, from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues, such pledge being junior and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the Senior Lien Obligations issued by the Issuer, but prior and superior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the currently outstanding Commercial Paper Obligations or any Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the Issuer, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a junior and inferior lien on and pledge of the Net Revenues as determined by the Governing Body in accordance with applicable law.

C. Additional Senior Lien Obligations means (i) bonds, notes, warrants, certificates of obligation, or other Debt which the Issuer reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 25 of this Ordinance and which obligations are equally and ratably secured solely by a first and prior lien on and pledge of the Net Revenues, and (ii) obligations hereafter issued to refund any of the foregoing (as determined within the sole discretion of the Governing Body in accordance with applicable law) if issued in a manner so as to be payable from and equally and ratably secured by a first and prior lien on and pledge of the Net Revenues as determined by the Governing Body in accordance with applicable law.

D. Adjustable Rate Obligations means Obligations that initially bear interest at an adjustable or variable rate of interest, including Obligations which may be converted to bear a rate of interest fixed to maturity.

E. Average Annual Debt Service Requirements for any Debt means that average amount which, at the time of computation, will be required to pay the annual Debt Service Requirements when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such annual Debt Service Requirements by the number of Fiscal Years then remaining before the last Stated Maturity of such Debt. For the purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from Debt proceeds, accrued interest received on the sale of any Debt, and interest earnings thereon may be credited in making such computation.

F. Balloon Debt means any series of Obligations 25% or more of the original principal amount of which is due on any date; provided that, in calculating the principal amount of such Obligations due or required to be redeemed, prepaid, or otherwise paid on any date, such principal amount shall be reduced to the extent that all or any portion of such amount is required to be redeemed or amortized on any date.

G. Board means the duly constituted Public Utilities Board of the City of Brownsville, Texas, acting on behalf of the Issuer appointed by the Governing Body of the Issuer pursuant to the authority contained in Article VI of the Issuer's Charter, Section 1502.070, Texas Government Code, as amended, and this Ordinance.

H. Bonds means the "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2025," which may be issued in multiple or series or subseries.

I. Capital Improvement Fund means the special fund created and established by the provisions of Section 20 of this Ordinance.

J. Charter means the Issuer's home rule charter adopted pursuant to the provisions of Article XI, Section 5 of the Texas Constitution, as amended from time to time.

K. Closing Date means the date of physical delivery of the initial Bonds in exchange for the payment in full therefor by the Underwriters.

L. Commercial Paper or *Commercial Paper Obligations* means the "City of Brownsville, Texas Utilities System Commercial Paper Notes, Series A" which the Issuer has authorized in a maximum aggregate principal amount of $100,000,000.

M. Credit Agreement means any agreement between the Issuer and a third party pursuant to which such third party issues or enters into a letter of credit, municipal bond insurance policy, line of credit, standby purchase agreement, surety policy, surety bond or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the Issuer's obligations pursuant to any Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations or Inferior Lien Obligations and in consideration for which the Issuer may agree to pay, but solely from Gross Revenues and/or Net Revenues, as provided herein, (i) periodic payments for the availability of such Credit Agreement and/or (ii) reimbursements or repayments of any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges related to such amounts advanced. Obligations of the Issuer pursuant to a Credit Agreement shall be deemed to be, and shall be included within, the Debt Service Requirements for the series of Debt to which the Credit Agreement relates. Further, obligations of the Issuer to make payments under a Credit Agreement as reimbursement or repayment of any amounts paid or advanced under such Credit Agreement for interest on or principal of any Debt (including interest and other stipulated costs and charges related to such amounts advanced) shall be deemed to be a part of the Debt of the series to which it relates for the purpose of securing its payment or repayment by the pledge of Net Revenues as provided in this Ordinance unless otherwise provided therein or in the ordinance authorizing such Credit Agreement. Unless specifically provided for in an ordinance, issuers of Credit Agreements shall not be treated as the registered owners of Debt for purposes of any voting rights to approve amendments or to direct the exercise of any remedies under this Ordinance.

N. Credit Facility means a policy of insurance, a surety bond, letter or line of credit, a standby bond purchase agreement, or other guarantee issued or entered into by a third party to provide for or assure payment of any Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, or Inferior Lien Obligations. The Issuer acknowledges that Attorney General approval is required upon entering into any credit facility.

O. Credit Provider means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement or Credit Facility.

P. Crossover Refunding Bonds means any Debt the proceeds of which: (i) are deposited in an escrow account established for such crossover refunding purpose with a Paying Agent/Registrar, (ii) cannot be applied to the purpose for which such Crossover Refunding Bonds are to be issued until the Crossover Refunding Bonds Break Date, (iii) must be sufficient together with the investment income thereon, after the payment of bond issuance costs, if any, to pay the Debt Service Requirements on such Crossover Refunding Bonds on and prior to such Crossover Refunding Bonds Break Date, and (iv) other than paying or providing for the payment of bond insurance costs, if any, cannot be used for any purpose other than the payment of Debt Service Requirements on such Crossover Refunding Bonds on and after the Crossover Refunding Bonds Break Date.

Q. Crossover Refunding Bonds Break Date means the date specified in the ordinance authorizing a series of Crossover Refunding Bonds as the date upon which the proceeds of such Crossover Refunding Bonds can be applied to the purpose of which such Crossover Refunding Bonds are to be issued upon the satisfaction of certain conditions, which conditions shall be set forth in such ordinance.

R. Debt or *Debts* means all (i) indebtedness payable from Net Revenues incurred or assumed by the Issuer for borrowed money (including indebtedness payable from Net Revenues arising under Credit Agreements or Qualified Hedge Agreements) and all other financing obligations of the System payable from Net Revenues that, in accordance with generally accepted accounting principles for governmental entities, are shown on the liability side of a balance sheet; and (ii) all other indebtedness payable from Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations pertaining to the System that is guaranteed, directly or indirectly, in any manner by the Issuer, or that is in effect guaranteed, directly or indirectly, by the Issuer through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining *Debt,* there shall be excluded any particular Debt if, upon or prior to the Stated Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles for governmental entities applied on a basis consistent with the financial statements of the System in the Fiscal Years prior to the enactment of this Ordinance.

S. Debt Service Fund means the special Fund confirmed by the provisions of Section 15 of this Ordinance.

T. Debt Service Requirements for any Debt means, for any period of time for which such calculation applies, an amount equal to the sum of the following for such period:

Current interest scheduled to be paid during such period on such Debt, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of Debts, from interest earned or to be earned thereon, from other System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the debt service fund, plus

That portion of the principal of, or compounded interest on, such Debt scheduled to be payable during such period (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Debt redemptions); provided, however, that the following rules shall apply to the computation of Debt Service Requirements on any series of Debts consisting of Short Term Obligations, Adjustable Rate Obligations or Balloon Debt:

For any series of Debts issued as Short Term Obligations under this Ordinance pursuant to a program designated by the Issuer as a commercial paper or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest on such Short Term Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of Debt of the same lien which shall be assumed to be amortized over a remaining period not to exceed 30 years from the original issue date of such Short Term Obligations and shall be assumed to be amortized in such a manner that the Debt Service Requirements for any 12-month period are substantially equal to the Debt Service Requirements for any other 12-month period, and shall be assumed to bear interest at a fixed interest rate estimated by the Board's financial advisor in a written certificate delivered to the Issuer at the time of such calculation to be the interest rate such series of Debt would bear if issued on such terms on the date of such estimate;

For any series of Debt issued as Adjustable Rate Obligations, it shall be assumed that such Debt will bear interest at an interest rate estimated by the Board's financial advisor in a written certificate delivered to the Issuer at the time of such calculation to be the average rate of interest such Debt would bear if issued as long-term bonds, in the same principal amount and with the same Stated Maturity and priority of lien, bearing interest at fixed rates based on the average life of the Adjustable Rate Obligations;

For the purpose of calculating the Debt Service Requirements on any series of Debt issued as Balloon Debt, such Debt shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period not to exceed 30 years from the original issue date of such series of Debt at an interest rate estimated by the Board's financial advisor in a written certificate delivered to the Issuer at the time of such calculation to be the average rate of interest such series of Debt would bear if issued as long-term bonds in the same principal amount with the same priority of lien, bearing interest at fixed rates to be amortized within such 30-year period;

With respect to Crossover Refunding Bonds, the aggregate Debt Service Requirements thereon until the Crossover Refunding Bonds Break Date shall be disregarded; and

With respect to Debt to be redeemed with the proceeds of Crossover Refunding Bonds, Debt Service Requirements thereon after the Crossover Refunding Bonds Break Date shall be disregarded.

Debt Service Requirements shall be calculated on the assumption that no Debt outstanding at the time of calculation will cease to be outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such Debt, except as provided above for Short Term Obligations and Crossover Refunding Bonds (and the related Debt to be refunded thereby).

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement or related Credit Facility without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Qualified Hedge Agreements entered into in connection under Debt shall cause Debt Service Requirements for such Debt to be (i) decreased by the gross amount of any scheduled receipts by the Issuer under the Qualified Hedge Agreement and (ii) increased by the gross payments of the Issuer under the Qualified Hedge Agreement in each case without regard to netting; provided, however, that to the extent of the amount of Debt hedged by the Qualified Hedge Agreement: (i) if the Board's financial advisor certifies that there is a reasonably close historical correlation between floating interest payments on such, or similar Debt, and the floating rate index or formula used to calculate the Issuer's receipts under the Qualified Hedge Agreement, then the floating obligation shall be deemed to exceed the floating rate right for all future periods by the largest average annual spread between such rates over the preceding 10 years and (ii) otherwise all floating rate receipts and floating rate obligations on the Debt and Qualified Hedge Agreement shall be deemed to accrue at the average rates therefor (or for similar obligations) over the preceding 14 months for all future periods, notwithstanding anything in paragraph (i), (ii), or (iii) of this definition to the contrary, and provided further, that any obligation of the Issuer to make termination payments that are not payable in installments over the remaining term of that relevant transaction or to deliver collateral under a Qualified Hedge Agreement shall be paid as a Subordinate Lien Obligation or an obligation inferior and subordinate to any Subordinate Lien Obligations.

U. Depository means one or more official depository banks of the Board.

V. DTC means The Depository Trust Company, New York, New York and its successors and assigns.

W. Designated Financial Officers means the chief executive officer of the Board, the chief financial officer of the Board, or such other financial or accounting official of the Board so designated by the governing Body.

X. Eligible Refunded Bonds shall mean the currently outstanding Inferior Lien Obligations, Junior Lien Obligations and Previously Issued Senior Lien Obligations.

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

Z. Government Securities means (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) 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, on the date the Governing Body of the Issuer 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; or (iii) any other similar obligations now or hereafter permitted to be utilized for such purposes under the laws of the State.

AA. Gross Revenues means all revenues, income, and receipts of every nature derived or received by the Issuer or the Board from the operation and ownership of the System (other than grants, restricted gifts, water rights fees, contributions in aid of construction, impact fees charged by the Issuer or the Board pursuant to the provisions of Chapter 395, Texas Local Government Code, as amended, or other similar law, and refundable meter deposits), including the interest income from the investment or deposit of money in any Fund maintained pursuant to this Ordinance (with the exception of the Senior Lien Reserve Fund until the Required Reserve Amount is accumulated, the Project Fund, and the Rebate Fund), or maintained by the Issuer in connection with the System.

BB. Holder or *Holders* means the registered owner, whose name appears in the Security Register, for any Bond; provided that an ordinance may provide that, so long as an institution that issues a municipal bond insurance policy insuring a series of Debt is not in default of its payment obligations under such policy, such institution may, under the terms of the ordinance, at all times be deemed to be the exclusive Holder of such series of Debt for the purpose of all approvals, consents, waivers, or exercise of any action and the direction of all remedies.

CC. Inferior Lien Obligations means (i) any bonds, notes, warrants, certificates of obligation, or other Debt, including the Commercial Paper hereafter issued by the Issuer (to the extent such Commercial Paper Obligations are payable from an inferior lien on and pledge of the Net Revenues), that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the currently outstanding Previously Issued Senior Lien Obligations, the Bonds, Junior Lien Obligations, and any Additional Senior Lien Obligations, Additional Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the Governing Body in accordance with applicable law.

DD. Insurance Policy means each insurance policy, if any, issued by the Insurer guaranteeing the scheduled payment of principal and interest on the Bonds when due.

EE. Insurer means the insurer designated in the Approval Certificate, if any.

FF. Interest Payment Date means each date semiannual interest is payable on the Bonds, being September 1 and March 1 of each year, commencing March 1, 2025, or as otherwise designated in the Approval Certificate, while any of the Bonds remain Outstanding.

GG. Issuer means the City of Brownsville, Texas, and where appropriate, the Governing Body.

HH. Junior Lien Obligations means (i) the outstanding and unpaid obligations of the Issuer that are payable from and equally and ratably secured by a lien on and pledge of the Net Revenues of the System that is junior and inferior to the pledges and liens securing the Senior Lien Obligations, which junior lien obligations are identified as follows:

"City of Brownsville, Texas Utility System Junior Lien Revenue Bonds, Series 2012", dated March 1, 2012, issued in the original principal amount of $840,000; and

All Additional Junior Lien Obligations hereafter issued or incurred, and (iii) all parity obligations of the Issuer under Credit Agreements and Qualified Hedge Agreements related to any of the obligations described in clauses (i) or (ii) above.

II. Maintenance and Operating Expenses means all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, *including* (1) the cost of all salaries, labor, materials, repairs, and extensions necessary to render efficient service, *but only if,* in the case of repairs and extensions, that are, in the judgment of the Board (reasonably and fairly exercised), necessary to maintain operation of the System and render adequate service to the Issuer and the inhabitants thereof and other customers of the System, or are necessary to meet some physical accident or condition which would otherwise impair the payment of Debt, (2) payments to pension, retirement, health, hospitalization, and other employee benefit funds for employees of the Board engaged in the operation or maintenance of the System, (3) payments under contracts for the purchase of electricity, gas, water supply, treatment of sewage, and other utility services, or other materials, goods, or services for the System to the extent authorized by law and the provisions of such contract, (4) payments to auditors, attorneys, and other consultants incurred in complying with the obligations of the Issuer or the Board hereunder, and (5) any legal liability of the Issuer or the Board arising out of the operation, maintenance, or condition of the System, *but excluding* any allowance for depreciation, property retirement, depletion, and obsolescence, other items not requiring an outlay of cash, and any Debt Service Requirements of any Debt.

JJ. Maximum Annual Debt Service Requirements for any Debt means the greatest requirements of the combined Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any future Fiscal Year or in the then current Fiscal Year for such Debt. Capitalized interest payments provided from Debt proceeds, accrued interest received on the sale of any Debt, and interest earnings thereon may be credited in making such computation.

KK. Net Earnings means the Gross Revenues after deducting the Maintenance and Operating Expenses, but not expenditures which, under standard accounting practice, should be charged to capital expenditures.

LL. Net Revenues means Gross Revenues with respect to any period, after deducting the Maintenance and Operating Expenses during such period. For purposes of Section 13 of this Ordinance only, Net Revenues for any Fiscal Year shall be increased by the excess, if any, as of the last day of the preceding Fiscal Year, of (i) the accumulated Net Revenues of the System held as unencumbered cash and investments of the Issuer outside any debt service fund or reserve fund over (ii) 25% of the Maintenance and Operating Expenses in such preceding Fiscal Year.

MM. Obligations means the Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, Inferior Lien Obligations, Balloon Debt, Credit Agreements, and Qualified Hedge Agreements.

NN. Operating Reserve Fund means the special fund created by the provisions of Section 14 of this Ordinance.

OO. Ordinance means this ordinance adopted by the Governing Body on August 5, 2025.

PP. Outstanding when used in this Ordinance with respect to Bonds means, as of the date of determination, all Bonds issued and delivered under this Ordinance, except:

those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

those Bonds for which payment has been duly provided by the Issuer in accordance with the provisions of Section 47 of this Ordinance; and

those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 41 of this Ordinance.

QQ. Plant Fund means that special fund created and established by the provisions of Section 14 of this Ordinance.

RR. Previously Issued Senior Lien Obligations means (i) "City of Brownsville, Texas Utilities System Revenue Improvement and Refunding Bonds, Series 2005A"; dated August 1, 2005, in the principal amount of $163,725,000, (ii) "City of Brownsville, Texas Utilities System Revenue Refunding Bonds, Series 2008", dated May 15, 2008, in the principal amount of $77,805,000, (iii) the "City of Brownsville, Texas, Utility System Revenue Refunding Bonds, Series 2013A", dated May 7, 2013, in the principal amount of $118,185,000, (iv) the "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2015", dated August 1, 2015, in the principal amount of $94,770,000, (v) the "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2016", dated May 15, 2016, in the principal amount of $39,410,000, (vi) the "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2018", dated July 1, 2018, in the principal amount of $14,000,000 and (vii) "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2020," dated August 1, 2020, in the principal amount of $53,590,000, (viii) "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Taxable Series 2020A," dated August 1, 2020, in the principal amount of $62,320,000, (ix) "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2022 and Series 2022A," dated May 1, 2022, in the principal amount of $17,165,000 and $34,605,000, respectively; and (x) the Bonds.

SS. Prudent Utility Practice means any of the practices, methods, and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods, and acts engaged in or previously approved by a significant portion of the public utility industry, known at the time the decision was made, that would have been reasonably expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather is a spectrum of possible practices, methods, or acts which could have been reasonably expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition. In the case of any facility included in the System which is operated in common with one or more other entities, the term *Prudent Utility Practice,* as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

TT. Qualified Hedge Agreement means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the Issuer determines is to be used, or is intended to be used, to manage or reduce the cost of any Debt, to convert any element of any Debt from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty (in the case of clauses (i) through (v), whether from or initiated at the option of the Issuer or the counterparty). A Qualified Hedge Agreement may only be entered into with an institution that has long term credit ratings, or the obligations of which are unconditionally guaranteed by a financial institution with long term credit ratings, from each Rating Agency then rating the Debts at least equal to the rates assessed as indicated by such Rating Agency for such Debt (without regard to third-party credit enhancement). Any net obligations of the Issuer to make scheduled payments under the Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of Debts to which the Qualified Hedge Agreement relates. Each Qualified Hedge Agreement shall be deemed to be a part of the Debt of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in this Ordinance except to the extent otherwise provided therein or in the ordinance authorizing such Qualified Hedge Agreement. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as registered owners of Debts for purposes of any voting rights to approve amendments under this Ordinance.

UU. Rating Agency means Fitch Ratings, Moody's Investors Services, Inc., Standard & Poor's Financial Services LLC, or any other nationally recognized rating agency and any successors thereto.

VV. Refunded Bonds shall mean those Eligible Refunded Obligations as designated in the Approval Certificate, which are being refunded and defeased.

WW. Required Reserve Amount means the amount required to be deposited and maintained in the Senior Lien Reserve Fund under the provisions of Section 16 of this Ordinance.

XX. Required Reserve Fund Deposits means the monthly deposits, if any, required to be deposited and maintained in the Senior Lien Reserve Fund under the provisions of Section 16 of this Ordinance.

YY. Senior Lien Obligations means the Previously Issued Senior Lien Obligations, the Bonds, any Additional Senior Lien Obligations, and parity obligations of the Issuer under any Credit Agreement or Qualified Hedge Agreement related to the Bonds or Additional Senior Lien Obligations.

ZZ. Short Term Obligations means each series of bonds, notes and other obligations issued pursuant to a commercial paper, including the Commercial Paper Obligations, or other similar financing program under an ordinance adopted by the Governing Body, the payment of principal of which is due within one year from the date of issuance and is intended by the Governing Body to be refinanced through the issuance of additional Obligations.

AAA. Southmost Project, being a Special Project (with respect to wholesale rates and charges), means the facilities initially financed with certain proceeds of obligations designated as (i) "Southmost Regional Water Authority Water Supply Contract Revenue Refunding Bonds, Series 2006 (Desalination Plant Project)", dated December 1, 2006, in the original principal amount of $9,950,000, (ii) "Southmost Regional Water Authority Water Supply Contract Revenue Bonds, Series 2009A", dated November 1, 2009, in the original principal amount of $9,295,000, (iii) "Southmost Regional Water Authority Water Supply Contract Revenue Bonds, Series 2009B", dated November 1, 2009, in the original principal amount of $3,795,000, (iv) "Southmost Regional Water Authority Water Supply Contract Revenue Refunding Bonds, Series 2012", dated September 1, 2012, in the original principal amount of $13,530,000 and (v) "Southmost Regional Water Authority Water Supply Contract Revenue Refunding Bonds, Series 2017", dated April 1, 2017, in the original principal amount of $9,255,000 including such facilities as they may be expanded, modified, or improved in the future and the debt service requirements on which are payable as Maintenance and Operating Expenses of the System.

BBB. Special Project means, to the extent permitted by law, any electric, gas, water, wastewater, reuse water, resaca or municipal drainage system property, improvement, or facility declared by the Issuer, upon the recommendation of the Board, not to be part of the System, for which the costs of acquisition, construction, and installation are paid from proceeds of a financing transaction other than the issuance of Debt payable from a lien on and pledge of the Net Revenues and for which all maintenance and operation expenses are payable from sources other than Gross Revenues, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, reconstruction, and installation under such financing transaction.

CCC. State means the State of Texas.

DDD. Stated Maturity of the Bonds means the date on which the principal thereof is due and payable other than pursuant to mandatory redemption, as set forth in Section 4 of this Ordinance.

EEE. Subordinate Lien Obligations means (i) any bonds, notes, warrants, certificates of obligation, or other Debt hereafter issued by the Issuer that are payable, in whole or in part, from and equally and ratably secured by a subordinate and inferior lien on and pledge of the Net. Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the currently outstanding Previously Issued Senior Lien Obligations, the Bonds, and the currently outstanding Junior Lien Obligations and any Additional Senior Lien Obligations or Additional Junior Lien Obligations hereafter issued by the Issuer, but prior and superior to the lien on and pledge of the Net Revenues that may or will be pledged to the payment of any Inferior Lien Obligations (including the currently outstanding Commercial Paper Obligations) hereafter issued by the Issuer, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the Governing Body in accordance with applicable law.

FFF. Surety Policy means and includes a surety bond, insurance policy, letter of credit, or other agreement or instrument whereby the issuer is obligated to provide funds up to and including the maximum amount specified therein and under the conditions specified in such agreement or instrument.

GGG. System means all properties, facilities, and plants currently owned, operated, and maintained by the Issuer and/or the Board for the generation, transmission, and distribution of electric power, the supply, treatment, and transmission and distribution of treated potable water, chilled water, and steam, for the collection and treatment of wastewater, for water reuse, and for resacas, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, whether situated within or without the limits of the Issuer, all water (in any form) owned by the Issuer, and any other projects and programs of the Board and the Issuer; provided however, that the Issuer expressly retains the right to incorporate or exclude (1) a stormwater system as provided by the provisions of Section 552.041 through 552.054, Local Government Code, as amended, or other similar law, and (2) any other natural gas, telecommunications, technology, or other similar enterprise system as provided by the laws of the State as a part of the System. The System shall not include any Special Project.

HHH. Tax-Exempt Bonds means the one or more series of the Bonds, as designated in the Officers' Pricing Certificate, whose interest is excluded from gross income of the owners thereof for federal income tax purposes.

III. Taxable Bonds means the one or more series of Bonds, as designated in the Officers' Pricing Certificate, whose interest is included in the gross invoice of the owners thereof for federal income tax purposes.

JJJ. Underwriters means the initial purchaser or purchasers of Bonds as designated according to Section 42 of this Ordinance.

<u>Section 2. Interpretations</u>. All terms defined herein and all pronouns used in this Ordinance shall be deemed to apply equally to singular and plural and to all genders. The Titles and headings of the articles and sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the Net Revenues to secure the payment of the Bonds.

<u>Section 5. Redemption of Bonds</u>.

A. <u>Optional Redemption</u>. The Bonds shall be subject to optional redemption as provided in the Approval Certificate, in whole or in part thereof, in the principal amounts of $5,000 or an integral multiple thereof, at the par value thereof plus accrued interest to the date fixed for redemption, or as otherwise provided in the Approval Certificate.

Any Bonds called for optional redemption pursuant to the provisions of the preceding paragraph hereof shall be due and payable on the specified redemption date only if money sufficient to pay the applicable redemption price, plus accrued interest, shall be on deposit with the Paying Agent/Registrar.

B. <u>Mandatory Redemption</u>. The Bonds are subject to mandatory redemption in the manner provided in the Form of Bond in Section 11 of this Ordinance.

C. <u>Exercise of Redemption Option</u>. At least forty-five (45) days prior to a date set for the optional redemption of the Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the Issuer shall notify the Paying Agent/ Registrar of its decision to exercise the right to redeem Bonds, the principal amount of each Stated Maturity to be redeemed, and the date set for the redemption thereof. The decision of the Issuer to exercise the right to redeem Bonds shall be entered into the minutes of the Governing Body of the Issuer and may be conditioned on the sale and delivery of refunding bonds.

D. <u>Selection of Bonds for Redemption</u>. If less than all Outstanding Bonds of the same Stated Maturity are to be redeemed on a redemption date, the Paying Agent/Registrar shall select at random and by lot the Bonds to be redeemed, provided that if less than the entire principal amount of a Bond is to be redeemed, the Paying Agent/Registrar shall treat such Bond then subject to redemption as representing the number of Bonds Outstanding which is obtained by dividing the principal amount of such Bond by $5,000.

E. <u>Notice of Redemption</u>. Not less than thirty (30) days prior to an optional, make whole or mandatory redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first-class postage prepaid, in the name of the Issuer and at the Board's expense, by the Paying Agent/Registrar to each Holder of a Bond to be redeemed, in whole or in part, at the address of the Holder appearing on the Security Register (hereinafter defined) at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the Holder. This notice may also be published once in a financial publication, journal, or reporter of general circulations among securities dealers in the City of New York, New York (including, but not limited to, *The Bond Buyer* and *The Wall Street Journal*), or in the State (including, but not limited to, *The Texas Bond Reporter*). Additionally, this notice may also be sent by the Board to any registered securities depository and to any national information service that disseminates redemption notices.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state any condition to such redemption and that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified upon satisfaction of such condition, if any, and that thereafter the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Holder. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as herein provided and any condition to such redemption has been satisfied, such Bond (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and if money sufficient for the payment of such Bonds (or of the principal amount thereof to be redeemed) at the then applicable redemption price is held for the purpose of such payment by the Paying Agent/Registrar, then on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue, and such Bonds shall not be deemed to be Outstanding in accordance with the provisions of this Ordinance.

Section 12. Pledge of Net Revenues.

A. The Issuer hereby irrevocably pledges and grants a first and prior lien on the Net Revenues as security for the payment of the Senior Lien Obligations and the establishment and maintenance of the special funds created and established for the payment and security thereof, all as hereinafter provided; and it is hereby ordained that the Senior Lien Obligations, and the interest thereon, shall constitute a first and prior lien on and pledge of the Net Revenues and that such pledge and lien shall be valid and binding without any physical delivery thereof or further act by the Issuer, and the pledge and lien created hereby on the Net Revenues for the security of the Senior Lien Obligations shall be superior to the lien on and pledge of the Net Revenues securing payment of the currently outstanding Junior Lien Obligations, Subordinate Lien Obligations, the Commercial Paper Obligations, Inferior Lien Obligations and any other Debt, whether now outstanding or hereafter issued.

B. Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the pledge of and lien on Net Revenues granted by the Issuer under subsection A of this Section, and such pledge is therefore valid, effective, and perfected as security for the Bonds upon issuance of the Bonds. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the validity, effectiveness, or perfection of the pledge of the Net Revenues granted by the Issuer is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, as amended, then in order to preserve to the registered owners of the Bonds the perfection of the security interest created by such pledge and lien, the Issuer agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, as amended, and enable a filing to perfect the security interest created by such pledge and lien to occur.

Section 13. Rates and Charges. For the benefit of the Holders of the Senior Lien Obligations and in addition to all provisions and covenants in the laws of the State and in this Ordinance, the Issuer hereby expressly stipulates and agrees, while any of the Senior Lien Obligations are outstanding, to establish and maintain rates and charges for facilities and services afforded by the System, together with any other lawfully available funds, that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. to pay Maintenance and Operating Expenses for each Fiscal Year, including the funding or replenishment of the Operating Reserve Fund;

B. to produce Net Revenues sufficient to pay (1) no less than 1.25 times the annual Debt Service Requirements for such Fiscal Year on the Senior Lien Obligations then Outstanding and (2) no less than 1.00 the amounts required to be deposited to fund or to cure any deficiency in any reserve or contingency fund created for the payment and security of the Senior Lien Obligations and any other obligations or evidence of indebtedness issued or incurred that are payable from and equally and ratably secured solely by a first and prior lien on and pledge of the Net Revenues;

C. to produce Net Revenues, together with any other lawfully available funds (including the proceeds of Debt which the Issuer expects will be utilized to pay all or part of the principal of and/or interest on any obligations described in this subsection C), sufficient to pay (1) no less than 1.10 times the annual debt service requirements for such Fiscal Year on the Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the Issuer and the amounts required to be deposited to fund or cure any deficiency in any reserve or contingency fund created for the payment and security of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the Issuer and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a junior lien on and pledge of the Net Revenues; (2) no less than 1.00 times the annual debt service requirements on the currently outstanding Commercial Paper Obligations, and any Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the Issuer and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the currently outstanding Commercial Paper Obligations, and any Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the Issuer and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a subordinate lien on and pledge of the Net Revenues;

D. to produce Net Revenues, together with any other lawfully available funds, to fund the transfers as permitted by the provisions of Section 19 of this Ordinance; and

E. to pay any other Debt payable from the Net Revenues and/or secured by a lien on the System.

Should the annual audit report required by Section 32 hereof reflect that the Net Revenues for the Fiscal Year covered thereby were less than necessary to meet the requirements of this Section, the Board will, within thirty (30) days after receipt of such annual audit report, report such fact to the Governing Body (which report shall be in addition to other required reports to the Governing Body) and review the operations of the System and the rates and charges for services provided, and the Board (and the Governing Body, if required) will make the necessary adjustments or revisions, if any, in order that the Net Revenues for the succeeding year will be sufficient to satisfy the foregoing coverage requirements specified above.

Section 14. Plant Fund - Flow of Funds. The Issuer hereby covenants, agrees, and establishes that the Gross Revenues shall be deposited by the Board, as collected and received, into a separate account (previously created, established, and to be maintained with the Depository) known as the "City of Brownsville, Texas Utilities System Plant Fund" (the *Plant Fund*) and that the Gross Revenues shall be kept separate and apart from all other funds of the Issuer. All Gross Revenues deposited into the Plant Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, including, but not limited to, Chapter 1502, Texas Government Code, as amended, to be a first charge on and claim against the Gross Revenues, including the establishment of a fuel adjustment subaccount or similar accounts. In addition, the Board shall retain in the Plant Fund a reserve amount to pay Maintenance and Operating Expenses of not less than two months of budgeted Maintenance and Operating Expenses for the current Fiscal Year (the *Operating Reserve Fund*), which amount shall be funded initially in the amount of $12,500,000 with lawfully available funds of the Board and shall be replenished as provided in subparagraph ELEVENTH of this Section.

SECOND: to the payment of the amounts required to be deposited into the Debt Service Fund created and established for the payment of the Senior Lien Obligations as the same become due and payable.

THIRD: to the payment of the amounts required to be deposited into the Senior Lien Reserve Fund and other debt service reserves for Senior Lien Obligations created and established in accordance with Section 16 of this Ordinance to maintain the amounts required to be deposited in accordance with the provisions of this Ordinance or the ordinances relating to the issuance of any Additional Senior Lien Obligations.

FOURTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the Issuer as the same become due and payable.

FIFTH: to the payment of the amounts required to be deposited into the reserve fund created and established as referenced in Section 17 hereof, to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the issuance of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the Issuer.

SIXTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of the currently outstanding Commercial Paper Obligations (to the extent the Commercial Paper Obligations are payable from a subordinate lien on the Net Revenues), or any Subordinate Lien Obligations hereafter issued by the Issuer as the same become due and payable.

SEVENTH: to the payment of the amounts required to be deposited into the reserve fund, if any, created and established to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the currently outstanding Commercial Paper Obligations (to the extent the Commercial Paper Obligations are payable from a subordinate lien on the Net Revenues), or any Subordinate Lien Obligations hereafter issued by the Issuer as the same become due and payable.

EIGHTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of any Inferior Lien Obligations as the same become due and payable.

NINTH: to the payment of the amounts required to be deposited into the reserve fund, if any, created and established to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the issuance of any Inferior Lien Obligations.

TENTH: to the payment of the amounts to be deposited into the City Transfer Fund and to be transferred to the Issuer's General Fund as provided in Section 19 hereof.

ELEVENTH: to the payment of the amount to replenish the Operating Reserve Fund to the amount required in subparagraph FIRST of this Section.

TWELFTH: to the payment of the accrual to fund or to replenish the Capital Improvement Fund created and established by Section 20 hereof, along with the accumulation of any other surplus Net Revenues.

Section 15. Debt Service Fund - Excess Bond Proceeds. For purposes of providing funds to pay the principal of, premium, if any, and interest on the Senior Lien Obligations as the same become due and payable, the Issuer agrees that the Board shall maintain, at the Depository, and there has been previously created and established a separate and special account or fund to be created and known as the "City of Brownsville, Texas Utilities System Senior Lien Revenue Bond Interest and Sinking Fund" (the *Debt Service Fund*). The Issuer covenants that the Board shall deposit into the Debt Service Fund prior to each principal and interest payment date from the available Net Revenues an amount equal to one hundred per cent (100%) of the amount required to fully pay the interest on and the principal of the Senior Lien Obligations then falling due and payable, such deposits to pay maturing principal and accrued interest on the Senior Lien Obligations to be made by the Board in substantially equal monthly installments on or before the business day before the 15th day of each month, beginning on or before the business day before the 15th day of the month next following the delivery of the Bonds to the Underwriters. If the Net Revenues in any month are insufficient to make the required payments into the Debt Service Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Debt Service Fund in the next month.

The required monthly deposits into the Debt Service Fund for the payment of principal of and interest on the Senior Lien Obligations shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Debt Service Fund and the Senior Lien Reserve Fund is equal to the amount required to fully pay and discharge all outstanding Senior Lien Obligations (principal, premium, if any, and interest) or (ii) the Senior Lien Obligations are no longer outstanding.

Accrued interest and capitalized interest received from the purchaser of any Senior Lien Obligation, including the Underwriters with respect to the Bonds, shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Debt Service Fund. Additionally, any proceeds of the Senior Lien Obligations not expended for the authorized purposes shall be deposited into the Debt Service Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Debt Service Fund from the Net Revenues.

Section 16. Senior Lien Reserve Fund. To accumulate and maintain a reserve for the payment of the Senior Lien Obligations equal to the least of (1) 100% of the Maximum Annual Debt Service Requirements for the Senior Lien Obligations, (2) 125% of the Average Annual Debt Service Requirements for the Senior Lien Obligations and (3) 10% of the initial principal amount of the Outstanding Senior Lien Obligations, (calculated by the Board at the beginning of each Fiscal Year and as of the date of issuance of the Bonds and each series of Additional Senior Lien Obligations) (the *Required Reserve Amount*), the Issuer agrees that the Board will create and establish, and shall maintain a separate and special fund or account known as the "City of Brownsville, Texas Utilities System Senior Lien Revenue Bond Reserve Fund" (the *Senior Lien Reserve Fund*), which Fund shall be maintained at the Depository. Earnings and income derived from the investment of amounts held for the credit of the Senior Lien Reserve Fund shall be retained in the Senior Lien Reserve Fund until the Senior Lien Reserve Fund contains the Required Reserve Amount; thereafter, such earnings and income shall be deposited to the credit of the Debt Service Fund. All funds deposited into the Senior Lien Reserve Fund shall be used solely for the payment of the principal of and interest on the Senior Lien Obligations, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last Stated Maturity or Stated Maturities of or interest on the Senior Lien Obligations.

The Issuer may provide a Surety Policy or Policies issued in amounts equal to all or part of the Required Reserve Amount for the Senior Lien Obligations in lieu of depositing cash into the Senior Lien Reserve Fund; provided, however, that no such Surety Policy may be so substituted for cash on deposit in the Senior Lien Reserve Fund unless the substitution of the Surety Policy will not, in and of itself, cause any ratings then assigned to the Senior Lien Obligations by any Rating Agency to be lowered and the ordinance authorizing the substitution of the Surety Policy for all or part of the Required Reserve Amount for the Senior Lien Obligations contains (i) a finding that such substitution is cost effective and (ii) a provision that the interest due on any repayment obligation of the Issuer by reason of payments made under such Surety Policy does not exceed the highest lawful rate of interest which may be paid by the Issuer at the time of the delivery of the Surety Policy. The Issuer reserves the right to use Gross Revenues to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the Issuer (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Senior Lien Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the Required Reserve Amount for the Senior Lien Obligations.

As and when Additional Senior Lien Obligations are delivered or incurred, the Required Reserve Amount shall be increased, if required, to an amount calculated in the manner provided in the first paragraph of this Section. Any additional amount required to be maintained in the Senior Lien Reserve Fund shall be so accumulated by the deposit of all or a portion of the necessary amount from the proceeds of the issue or other lawfully available Net Revenues deposited into the Senior Lien Reserve Fund immediately after the delivery of the then proposed Additional Senior Lien Obligations, or, at the option of the Issuer, by the deposit of monthly installments, made on or before the business day before the 15th day of each month following the month of delivery of the then proposed Additional Senior Lien Obligations, of not less than 1/60th of the additional amounts to be maintained in the Senior Lien Reserve Fund by reason of the issuance of the Additional Senior Lien Obligations then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Required Reserve Amount.

When and for so long as the cash and investments in the Senior Lien Reserve Fund equal the Required Reserve Amount, no deposits need be made to the credit of the Senior Lien Reserve Fund; but, if and when the Senior Lien Reserve Fund at any time contains less than the Required Reserve Amount (other than as the result of the issuance of Additional Senior Lien Obligations as provided in the preceding paragraph), the Issuer covenants and agrees that the Board shall cure the deficiency in the Required Reserve Amount by resuming the Required Reserve Fund deposits to such Fund from the Net Revenues such monthly deposits to be in amounts equal to not less than 1/60th (or 1/12th in the case of the repayment of amounts pursuant to Section 65 hereof) of the Required Reserve Amount covenanted by the Issuer to be maintained in the Senior Lien Reserve Fund with any such deficiency payments being made on or before the business day before the 15th day of each month until the Required Reserve Amount has been fully restored. The Issuer further covenants and agrees that, subject only to the prior payments to be made to the Debt Service Fund, the Net Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve Amount and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Senior Lien Obligations.

During such time as the Senior Lien Reserve Fund contains the Required Reserve Amount, the Board may, at its option, withdraw all surplus funds in the Senior Lien Reserve Fund in excess of the Required Reserve Amount and deposit such surplus in the Debt Service Fund.

In the event a Surety Policy issued to satisfy all or a part of the Issuer's obligation with respect to the Senior Lien Reserve Fund causes the amount then on deposit in the Senior Lien Reserve Fund to exceed the Required Reserve Amount for the Senior Lien Obligations, the Board may transfer such excess amount to any fund or funds established for the payment of or security for the Senior Lien Obligations (including any escrow established for the final payment of any such obligations pursuant to the provisions of Chapter 1207, or to the Capital Improvement Fund; provided, however, to the extent that such excess amount represents Senior Lien Obligation proceeds, then such amount must be transferred to the Debt Service Fund or the escrow fund referenced above.

Notwithstanding anything in this Section to the contrary, the Issuer (i) may elect to exclude Additional Senior Lien Obligations from the benefit of the Senior Lien Reserve Fund, in which case such Senior Lien Obligations shall not be taken into account in calculating the amount of the Required Reserve Account, nor shall money in the Senior Lien Reserve Fund be used to pay or provide for the payment of principal of or interest on such Senior Lien Obligations, and (2) may elect to fund a separate debt service reserve fund for one or more series of such Additional Senior Lien Obligations to the extent the balance of such fund does not exceed the amount by which the Required Reserve Amount is reduced by such exclusion in any Fiscal Year.

<u>Section 17. Junior Lien Reserve Fund</u>. To accumulate and maintain a reserve for the payment of the Junior Lien Obligations equal to 100% of the Average Annual Debt Service Requirements (calculated by the Board at the beginning of each Fiscal Year and as of the date of issuance of each series of Additional Junior Lien Obligations) for the Junior Lien Obligations (the *Junior Lien Required Reserve Amount*), the Issuer agrees that the Board will create and establish, and shall maintain a separate and special fund or account known as the "City of Brownsville, Texas Utilities System Junior Lien Revenue Bond Reserve Fund" (the *Junior Lien Reserve Fund*), which Fund shall be maintained at the Depository. Earnings and income derived from the investment of amounts held for the credit of the Junior Lien Reserve Fund shall be retained in the Junior Lien Reserve Fund until the Junior Lien Reserve Fund contains

the Junior Lien Required Reserve Amount; thereafter, such earnings and income shall be deposited to the credit of the debt service fund for the Junior Lien Obligations. All funds deposited into the Junior Lien Reserve Fund shall be used solely for the payment of the principal of and interest on the Junior Lien Obligations, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last Stated Maturity or Stated Maturities of or interest on the Junior Lien Obligations.

The Issuer may provide a Surety Policy or Policies issued in amounts equal to all or part of the Junior Lien Required Reserve Amount for the Junior Lien Obligations in lieu of depositing cash into the Junior Lien Reserve Fund; provided, however, that no such Surety Policy may be so substituted for cash in the Junior Lien Reserve Fund unless the substitution of the Surety Policy will not, in and of itself, cause any ratings then assigned to the Junior Lien Obligations by any Rating Agency to be lowered and the ordinance authorizing the substitution of the Surety Policy for all or part of the Junior Lien Required Reserve Amount for the Junior Lien Obligations contains (i) a finding that such substitution is cost effective and (ii) a provision that the interest due on any repayment obligation of the Issuer by reason of payments made under such Surety Policy does not exceed the highest lawful rate of interest which may be paid by the Issuer at the time of the delivery of the Surety Policy. The Issuer reserves the right to use Gross Revenues to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the Issuer (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Junior Lien Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the Junior Lien Required Reserve Amount for the Junior Lien Obligations.

As and when Additional Junior Lien Obligations are delivered or incurred, the Junior Lien Required Reserve Amount shall be increased, if required, to an amount calculated in the manner provided in the first paragraph of this Section. Any additional amount required to be maintained in the Junior Lien Reserve Fund shall be so accumulated by the deposit of all or a portion of the necessary amount from the proceeds of the issue or other lawfully available Net Revenues deposited into the Junior Lien Reserve Fund immediately after the delivery of the then proposed Additional Junior Lien Obligations, or, at the option of the Issuer, by the deposit of monthly installments, made on or before the business day before the 15th day of each month following the month of delivery of the then proposed Additional Junior Lien Obligations, of not less than 1/60th of the additional amount to be maintained in the Junior Lien Reserve Fund by reason of the issuance of the Additional Junior Lien Obligations then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Junior Lien Required Reserve Amount.

When and for so long as the cash and investments in the Junior Lien Reserve Fund equal the Junior Lien Required Reserve Amount, no deposits need be made to the credit of the Junior Lien Reserve Fund; but, if and when the Junior Lien Reserve Fund at any time contains less than the Junior Lien Required Reserve Amount (other than as the result of the issuance of Additional Junior Lien Obligations as provided in the preceding paragraph), the Issuer covenants and agrees that the Board shall cure the deficiency in the Junior Lien Required Reserve Amount by resuming the Junior Lien Reserve Fund deposits to such Fund from the Net Revenues such monthly deposits to be in amounts equal to not less than 1/60th of the Junior Lien Required Reserve Amount covenanted by the Issuer to be maintained in the Junior Lien Reserve Fund with any such deficiency payments being made on or before the business day before the 15th day of each month until the Junior Lien Required Reserve Amount has been fully restored. The Issuer further covenants and agrees that, subject only to the prior payments to be made to the Debt Service Fund, the Net Revenues shall be applied and appropriated and used to establish and maintain the Junior Lien Required Reserve Amount and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Junior Lien Obligations.

During such time as the Junior Lien Reserve Fund contains the Junior Lien Required Reserve Amount, the Board may, at its option, withdraw all surplus funds in the Junior Lien Reserve Fund in excess of the Junior Lien Required Reserve Amount and deposit such surplus in the debt service fund relating to the Junior Lien Obligations.

In the event a Surety Policy issued to satisfy all or a part of the Issuer's obligation with respect to the Junior Lien Reserve Fund causes the amount then on deposit in the Junior Lien Reserve Fund to exceed the Junior Lien Required Reserve Amount for the Junior Lien Obligations, the Board may transfer such excess amount to any fund or funds established for the payment of or security for the Junior Lien Obligations (including any escrow established for the final payment of any such obligations pursuant to the provisions of Chapter 1207 or to the Capital Improvement Fund; provided, however, to the extent that such excess amount represents Junior Lien Obligation proceeds, then such amount must be transferred to the debt service fund relating to the Junior Lien Obligations or the escrow fund referenced above.

Section 18. Reserve Fund for Subordinate Lien Obligations and Inferior Lien Obligations. The Issuer reserves the right, at its option, to establish and create a separate reserve fund for each issuance of Subordinate Lien Obligations and/or Inferior Lien Obligations.

Section 19. Payments to Issuer's General Fund.

A. For purposes of providing funds to transfer to the Issuer's General Fund, the Issuer agrees that the Board shall maintain, at the Depository, and there has been previously created and established a separate and special account or fund to be created and known as the "City of Brownsville, Texas Utilities System City Transfer Fund" (the *City Transfer Fund*). The Issuer covenants that the Board shall deposit into the City Transfer Fund from the available Net Revenues an amount equal to one-third of the quarterly amount hereinafter described to be made by the Board to the Issuer in substantially equal monthly installments on or before the business day before the 15th day of each month, beginning on or before the business day before the 15th day of the month next following the delivery of the Bonds to the Underwriters. After making each of the payments required by the provisions of subparagraphs FIRST through NINTH of Section 14 hereof, the Designated Financial Officer of the Board shall transfer no later than the business day preceding the 15th day of the month following the end of each Fiscal Year quarter, an amount of money from the City Transfer Fund equal to ten percent (10%) (or such lesser amount as may be determined from time to time by the Governing Body) of the Gross Revenues received for the preceding Fiscal Year quarter, as adjusted in accordance with the next two following sentences, to be utilized by the Issuer in the manner permitted by the provisions of Chapter 1502, Texas Government Code, as amended. Prior to applying the percentage set forth in the preceding sentence to determine the amount to be transferred to the Issuer, the amount of Gross Revenues for a Fiscal Year quarter shall be reduced by an amount equal to all costs for the purchase of power and fuel paid or incurred by the Board during such Fiscal Year quarter. Furthermore the amount of funds to be transferred to the Issuer in accordance with the provisions of this subsection shall be reduced by any amounts owed by the Issuer to the Board for the utility services described in Section 33E. hereof; provided, however, that the Board shall provide the Issuer with a sufficiently detailed statement of charges for such utility services to permit the Issuer to allocate the charges for such utility services to the appropriate office, division, or department of the Issuer and to determine the charges with respect to the Southmost Project.

B. To the extent that the available Net Revenues in any fiscal year quarter are insufficient for the Board to make all or part of the transfer required by the preceding paragraph, the Board shall make up such shortfall (i) in the next fiscal year quarter in which available Net Revenues exceed the amounts required to make the transfer to the Issuer pursuant to the preceding paragraph and the payment to the Operating Reserve Fund under Section 14 or (ii) to the extent such shortfall has not been made up by the last quarter of the Fiscal Year, solely from any surplus funds deposited into the Capital Improvement Fund for such Fiscal Year.

Section 20. Capital Improvement Fund. The Issuer has previously created and established and covenants to maintain a special fund or account to be known as the "City of Brownsville, Texas Utility System Capital Improvement Fund" (the *Capital Improvement Fund*) and the Capital Improvement Fund shall be maintained at a Depository to the extent not invested. Money on deposit in the Capital Improvement Fund shall be used for making any capital improvements to the System and for meeting contingencies of any nature in connection with the operations, maintenance, improvement, replacement, or relocation of properties constituting the System including, but not limited to, the replacement of any equipment relating to the System, as may be determined from time to time by the Board and to fund the costs of any rate stabilization subaccount or any other similar subaccounts.

The Issuer covenants that Net Revenues of the System, after making the payments as required by the provisions of Section 14 of the Ordinance, should be paid into a Capital Reserve Account of the Capital Improvement Fund in an annual sum equal to $3,000,000 ($15,000,000 divided by five years). The first annual payment was made on or before September 30, 2006 and shall be made on each annual anniversary thereof until the amount on deposit in the Capital Reserve Account of the Capital Improvement Fund equals or exceeds $15,000,000 (the *Capital Amount*). In the event that these annual payments are not made, the Board shall immediately request that the Issuer establish sufficient rates and charges for the System to cure any such deficiency with respect to the accumulation of the Capital Amount within one year.

When and so long as the cash and investments in the Capital Reserve Account of the Capital Improvement Fund equals the Capital Amount, no deposits will be required to be made to the credit of the Capital Reserve Account of the Capital Improvement Fund; but, if and when the Capital Reserve Account of the Capital Improvement Fund at any time contains less than the Capital Amount, the Issuer covenants and agrees to cure the deficiency in the Capital Amount by resuming monthly deposits to said Fund from Net Revenues of the System, or at the option of the Issuer from any other lawfully available funds, such monthly deposits to be in amounts equal to not less than 1/36th of the Capital Amount covenanted by the Issuer to be maintained in the Capital Improvement Fund with any such deficiency payments being made on or before the business day preceding the fifteenth day of each month until the Capital Amount has been fully restored. The Issuer further covenants and agrees that, subject only to the prior payments to be made pursuant to Section 14 hereof, Net Revenues shall be applied and appropriated and used to establish and maintain the Capital Amount, to cure any deficiency in such amounts as required by the terms of this Ordinance, or to retain any such surplus Net Revenues in the Capital Improvement Fund.

Deposits to the Capital Improvement Fund shall be made from Net Revenues after making each of the payments required by the provisions of subparagraphs FIRST through ELEVENTH of Section 14 hereof.

Section 21. Project Fund. The prior creation of the special fund of the Issuer, known as the "City of Brownsville, Texas Utilities System Project Fund" (the *Project Fund*) in connection with any Previously Issued Senior Lien Obligations is hereby confirmed. The Project Fund shall be maintained as a separate account on the books of the Board at the Depository. The Project Fund shall be used only to account for (i) the proceeds of Senior Lien Obligations deposited therein to finance capital improvements to the System and (ii) except as hereinafter provided, investment earnings thereon. Funds on deposit in the Project Fund shall be used only for paying the costs of the extension, construction, improvement, or repair of the System, the costs of issuance of the Senior Lien Obligations, capitalized interest during such construction period, and for any other lawful purpose. Any amounts remaining in the Project Fund upon the completion of the projects funded therefrom shall be transferred by the Board to the Debt Service Fund.

Section 22. Deficiencies - Excess Net Revenues.

If on any occasion there shall not be sufficient Net Revenues to make the required deposits as set forth in Section 14 of this Ordinance, then such deficiency shall be cured as soon as possible from the next available unallocated Net Revenues, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these Funds during such month or months.

Subject to making the deposits required by this Ordinance, or any ordinances authorizing the issuance of other outstanding Senior Lien Obligations, or the payments required by the provisions of the ordinances authorizing the issuance of the Junior Lien Obligations, Subordinate Lien Obligations, Commercial Paper Obligations, or any Inferior Lien Obligations then outstanding, the excess Net Revenues shall be deposited into the Capital Improvement Fund.

Section 23. Payment of the Senior Lien Obligations. While any of the Senior Lien Obligations are outstanding, the Designated Financial Officer shall cause to be transferred to the Paying Agent/Registrar therefor, if any, from funds on deposit in the Debt Service Fund, and, if necessary, in the Senior Lien Reserve Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of such Senior Lien Obligations as such installment accrues or matures; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for such Senior Lien Obligations not later than the business day next preceding the date a debt service payment is due on such Senior Lien Obligations.

Section 24. Investment of Funds - Valuation - Transfer of Investment Income.

Money in the Plant Fund, the Debt Service Fund, the Senior Lien Reserve Fund, the Operating Reserve Fund, the Capital Improvement Fund, and the Project Fund may, at the option of the Board, be invested in time deposits or certificates of deposit, guaranteed investment contracts, or similar contractual agreements, secured in the manner required by law for public funds, or be invested in direct obligations of, including obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America, or as otherwise permitted by Texas law including, but not limited to, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, or any successor provision of law, as in effect from time to time; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investments with any financial institution) that the money required to be expended from any Fund will be available at the proper time or times, and provided further that in no event shall such deposits or investments of money in the Senior Lien Reserve Fund mature later than the final maturity date of the Senior. Lien Obligations. All such investments shall be valued in terms of current market value no less frequently than the last business day of the Board's Fiscal Year, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held at the Depository or as otherwise permitted by law, except as hereinafter provided. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other funds or with other money of the Board, in common investments of the kind described above, or in a common pool of such investment which shall be kept and held at the Depository, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If necessary, such investments shall be promptly sold to prevent any default.

All interest and income derived from such deposits and investments (other than the Rebate Fund, the Project Fund, and interest and income derived from deposits to the Senior Lien Reserve Fund if the Senior Lien Reserve Fund does not contain the Required Reserve Amount) shall be credited to the Plant Fund monthly and shall constitute Gross Revenues.

All interest and income derived from such deposits and investments in the Project Fund may be deposited in the Project Fund as permitted by the provisions of Chapter 1201, Texas Government Code, as amended, and shall not constitute Gross Revenues, except that, to the extent required by law, such interest and income may be applied to make such payments to the United States as shall be required to assure that interest on the Senior Lien Obligations is excludable from gross income for federal income tax purposes of the Holders as described in Section 45 of this Ordinance.

Section 25. Issuance of Additional Senior Lien Obligations. In addition to the right to issue Additional Junior Lien Obligations, Subordinate Lien Obligations, and Inferior Lien Obligations as authorized by Sections 26, 27, and 28 hereof pursuant to any laws of the State, the Issuer reserves the right to issue Additional Senior Lien Obligations and to enter into one or more Credit Agreements and/or Qualified Hedge Agreements related thereto. The Additional Senior Lien Obligations, when issued in compliance with the terms and conditions hereinafter prescribed, shall be payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues in the same manner and to the same extent as the Bonds. The Additional Senior Lien Obligations may be issued in such form and manner as is now or hereafter authorized by the laws of the State for the issuance of evidences of indebtedness or other instruments and should new methods or financing techniques be developed that differ from those now available, the Issuer and the Board reserve the right to employ the same in their financing arrangements; provided, however, that none shall be issued, nor shall parity obligations under related Credit Agreements or Qualified Hedge Agreements be entered into unless and until the following conditions, as appropriate, have been met:

A. Conditions Precedent - General. The Issuer covenants and agrees that Additional Senior Lien Obligations will not be issued and parity obligations under Credit Agreements and Qualified Hedge Agreements will not be executed and entered into unless and until:

(1) the Designated Financial Officer executes a certificate stating that (a) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Senior Lien Obligations to satisfy the Issuer's or the Board's obligations under this Ordinance or any other ordinance authorizing the issuance of any then outstanding Senior Lien Obligations, the Issuer and the Board are not then in default as to any covenant, condition, or obligation prescribed in this Ordinance or in the ordinances authorizing the issuance of any then outstanding Senior Lien Obligations, and (b) each of the special funds created for the payment, security, and benefit of the Senior Lien Obligations then outstanding contains the amount of money then required to be on deposit therein. This certificate shall be dated as of the date the ordinance is adopted authorizing the issuance of the Additional Senior Lien Obligations;

(2) the laws of the State in force at such time provide for the issuance of the Additional Senior Lien Obligations or execution of any Credit Agreement or Qualified Hedge Agreement, as applicable;

(3) the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of any Credit Agreement or Qualified Hedge Agreement, as applicable, provides for deposits (at the times established in Section 14 hereof) to be made to the Debt Service Fund in amounts sufficient to pay the principal of, premium, if any, and interest on such Additional Senior Lien Obligations as the same mature or any parity obligations payable under any Credit Agreements or Qualified Hedge Agreements when due, as applicable; and

(4) the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of any Credit Agreement or Qualified Hedge Agreement, as applicable, (a) provides that the amount to be accumulated and maintained in the Senior Lien Reserve Fund shall be in an amount equal to not less than the Required Reserve Amount, after giving effect to the issuance of the proposed Additional Senior Lien Obligations and the execution of the proposed Credit Agreement or Qualified Hedge Agreement, and (b) provides that any additional amount required to be deposited in the Senior Lien Reserve Fund shall be so accumulated by the deposit in the Senior Lien Reserve Fund of all or any part of such required additional amount in cash immediately after the delivery of such Additional Senior Lien Obligations, or, at the option of the Issuer, by (i) the deposit of such required additional amount (or any balance of such required additional amount not deposited in cash as permitted above) in approximately equal monthly installments, made on or before the business day before the fifteenth day of each month following the delivery of such Additional Senior Lien Obligations (or 1/60 of the balance of such required additional amount not deposited in cash as permitted above) or (ii) the deposit of a Surety Policy which, in whole or in combination with deposits described in clause (i) above, is sufficient to satisfy the required additional amount to be on deposited in the Senior Lien Reserve Fund to accumulate and maintain the Required Reserve Amount.

B. Coverage. The Issuer covenants and agrees that Additional Senior Lien Obligations will not be issued and parity obligations under Credit Agreements or Qualified Hedge Agreements will not be entered into unless and until, in addition to satisfying the conditions precedent in subparagraph A above, the Designated Financial Officer executes and delivers a certificate representing that, according to the books and records of the Board, the Net Earnings, for the preceding Fiscal Year or for any 12 consecutive calendar month period out of the 18-month period ending not more than ninety (90) days preceding the month the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, is adopted, are equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, then proposed. In making such a determination of the Net Earnings, the Designated

Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to adoption of the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, and, for purposes of satisfying the Net Earnings test, make a pro forma determination of the Net Earnings for the period of time covered by this representation based on such change in rates and charges being in effect for the entire period covered by the Designated Financial Officer's representation.

C. Parity. All such Additional Senior Lien Obligations and parity obligations under Credit Agreements and Qualified Hedge Agreements provided for in this Section, when issued or entered into in accordance with the above, shall be payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues on a parity with the pledge thereof securing the payment of the Bonds, and the provisions of this Ordinance relating to the use of Net Revenues shall be applicable to such Additional Senior Lien Obligations and parity obligations under Credit Agreements and Qualified Hedge Agreements as though the same were a part of such original authorization.

Section 26. Issuance of Additional Junior Lien Obligations. The Issuer hereby expressly reserves the right to hereafter issue Additional Junior Lien Obligations and enter into parity obligations under Credit Agreements and Qualified Hedge Agreements payable from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues of the System junior and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the currently outstanding Senior Lien Obligations, as may be authorized by the laws of the State, upon satisfying each of the following conditions precedent:

A. The Designated Financial Officer of the Board (or other official of the Board having primary responsibility for the fiscal affairs of the Board) shall have executed a certificate stating that (i) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Junior Lien Obligations to satisfy the Issuer's or the Board's, as applicable, obligations under this Ordinance or any ordinances authorizing the issuance of any then outstanding Senior Lien Obligation or Junior Lien Obligations, the Issuer and the Board are not then in default as to any covenant, obligation, or agreement contained in any ordinance or other proceedings relating to any obligations of the Issuer payable from and secured by a lien on and pledge of Net Revenues of the System and (ii) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of Net Revenues of the System have been duly made and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein;

B. The Issuer has secured from the Accountant a certificate or opinion to the effect that, according to the books and records of the Board, the Net Earnings of the System, for the preceding Fiscal Year or for any 12 consecutive months out of the 18 months immediately preceding the month the ordinance authorizing the issuance of the Additional Junior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, is adopted, after making all required debt service and reserve fund payments relating to the Senior Lien Obligations, are at least equal to 125% of the Average Annual Debt Service Requirement for the payment of principal of and interest on all outstanding Junior Lien Obligations after giving effect to the Additional Junior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, then proposed and in making a determination of the Net Earnings, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Revenues are to be determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion; provided, however, at such time as the currently outstanding Junior Lien Obligations as of the date of this Ordinance or any refunding bonds issued to refund such obligations are no longer outstanding or otherwise defeased, the certification required by this paragraph may be given by the Designated Financial Officer of the Board (or other official of the Board having primary responsibility for the financial affairs of the Board);

C. The ordinance authorizing the issuance of the Additional Junior Lien Obligations provides for deposits to be made to a debt service fund for the Junior Lien Obligations in amounts sufficient to pay the principal of and interest on such Additional Junior Lien Obligations as same mature and any parity obligations under any Credit Agreements and Qualified Hedge Agreements, as applicable; and

D. The ordinance authorizing the issuance of the Additional Junior Lien Obligations provides that the amount to be accumulated and maintained in the Junior Lien Reserve Fund shall be in an amount equal to not less than the Average Annual Debt Service Requirements for the Junior Lien Obligations then outstanding after giving effect to the issuance of the proposed Additional Junior Lien Obligations, or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, and provides that any additional amount to be maintained in the Junior Lien Reserve Fund shall be satisfied with a deposit of cash or accumulated within sixty (60) months from the date the Additional Junior Lien Obligations are delivered or the Credit Agreement or Qualified Hedge Agreement is entered into or shall be funded by a Surety Policy.

Section 27. Issuance of Subordinate Lien Obligations.

The Issuer hereby reserves the right to hereafter issue Subordinate Lien Obligations and parity obligations under Credit Agreements and Qualified Hedge Agreements payable from and equally and ratably secured by a lien on and pledge of the Net Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the currently outstanding Senior Lien Obligations and Junior Lien Obligations, as may be authorized by the laws of the State, upon satisfying each of the following conditions precedent:

A. The Designated Financial Officer (or other officer of the Board then having the primary responsibility for the financial affairs of the Board) shall have executed a certificate stating that (1) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Subordinate Lien Obligations to satisfy the Issuer's or the Board's, as applicable, obligations under this Ordinance or any ordinances authorizing the issuance of any then outstanding Senior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations, the Issuer and the Board are not then in default as to any covenant, obligation, or agreement contained in any ordinance or other proceeding relating to any obligations of the Issuer or the Board payable from and secured by a lien on and pledge of the Net Revenues and (2) all payments into all funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues have been made in full and that the amounts on deposit in such funds or accounts are the amounts then required to be deposited therein. Such certificate shall be dated as of the date of such Subordinate Lien Obligations, Credit Agreement, or Qualified Hedge Agreement, as applicable.

B. The Issuer has secured a certificate of the Designated Financial Officer to the effect that, according to the books and records of the Board, the Net Earnings for the preceding Fiscal Year or for 12 consecutive months out of the 18 months immediately preceding the month the ordinance authorizing such Subordinate Lien Obligations or parity obligations under any Credit Agreement or Qualified Hedge Agreement is adopted, after making all debt service and reserve fund payments relating to the Senior Lien Obligations and Junior Lien Obligations, are at least equal to 1.00 times the Average Annual Debt Service Requirements for the Senior Lien Obligations, Junior Lien Obligations, and Subordinate Lien Obligations outstanding, including in each case the Subordinate Lien Obligations and any Credit Agreements or Qualified Hedge Agreements then proposed to be issued or entered into. In making a determination of the Net Earnings for purposes of this Subsection, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least 60 days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings of the System for the period of time covered by his certification based on such changes, in rates and charges being in effect for the entire period covered by the Designated Financial Officer's certificate.

Section 28. Issuance of Inferior Lien Obligations. The Issuer hereby reserves the right to issue, at any time, Inferior Lien Obligations payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the currently outstanding Senior Lien Obligations, Junior Lien Obligations, and Subordinate Lien Obligations, as may be authorized by the laws of the State upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Commercial Paper Obligations.

Section 29. Refunding Bonds. The Issuer reserves the right to issue refunding bonds to refund all or any part of the outstanding Senior Lien Obligations, pursuant to any law then available, upon such terms and conditions as the Governing Body may deem to be in the best interest of the Issuer, its inhabitants, and other customers of the System, and if less than all such outstanding Senior Lien Obligations are refunded, the conditions precedent prescribed for the issuance of Additional Senior Lien Obligations set forth in Section 25 of this Ordinance shall be satisfied and the representations and certifications required in Section 25B shall give effect to the Maximum Annual Debt Service Requirements of the proposed refunding bonds (but shall not give effect to the Maximum Annual Debt Service Requirements of the obligations being refunded following their cancellation or provision being made for their payment); provided, however, if as a result of such refunding the Maximum Annual Debt Service Requirements are not increased in any Fiscal Year, the Issuer shall not be required to satisfy the requirements of Section 25B as a requirement for the issuance of such refunding bonds.

Section 30. Issuance of Special Project Obligations. Nothing in this Ordinance shall be construed to deny the Issuer the right and it shall retain the right to issue Special Project obligations, provided, however, the Issuer will not issue Special Project obligations unless the Issuer concludes and specifically finds, upon recommendation of the Board, that (i) the plan for developing the Special Project is consistent with sound planning, (ii) the Special Project would not materially and adversely interfere with the operation of the System, (iii) the Special Project can be economically and efficiently operated and maintained, and (iv) the Special Project can be economically and efficiently utilized by the Board to meet the electric power, water, wastewater, water reuse, stormwater drainage, or any other utility service requirements and the cost of such will be reasonable.

Section 31. Maintenance of System - Insurance. The Issuer covenants and agrees that while any Senior Lien Obligations remain outstanding the Board will maintain and operate the System in accordance with Prudent Utility Practice and will maintain casualty and other insurance on the properties of the System and its operations of a kind and in such amounts customarily carried by municipal corporations in the State engaged in a similar type of business (which may include an adequate program of self-insurance as set forth in more detail in Section 33M hereof); and that it will faithfully and punctually perform all duties with reference to the System required by the laws of the State. The payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses. Nothing in this Ordinance shall be construed as requiring the Issuer or the Board to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the Issuer or the Board from doing so.

Section 32. Records and Accounts - Annual Audit. The Issuer covenants and agrees that so long as any of the Senior Lien Obligations remain outstanding, the Board will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto, as provided by generally accepted accounting principles, consistently applied, and by Chapter 1502, Texas Government Code, as amended, or other applicable law. The Holders of the Bonds or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The Issuer further agrees that, following the close of each Fiscal Year, the Board will cause an audit of such records and accounts to be made by an Accountant. Copies of each annual audit shall be made available for public inspection during normal business hours at the Board's principal office and the City Secretary's office and may be furnished to, upon written request, any Holder upon payment of the reasonable copying and mailing charges. Expenses incurred in making the annual audit of the operations of the System shall be considered as Maintenance and Operating Expenses.

Section 33. Special Covenants. The Issuer hereby further covenants that:

A. it has the lawful power to pledge the Net Revenues to secure payment of the Bonds and has lawfully exercised this power under the laws of the State, including the power existing under Chapters 1207 and 1502, Texas Government Code, as amended;

B. the Senior Lien Obligations shall be equally and ratably secured by a lien on and pledge of the Net Revenues in a manner that one obligation shall have no preference over any other obligation;

C. other than for the payment of the currently outstanding Previously Issued Senior Lien Obligations, Junior Lien Obligations, Commercial Paper Obligations, and the Bonds, the Net Revenues have not in any manner been pledged to the payment of any debt or obligation of the Issuer or of the System;

D. as long as any Bonds, or any interest thereon, remain Outstanding, neither the Issuer nor the Board will sell, lease, or encumber the System or any substantial part thereof (except as provided in Sections 25, 26, 27 and 28 of this Ordinance) provided that this covenant shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System;

E. no free service (except water provided to the Issuer for municipal fire-fighting purposes) of the System shall be allowed, and, should the Issuer or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made to the Board or shall be deducted from the amount of funds that would otherwise be transferred to the Issuer's General Fund pursuant to this Ordinance;

F. to the extent that it legally may, the Issuer further covenants and agrees that, so long as any Senior Lien Obligations, or any interest thereon, are Outstanding, no franchise shall be granted for the installation or operation of any competing utility systems, and the operation of any such systems by anyone is hereby prohibited, to the extent permitted by law;

G. through the Board as an agent of the Issuer, it will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance; through the Board as an agent of the Issuer, it will promptly pay or cause to be paid all Senior Lien Obligations, on the dates and in the places and manner prescribed in this Ordinance; and through the Board as an agent of the Issuer, it will, at the time and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Funds and accounts as provided in accordance with this Ordinance; and any Holder of any Bond or payee of any other Senior Lien Obligations may require the Issuer and the Board, their officials, and employees to carry out, respect or enforce the covenants and obligations of this Ordinance by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the Issuer or the Board, their officials, and employees;

H. through the Board as an agent of the Issuer, it shall at all times operate or cause to be operated the System consistent with Prudent Utility Practice;

I. it has or will obtain, directly or through the Board as an agent of the Issuer, lawful title, whether such title is in fee or lesser interest, to the land, buildings, structures, facilities, and other property constituting the System; it will, directly or through the Board as an agent of the Issuer, defend the title to all such land, buildings, structures, facilities, and other property and every part thereof, for the benefit of the Holders of the Bonds and the payees of the other Senior Lien Obligations, against the claims and demands of all persons whomsoever; it is lawfully qualified to pledge the Net Revenues to the payment of the Senior Lien Obligations in the manner prescribed herein, and it has lawfully exercised such rights;

J. through the Board as an agent of the Issuer, it will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, the Board, or the System; through the Board as an agent of the Issuer, it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman' s, or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided however, that no such tax, assessment, or charge, and no such claims which might be used as the basis of a mechanic's, laborer's, materialman's, or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the Issuer or the Board;

K. the Issuer and the Board will comply with all of the terms and conditions of any and all laws, franchises, permits, and authorizations applicable to or necessary with respect to the System; and the Issuer and the Board have obtained or will obtain and keep in full force and effect all franchises, permits, authorization, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the System;

L. while the Senior Lien Obligations are outstanding and unpaid and to the extent permitted by law, subject to the provisions hereof, it will not sell, convey, mortgage, encumber, lease or in any manner transfer title to, or otherwise dispose of the System, or any significant or substantial part thereof; provided that whenever the Issuer deems it necessary to dispose of any other property, machinery, fixtures or equipment comprising part of the System, it may sell or otherwise dispose of such property, machinery, fixtures or equipment when it has made arrangements to replace the same or provide substitutes therefor, unless it is determined that no such replacement or substitute is necessary; and, provided further, to the extent permitted by law, that the Issuer retains the right to sell, convey, mortgage, encumber, lease or otherwise dispose of any significant or substantial part of the System if (i) the Designated Financial Officer executes and delivers a certificate to the Governing Body to the effect that, following such action by the Board, the System is expected to produce Gross Revenues in amounts sufficient in each Fiscal Year while any of the Senior Lien Obligations are to be outstanding to comply with the obligations of the Issuer contained in this Ordinance and in the ordinances authorizing the issuance of Additional Senior Lien Obligations; (ii) the Governing Body makes a finding and determination to the same effect as the certificate of the Designated Financial Officer set forth in (i) above, (iii) the Board recommends the action to the Issuer by resolution based upon a written certification of a nationally recognized consulting engineering firm retained by the Board stating that the action would not impair the reliability, efficiency or availability of utility service required to be delivered to the customers of the System; and (iv) each Rating Agency then maintaining a rating on any Senior Lien Obligation delivers a letter to the Issuer to the effect that such sale, conveyance, mortgage, encumbrance, lease or other disposition will not cause the Rating Agency to withdraw or lower the rating then in effect; and proceeds from any sale of property hereunder not used to replace or provide for substitution of such property sold shall be used for improvements to the System or to purchase or redeem Senior Lien Obligations;

M. (1) it shall cause to be insured such parts of the System as would usually be insured by municipal corporations operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage by floods, and use and occupancy insurance, and public liability and property damage insurance shall also be carried unless the City Attorney of the Issuer gives a written opinion to the effect that the Issuer is not liable for claims which would be protected by such insurance; provided that, at any time while any contractor engaged in construction work shall be fully responsible therefor, the Issuer shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance; all such policies shall be open to the inspection of the Holders and their representatives at all reasonable times; upon the happening of any loss or damage covered by insurance from one or more of said causes, the Issuer shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the Issuer; the proceeds of insurance covering such property are hereby pledged as security for the Senior Lien Obligations, first, Junior Lien Obligations, second, and Subordinate Lien Obligations, third, and, together with any other funds necessary and available for such purpose, shall be used forthwith by the Issuer for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then the insurance proceeds pertaining to the System shall be used promptly as follows, except to the effect that the Board finds and determines that the failure to use such proceeds in such manner will not adversely affect the ability of the Issuer to pay principal of and interest on the Senior Lien Obligations in full when due:

(i)for the redemption prior to maturity of the Senior Lien Obligations, ratably in the proportion that the outstanding principal of each series of Senior Lien Obligations bears to the total outstanding principal of all Senior Lien Obligations, Junior Lien Obligations, and Subordinate Lien Obligations, provided that if on any such occasion the principal of any such series is not subject to redemption, it shall not be regarded as outstanding in making the foregoing computation; or

(ii)if none of the outstanding Senior Lien Obligations is subject to redemption, then for the purchase on the open market and retirement of said Senior Lien Obligations in the same proportion as prescribed in the foregoing clause (i), to the extent practicable; provided that the purchase price for any Senior Lien Obligation shall not exceed the redemption price of such Senior Lien Obligation on the first date upon which it becomes subject to redemption; or

(iii)to the extent that the foregoing clauses (i) and (ii) cannot be complied with at the time, the insurance proceeds, or the remainder thereof, shall be deposited in a special and separate trust fund, at an official depository of the Issuer, to be designated the "Insurance Account", and shall be held until such time as the foregoing clauses (i) and/or (ii) can be complied with, or until other funds become available which, together with the balance of the Insurance Account, will be sufficient to make the repairs or replacements originally required, whichever of said events occurs first;

(2)the foregoing provisions of (1) above notwithstanding, the Issuer shall have authority to enter into coinsurance or similar plans where risk of loss is shared in whole or in part by the Issuer;

(3)the annual audit hereinafter required shall contain a section commenting on whether or not the Issuer has complied with the requirements of this Section with respect to the maintenance of insurance, and listing all policies carried, and whether or not all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid; and

(4)the payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses.

In lieu of obtaining insurance, the Board as the agent of the Issuer, and/or the Issuer, may satisfy the requirements above by establishing and maintaining an adequate program of self-insurance.

N. the Issuer retains the right to disaggregate the System into one or more independent resulting systems and in connection therewith, to exclude any part of the System from the Issuer's pledge and covenants hereunder if (i) the Designated Financial Officer executes and delivers a certificate to the Governing Body to the effect that, following such action by the Issuer, the remaining System is expected to produce Gross Revenues in amounts sufficient in each Fiscal Year while any of the Senior Lien Obligations are to be outstanding to comply with the obligations of the Issuer contained in this Ordinance and in the ordinances authorizing the issuance of Additional Senior Lien Obligations or any related Credit Agreements or Qualified Hedge Agreements; (ii) the Governing Body makes a finding and determination to the same effect as the certificate of the Designated Financial Officer set forth in (i) above; (iii) the Board recommends the action to the Issuer by resolution based upon a written certification from a nationally recognized independent engineering firm retained by the Board that the action would benefit the System without adverse consequences thereto; and (iv) each Rating Agency then maintaining a rating on any Senior Lien Obligation delivers a letter to the Issuer to the effect that such disaggregation will not cause the Rating Agency to withdraw or lower the rating then in effect on the Outstanding Senior Lien Obligations.

Section 34. Limited Obligations of the Issuer. The Senior Lien Obligations are limited, special obligations of the Issuer payable solely from and to the extent of and equally and ratably secured by a first lien on and pledge of the Net Revenues, and the Holders and payees thereof shall never have the right to demand payment of the Senior Lien Obligations from any funds raised or to be raised through taxation by the Issuer. Nothing in this Ordinance shall be construed as requiring the Issuer to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the Issuer from doing so.

Section 35. Security for Funds. All money on deposit in the Funds for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and money on deposit in such Funds shall be used only for the purposes permitted by this Ordinance.

Section 36. Management of System. As provided in Article VI of the Charter, the Board shall have absolute and complete authority and power with reference to the control, management and operation of the System, and the expenditure and application of the Gross Revenues of the System, subject to the provisions contained in this Ordinance and the laws of the State, and, while any of the Senior Lien Obligations authorized by this Ordinance are outstanding, the Board shall have full power, within the limitations prescribed in said Article VI of the Charter, unless or until the Charter is amended to provide otherwise, to operate the System and make rules and regulations governing the furnishing of service to patrons, for the payment of same and to discontinue service for failure to pay therefor when due. The Board shall exercise the powers and perform the duties and functions conferred upon and agreed to by the Issuer to the extent provided for in this Ordinance and unless the context clearly implies otherwise, the Board shall be authorized and required to carry out and perform on behalf of the Issuer all covenants, agreements and obligations undertaken by or imposed upon the Issuer by the terms and provisions of this Ordinance to the extent permitted by law. It is specifically provided that in the event the Charter is amended to transfer management and control of the System to the Governing Body or if for any lawful reason the Board cannot assume and discharge the duties and obligations thus imposed, the management, control and operation of the System, upon the effective date of such Charter amendment or upon the receipt by the Board and the Issuer of an final order by a court of competent jurisdiction determining that the Board has not discharged its duties and obligations pursuant to the provisions of this Ordinance, then, based upon such Charter amendment or this final court order, the management, control, and operation of the System shall be assumed and discharged by the Governing Body of the Issuer, and it shall be authorized and required to carry out and perform on behalf of the Issuer all covenants, agreements and obligations undertaken by or imposed upon the Issuer or the Board by the terms and provisions of this Ordinance.

Section 37. Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State, the Issuer covenants and agrees particularly that in the event the Issuer (a) defaults in the payments to be made to the Debt Service Fund or Senior Lien Reserve Fund, or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the Governing Body of the Issuer and/or the Board and other officers of the Issuer and/or the Board to observe and perform any covenant, condition, or obligation prescribed in this Ordinance.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies, and the specification of such remedy shall not be deemed to be exclusive.

Section 38. Notices to Holders - Waiver. Wherever this Ordinance provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States mail, first-class postage prepaid, to the address of each Holder as it appears in the Security Register.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Holders. Where this Ordinance provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 39. Negotiable Instruments. Each of the Bonds authorized herein shall be deemed and construed to be a security and as such a negotiable instrument with the meaning of Chapter 8 of the Texas Uniform Commercial Code.

Section 40. Cancellation. All Bonds surrendered for payment, transfer, exchange, redemption, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly cancelled by it and, if surrendered to the Issuer, shall be delivered to the Paying Agent/Registrar and, if not already cancelled, shall be promptly cancelled by the Paying Agent/Registrar. The Issuer may at any time deliver to the Paying Agent/Registrar for cancellation any Bonds previously certified or registered and delivered which the Issuer may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly cancelled by the Paying Agent/Registrar. All cancelled Bonds held by the Paying Agent/Registrar shall be destroyed as directed by the Issuer and a certificate of destruction will be provided to the Issuer by the Paying Agent/Registrar.

Section 41. Mutilated, Destroyed, Lost, and Stolen Bonds. If (1) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the Issuer and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (2) there is delivered to the Issuer and the Paying Agent/Registrar such security or indemnity as may be required to save each of them harmless, then, in the absence of notice to the Issuer or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the Issuer shall execute and, upon its request, the Paying Agent/Registrar shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same series, Stated Maturity, and interest rate and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost, or stolen Bond has become or is about to become due and payable, the Issuer in its discretion may, instead of issuing a new Bond, pay such Bond. Upon the issuance of any new Bond or payment in lieu thereof, under this Section, the Issuer may require payment by the Holder of a sum sufficient to cover any tax or other governmental charge imposed in relation thereto and any other expenses (including attorney's fees and the fees and expenses of the Paying Agent/Registrar) connected therewith. Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute a replacement of the prior obligation of the Issuer, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and ratably with all other Outstanding Bonds. The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost, or stolen Bonds.

Section 46. Control and Custody of Bonds. The Mayor shall be and is hereby authorized to take and have charge of all necessary orders and records pending investigation by the Attorney General of the State of Texas and shall take and have charge and control of the Bonds pending their approval by the Attorney General, the registration thereof by the Comptroller of Public Accounts and the delivery of the initial Bond(s) to the Underwriters.

Furthermore, the Mayor, City Secretary, City Manager, Director of Finance, Designated Financial Officer, and City Attorney, any or all, are hereby authorized and directed to furnish and execute such documents relating to the Issuer and its financial affairs as may be necessary for the issuance of the Bonds, the approval of the Attorney General and their registration by the Comptroller of Public Accounts and, together with the Board's financial advisor, bond counsel, and the Paying Agent/Registrar, to make the necessary arrangements for the delivery of the Initial Bond(s) to the Underwriters.

Section 47. Satisfaction of Obligation of Issuer. If the Issuer shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the lien on and pledge of Net Revenues under this Ordinance and all covenants, agreements, and other obligations of the Issuer to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

Principal of, premium, if any, or interest on any Bond shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such principal, premium, if any, or interest at Stated Maturity or to the redemption date therefor shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have been certified by an independent accounting firm, or such other persons as permitted by the laws of the State, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of, premium, if any, or interest on such Bonds on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The Issuer covenants that no deposit of money or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of section 148 of the Code (as defined in Section 45 hereof).

Any money so deposited with the Paying Agent/Registrar, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such money has been so deposited shall be remitted to the Issuer or deposited as directed by the Issuer. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of, premium, if any, or interest on the Bonds and remaining unclaimed for a period of four (4) years after the Stated Maturity, or applicable redemption date, of the Bonds such money was deposited and is held in trust to pay shall upon the request of the Board be remitted to the Board against a written receipt therefor, subject to the unclaimed property laws of the State.

Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem defeased Bonds that is made in conjunction with the payment arrangements specified in (i) or (ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the Issuer expressly reserves the right to call the defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased Bonds immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at the time of the redemption, satisfies the conditions of (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

Section 51. Ordinance a Contract - Amendments - Outstanding Senior Lien Obligations. The Issuer acknowledges that the covenants and obligations of the Issuer herein contained are a material inducement to the purchase of the Bonds. This Ordinance shall constitute a contract with the Holders from time to time, shall be binding on the Issuer and the Board and their successors and assigns, and shall not be amended or repealed by the Issuer so long as any Bond remains Outstanding except as permitted in this Section.

A. The registered owners of a majority in Outstanding principal amount of the Senior Lien Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the Issuer; provided, however, that nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Senior Lien Obligations so as to: (1) make any change in the maturity of any of the outstanding Senior Lien Obligations; (2) reduce the rate of interest borne by any of the outstanding Senior Lien Obligations; (3) reduce the amount of the principal payable on the outstanding Senior Lien Obligations; (4) modify the terms of payment of principal of, premium, if any, or interest on the outstanding Senior Lien Obligations or impose any conditions with respect to such payment; (5) affect the rights of the registered owners of less than all of the Senior Lien Obligations then outstanding; (6) amend clause A of this Section; (7) amend the provisions of Section 14 that would alter the priority of payments to the registered owners of any Junior Lien Obligations, Subordinate Lien Obligations, Commercial Paper Obligations, or Inferior Lien Obligations; or (8) change the minimum percentage of the principal amount of Senior Lien Obligations necessary for consent to any amendment; unless such amendment or amendments shall be approved by the registered owners of all of the Senior Lien Obligations then outstanding.

B. If at any time the Issuer shall desire to amend this Ordinance under this Section, the Issuer shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the Issuer, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal corporate trust office of the Paying Agent/Registrar for inspection by all registered owners of the Senior Lien Obligations. Such publication is not required, however, if notice in writing is given to each registered owner of any Senior Lien Obligations.

C. Whenever at any time not less than 30 days, and within one year, from the date of the first publication of such notice, or other service of written notice, the Issuer shall receive an instrument or instruments executed by the registered owners of at least a majority in outstanding principal amount of the Senior Lien Obligations then outstanding, which instrument or instruments shall refer to the proposed amendment described in such notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the Paying Agent/Registrar, the Governing Body may pass such amendment in substantially the same form.

D. Upon the passage of any such amendment pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendment, and the respective rights, duties and obligations under this Ordinance of the Issuer, the Board, and all the registered owners of then outstanding Senior Lien Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendment.

E. Any consent given by the registered owners of a Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future registered owners of the same Senior Lien Obligations during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the registered owners who gave such consent (as long as such person remains a registered owner), or by a successor in title, by filing written notice thereof with the Paying Agent/Registrar and the Issuer, but such revocation shall not be effective if the registered owners of at least a majority in outstanding principal amount of the Senior Lien Obligations have, prior to the attempted revocation, consented to and approved the amendment.

F. The foregoing provisions of this Section notwithstanding, the Governing Body may amend this Ordinance without the consent of any registered owners of the Senior Lien Obligations, solely for any one or more of the following purposes: (1) to add to the covenants and agreements of the Issuer or the Board contained in this Ordinance, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the registered owners of the Senior Lien Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the Issuer or the Board; (2) to make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the registered owners of the Senior Lien Obligations then outstanding; (3) to modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after the Senior Lien Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding; (4) to make such amendments to this Ordinance as may be required, in the opinion of bond counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto; (5) to make such changes, modifications, or amendments as may be necessary or desirable in order to allow the registered owners of the Senior Lien Obligations to thereafter avail themselves of a book-entry system for payments, transfers, and other matters relating to the Senior Lien Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the registered owners of the Senior Lien Obligations; (6) to make such changes, modifications, or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Senior Lien Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility issued in support of Senior Lien Obligations if such changes do not adversely affect the registered owners of any Senior Lien Obligations; or (7) to make such changes, modifications, or amendments as may be necessary or desirable, which shall not adversely affect the interests of the registered owners of the Senior Lien Obligations in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar type of agreements with respect to the Senior Lien Obligations. Notice of any such amendment may be published by the Issuer in the manner described in clause B of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

Section 52, Legal Holidays. In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds shall be a Saturday, Sunday, or legal holiday in the Issuer or a day on which the Paying Agent/Registrar for the Bonds is authorized by law or executive order to close, then payment of interest or principal need not be made on such date but may be made on the next succeeding day which is not such a day with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

Section 54. No Recourse against Issuer or Board Officials. No recourse shall be had for the payment of principal of, premium, if any, or interest on any Bonds or of any other Junior Lien Obligations, Subordinate Lien Obligations, Commercial Paper Obligations, or Inferior Lien Obligations or for any claim based thereon or on this Ordinance against any official of the Issuer, the Board, or any person executing any Bonds.

Section 55. Benefits of Ordinance. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the Issuer, the Board, bond counsel, the Paying Agent/Registrar, the Underwriters, and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the Issuer, the Board, bond counsel, the Paying Agent/Registrar, the Underwriters, and the Holders.

Section 56. Inconsistent Provisions. All ordinances and resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Ordinance are hereby repealed to the extent of such conflict, and the provisions of this Ordinance shall be and remain controlling as to the matters ordained herein.

Section 57. Governing Law. This Ordinance shall be construed and enforced in accordance with the laws of the State and the United States of America.

Section 59. Severability. If any provision of this Ordinance or the application thereof to any person or circumstance shall be held to be invalid, the remainder of this Ordinance and the application of such provision to other persons and circumstances shall nevertheless be valid, and the Governing Body hereby declares that this Ordinance would have been enacted without such invalid provision.

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Appendix E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY INC. ("AG"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AG, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AG shall have received Notice of Nonpayment, AG will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AG, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AG. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AG is incomplete, it shall be deemed not to have been received by AG for purposes of the preceding sentence and AG shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AG shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AG hereunder. Payment by AG to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AG under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AG shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AG which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

SPECIMEN

AG may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AG pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AG and shall not be deemed received until received by both and (b) all payments required to be made by AG under this Policy may be made directly by AG or by the Insurer's Fiscal Agent on behalf of AG. The Insurer's Fiscal Agent is the agent of AG only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AG to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AG agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AG to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AG, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY INC.

By ____________________________________
Authorized Officer

SPECIMEN

Financial Advisory Services
Provided By

ESTRADA HINOJOSA
A DIVISION OF TRB CAPITAL MARKETS