NOTICE OF MEETING

Agenda for Meeting
City of Galveston – Finance, Fiscal Affairs and Investment Advisory Committee
August 24, 2021 – 1:30 p.m. - 3:30 p.m.
Attend via Zoom Meeting
https://us02web.zoom.us/j/7959886304?pwd=SG9YZmdJN1FOREtaMGRlUzhiSndBdz09
Meeting ID: 795 988 6304
Passcode: 821463
(409) 797- 3567

1. Quorum Determination And Call To Order.

2. Consider For Action Approval Of The Minutes From The March 23, 2021 Meeting.

   Documents:

   2-MINUTES 21-0323 FINANCE AND FISCAL AFFAIRS SIGNED.PDF

3. Discuss And Consider For Action A Recommendation To Accept The Quarters Ending March 31, 2021 And June 30, 2021 Investment Reports For The City Of Galveston And Galveston Industrial Development Corporation.

   Documents:

   3-GALVESTON 03-31-21 QTRLY.PDF
   3-GALVESTON 06-30-21 QTRLY.PDF
   3-GALVESTON IDC 03-31-21 QTRLY.PDF
   3-GALVESTON IDC 06-30-21 QTRLY.PDF
   GALVESTON PRESENTATION AUGUST 2021.PDF

4. Discuss The Port Of Galveston's Bond Refinancing.

5. Discuss A Memorandum Of Understanding Between The City And The Rosenberg Library Regarding The Increase In Property Tax Values/Rate.

   Documents:

   5-STAFF REPORT ROSENBERG LIBRARY MOU.PDF
   5-ROSENBERG LIBRARY MOU.PDF

6. Review And Discuss The Proposed FY22 Budget And CIP.

   1. Proposed Budget HTTPS://WWW.GALVESTONTX.GOV/DOCUMENTCENTER/VIEW/12727/FY2022-PROPOSED-BUDGET
   2. Proposed CIP HTTPS://WWW.GALVESTONTX.GOV/DOCUMENTCENTER/VIEW/12728/FY2022-FY2026-PROPOSED-CAPITAL-IMPROVEMENT-PLAN

   Documents:

   6-2021 CITY OF GALVESTON NNR TAX RATE WORKSHEETS FINAL

7.28.21.PDF
6-PROPOSED FY22 BUDGET AND CIP PRESENTATION.PDF

7. Committee Member Comments.

   Documents:

   7-PARKING SALES TAX.PDF
   7-STATE COMPTROLLER VOLUNTARY DISCLOSURE AGREEMENT COUNCIL ITEM 9P APPROVED.PDF

8. Public Comments (Limited To Three Minutes Each).

9. Discuss Tentative Date(S) For Next Committee Meeting.

10. Adjournment.

I certify that the above Notice of Meeting was posted in a place convenient to the public in compliance with Chapter 551 of the Texas Government Code on August 17, 2021 at 10:45 A.M.

Janelle Williams

Janelle Williams, City Secretary

IN ACCORDANCE WITH THE PROVISIONS OF THE AMERICANS WITH DISABILITIES ACT (ADA), PERSONS IN NEED OF A SPECIAL ACCOMMODATION TO PARTICIPATE IN THIS PROCEEDING SHALL, WITHIN THREE (3) DAYS PRIOR TO ANY PROCEEDING, CONTACT THE CITY SECRETARY'S OFFICE, SUITE 201, 823 ROSENBERG, GALVESTON, TEXAS 77550 (409-797-3510).

City of Galveston – Finance and Fiscal Affairs Committee

March 23, 2021 2:00 p.m. - 3:30 p.m.
Virtual Zoom meeting

Call Order / Roll Call:	Edward Walsh -Vice Chairman Abel Longoria-Member Gene Hornstein-Member Stephen Maxwell-Member Nathaniel Schuller-Member Robert Nuzum-Member Jonathan Zendeh Del-Member Bill Quiroga-Ex-Officio
Guests:	Jim Niederle, Financial Advisor Scott McIntyre, Hilltop Securities Asset Management Chris Breaux, Whitley Penn Laura Lynch, Whitley Penn Schrub Kempner
Staff:	Dan Buckley-Deputy City Manager Mike Loftin-Asst. City Manager Finance Tammy Jacobs-City Controller Debbi Pierce-Budget Manager Don Glywasky-City Attorney Beverly West-Assist City Attorney Melissa Gonzales-Executive Assistant Legal Carrie Sumrall-Assist City Auditor

1) Quorum determination and call to order.
   Meeting called to order at 2:09 p.m.
2) Approval of minutes from the February 9, 2021 meeting.
   Motion for approval, seconded and all unanimously approved.
3) Review of the preliminary FY20 annual comprehensive financial report narrated by Mike Loftin and Chris Breaux (Whitley Penn).
4) Mike Loftin narrated a review and discussion of the fiscal year 2021 1st quarter budget status report.
5) Mike Loftin and Jim Niederle narrated a review of the proposed Combined Utility Revenue Refunding Bond. The committee unanimously approved a recommendation to Council to approve the proposed refunding.
6) The committee unanimously approved a recommendation to Council to accept the proposed 2021 Investment policy.
7) Committee member comments:
   a. Robert Nuzum proposed an agenda item to address the HOT collections and enforcement thereof relating to short-term rentals.
      i. Educating the taxpayer base and the public;
      ii. Enforcing the HOT in Galveston with emphasis on interest and penalties;
      iii. Considering whether to coordinate the local HOT with the Comptroller's Voluntary Disclosure Agreement (including ascertaining the parameters of the Comptroller's VDA); and
      iv. Determining and recommending approaches to the Mayor and City Council.

b. The Committee is ready to resume in-person meetings pending outcome of the Council item regarding the same in the March 25, 2021 meeting.

8) Public comments – None.
9) Tentative date and time of next meeting deferred until such time when more information is available to hold a next meeting (before July 31st, 2021 per City Charter).
10) Meeting adjourned at 3:32 p.m. by Chairman Walsh.

3/25/21

HilltopSecurities
Asset Management

Investment Portfolio Summary

City of Galveston

CITY OF GALVESTON
1839

For the Quarter Ended

March 31, 2021

Prepared by
HilltopSecurities Asset Management

Report Name

MARKET RECAP - MARCH 2021:

The economic outlook brightened considerably in March as the pace of vaccine distribution accelerated and Congress passed another massive stimulus package. Consumers were already sitting on an abundance of cash and the $1.9 trillion American Rescue Plan will add to that pile. Progress on the vaccine front suggests herd immunity could be reached by early summer, several months sooner than previously expected, setting the stage for a return to something resembling normal in the second half of 2021.

The headline ISM manufacturing index climbed from 58.7 to a 10-year high of 60.8 in February. Numbers above 50 indicate expansion, while numbers above 60 are consistent with exceptionally strong growth. The ISM non-manufacturing index slipped to a nine-month low as the service sector remains hamstrung by the virus-related shutdowns and restrictions, but it is poised to rebound as the economy normalizes. Employment conditions improved as U.S. businesses added +379k jobs to payrolls in February, nearly twice the median forecast. Upward revisions to prior months boosted the tally by another +38k. The unemployment rate declined from 6.3% to 6.2% and while unemployment remains well above the five-decade low of 3.5% from a year ago, it is much improved from the 14.8% pandemic high ten months ago. Initial jobless claims, though still elevated relative to pre-pandemic levels, fell to their lowest level in over a year. Consumer spending soared in January, with the original +5.3% gain revised even higher to +7.6%. February retail sales couldn't keep up the pace, falling -3.0% month-over-month. This was to be expected as January's torrid pace, supported by stimulus checks, wasn't sustainable. Freezing weather across much of the nation had a negative impact as well. Spending is set to boom in the months ahead as the American Rescue Plan includes almost $450 billion in aid to individuals and families. If the last round of $600 stimulus checks managed to bolster retail sales so much in January, imagine what March's $1,400 checks will do to sales in the next few months. That idea is supported by a big jump in March's consumer confidence index which posted its biggest single month gain in 18 years, climbing to 109.7. March's slate of housing data reflected February's freezing weather with both new and existing home sales declining, though home prices continue to rise. Existing home sales are being restrained by a lack of homes available for sale. Low inventories and higher prices are a recipe for new construction, which will further add to 2021 GDP growth.

With conditions rapidly improving on both the Covid-19 and economic fronts, economists have been busy revising their 2021 growth forecasts higher. The median forecast in Bloomberg's survey of economists currently shows first quarter gross domestic product advancing at a +4.7% quarter-over-quarter annualized rate, followed by a second quarter booming at +7%. GDP could easily expand more than +6% in 2021. Bond markets have taken note. Although the short end remains anchored by a Fed determined to stand pat until they see both sustained inflation and full employment, intermediate to long yields have climbed significantly. The five-year Treasury note yield, which rose 31 basis points during February, climbed another 21 basis points in March to close the month at 0.94%. The 10-year T-note closed March at 1.74%, up 83 bps since the year began.

For the Quarter Ended

March 31, 2021

This report is prepared for the **City of Galveston** (the “Entity”) in accordance with Chapter 2256 of the Texas Public Funds Investment Act ("PFIA"). Section 2256.023(a) of the PFIA states that: “Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of the investment transactions for all funds covered by this chapter for the preceding reporting period.” This report is signed by the Entity’s investment officers and includes the disclosures required in the PFIA. To the extent possible, market prices have been obtained from independent pricing sources.

The investment portfolio complied with the PFIA and the Entity’s approved Investment Policy and Strategy throughout the period. All investment transactions made in the portfolio during this period were made on behalf of the Entity and were made in full compliance with the PFIA and the approved Investment Policy.

Officer Names and Titles:

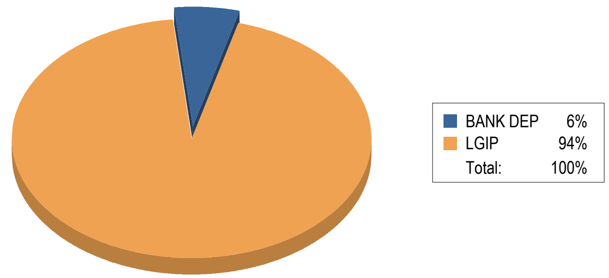
Name: Michael W. Loftin — Title: Asst. City Manager-Finance

Name: Tammy Y. Jacobs — Title: Executive Director & City Controller

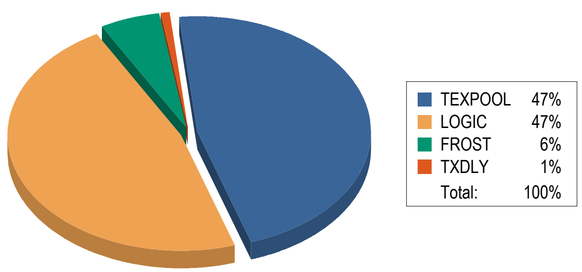
Account Summary

	Beginning Values as of 12/31/20	Ending Values as of 03/31/21
Par Value	138,916,208.82	151,646,665.68
Market Value	138,916,208.82	151,646,665.68
Book Value	138,916,208.82	151,646,665.68
Unrealized Gain /(Loss)	0.00	0.00
Market Value %	**100.00%**	**100.00%**
Weighted Avg. YTW	0.085%	0.057%
Weighted Avg. YTM	0.085%	0.057%

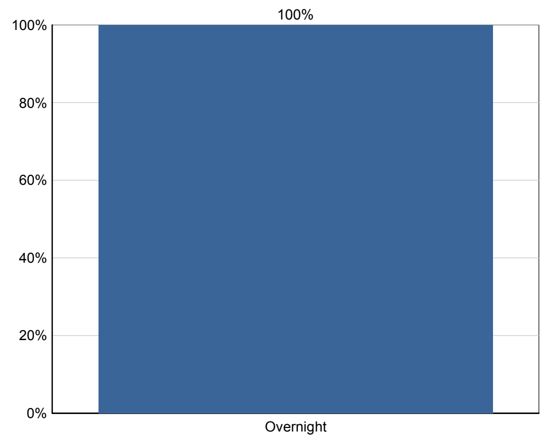
Allocation by Security Type



Allocation by Issuer

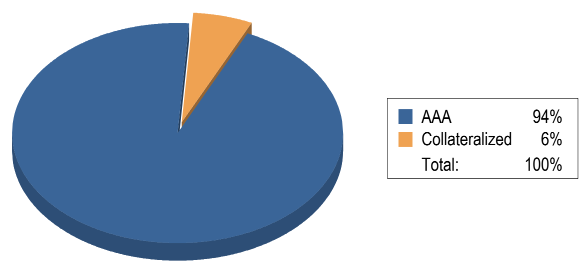


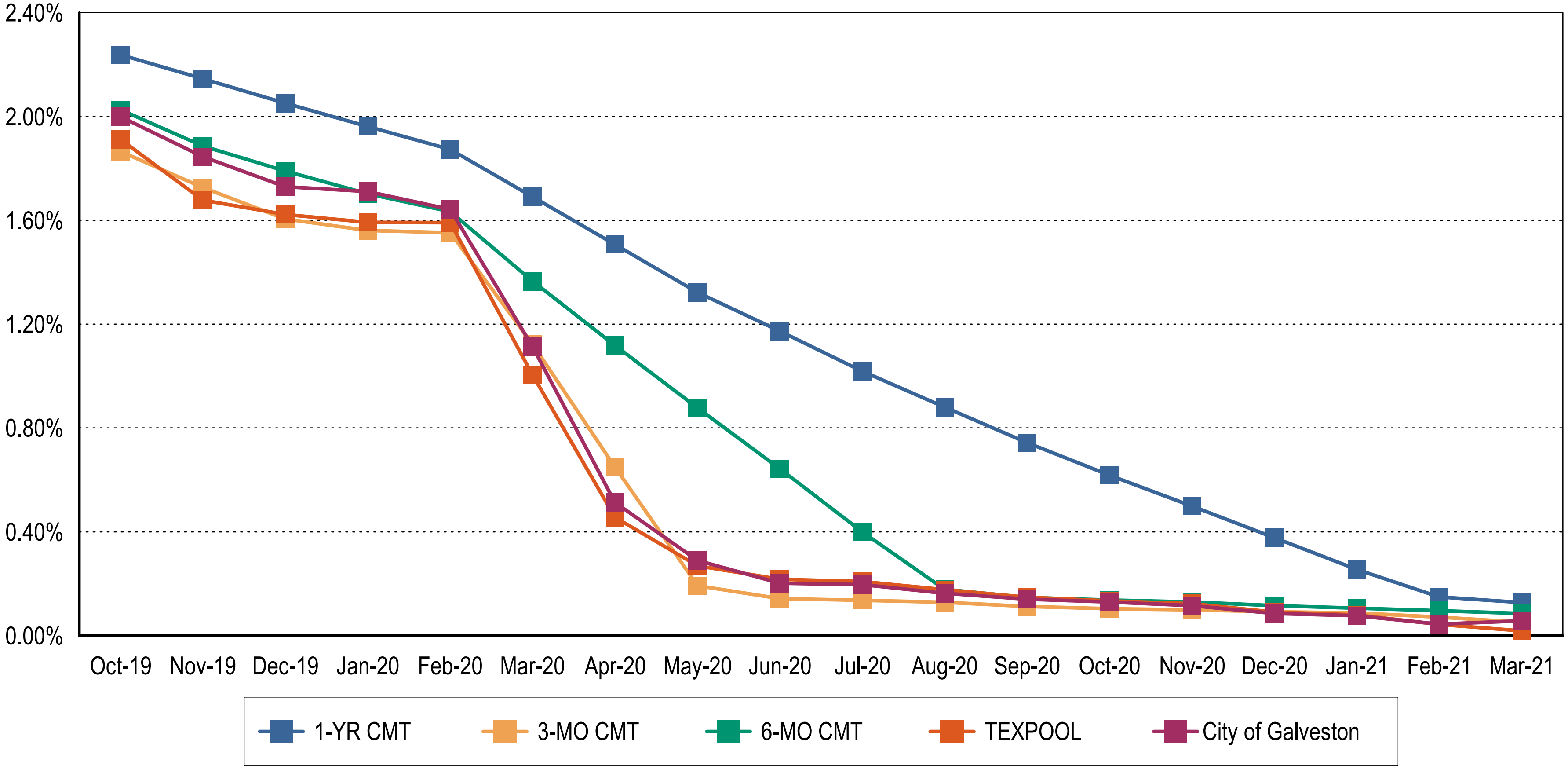
Maturity Distribution %



Weighted Average Days to Maturity: 1

Credit Quality





Note 1: CMT stands for Constant Maturity Treasury. This data is published in Federal Reserve Statistical Release H.15 and represents an average of all actively traded Treasury securities having that time remaining until maturity. This is a standard industry benchmark for Treasury securities. The CMT benchmarks are moving averages. The 3-month CMT is the daily average for the previous 3 months, the 6-month CMT is the daily average for the previous 6 months, and the 1-year and 2-year CMT's are the daily averages for the previous 12-months.

Note 2: Benchmark data for TexPool is the monthly average yield.

City of Galveston
Detail of Security Holdings
As of 03/31/2021

CUSIP	Settle Date	Sec. Type	Sec. Description	CPN	Mty Date	Next Call	Call Type	Par Value	Purch Price	Orig Cost	Book Value	Mkt Price	Market Value	Days to Mty	Days to Call	YTM	YTW
Operating Fund																	
FROSTGLVS		BANK DEP	Frost Bk Sweep - Repo					8,825,000.00	100.000	8,825,000.00	8,825,000.00	100.000	8,825,000.00	1		0.050	0.050
LOGIC		LGIP	LOGIC					70,874,224.16	100.000	70,874,224.16	70,874,224.16	100.000	70,874,224.16	1		0.096	0.096
TEXPOOL		LGIP	TexPool					70,874,462.87	100.000	70,874,462.87	70,874,462.87	100.000	70,874,462.87	1		0.019	0.019
TXDAILY		LGIP	TexasDAILY					1,072,978.65	100.000	1,072,978.65	1,072,978.65	100.000	1,072,978.65	1		0.050	0.050
Total for Operating Fund								**151,646,665.68**	**100.000**	**151,646,665.68**	**151,646,665.68**	**100.000**	**151,646,665.68**	**1**		**0.057**	**0.057**
Total for City of Galveston								**151,646,665.68**	**100.000**	**151,646,665.68**	**151,646,665.68**	**100.000**	**151,646,665.68**	**1**		**0.057**	**0.057**

City of Galveston
Change in Value
From 12/31/2020 to 03/31/2021

CUSIP	Security Type	Security Description	12/31/20 Book Value	Cost of Purchases	Maturities / Calls / Sales	Amortization / Accretion	Realized Gain/(Loss)	03/31/21 Book Value	12/31/20 Market Value	03/31/21 Market Value	Change in Mkt Value
Operating Fund											
FROSTGLVS	BANK DEP	Frost Bk Sweep - Repo	19,884,000.00	0.00	(11,059,000.00)	0.00	0.00	8,825,000.00	19,884,000.00	8,825,000.00	(11,059,000.00)
LOGIC	LGIP	LOGIC	97.71	70,874,126.45	0.00	0.00	0.00	70,874,224.16	97.71	70,874,224.16	70,874,126.45
TEXPOOL	LGIP	TexPool	117,732,076.28	24,012,898.57	(70,870,511.98)	0.00	0.00	70,874,462.87	117,732,076.28	70,874,462.87	(46,857,613.41)
TXDAILY	LGIP	TexasDAILY	1,300,034.83	45,776.51	(272,832.69)	0.00	0.00	1,072,978.65	1,300,034.83	1,072,978.65	(227,056.18)
Total for Operating Fund			**138,916,208.82**	**94,932,801.53**	**(82,202,344.67)**	**0.00**	**0.00**	**151,646,665.68**	**138,916,208.82**	**151,646,665.68**	**12,730,456.86**
Total for City of Galveston			**138,916,208.82**	**94,932,801.53**	**(82,202,344.67)**	**0.00**	**0.00**	**151,646,665.68**	**138,916,208.82**	**151,646,665.68**	**12,730,456.86**

Hilltop Securities Asset Management

City of Galveston
Earned Income
From 12/31/2020 to 03/31/2021

CUSIP	Security Type	Security Description	Beg. Accrued	Interest Earned	Interest Rec'd / Sold / Matured	Interest Purchased	Ending Accrued	Disc Accr / Prem Amort	Net Income
Operating Fund									
FROSTGLVS	BANK DEP	Frost Bk Sweep - Repo	0.00	1,904.42	1,904.42	0.00	0.00	0.00	1,904.42
LOGIC	LGIP	LOGIC	0.00	1,626.45	1,626.45	0.00	0.00	0.00	1,626.45
TEXPOOL	LGIP	TexPool	0.00	14,886.59	14,886.59	0.00	0.00	0.00	14,886.59
TXDAILY	LGIP	TexasDAILY	0.00	178.37	178.37	0.00	0.00	0.00	178.37
Total for Operating Fund			**0.00**	**18,595.83**	**18,595.83**	**0.00**	**0.00**	**0.00**	**18,595.83**
Total for City of Galveston			**0.00**	**18,595.83**	**18,595.83**	**0.00**	**0.00**	**0.00**	**18,595.83**

HilltopSecurities
Asset Management

Investment Portfolio Summary

City of Galveston

For the Quarter Ended

June 30, 2021

Prepared by
HilltopSecurities Asset Management

Table of Contents / Market Recap

Report Name

MARKET RECAP - JUNE 2021:

At this point, nearly everyone who wants a vaccine has been able to receive one, and while new strains continue to pop up it seems that vaccines by and large provide a high level of protection. Covid restrictions are becoming more and more relaxed with most of the United States "open" or at least partially open. As the country returns to normalcy this summer, we should continue to see the economy improve.

The ISM manufacturing index rose from 60.7 to a two-month high of 61.2 in May. The ISM non-manufacturing (service sector) index rose from 62.7 in April to 64.0 in May, the highest reading since the survey started in 1997. Nonfarm payrolls missed the mark for the second month in a row, increasing by +559k, which in a pre-pandemic world would be huge, but the median forecast was +675k and we're still 7.6 million jobs below last year's pre-pandemic peak. The unemployment rate dropped from 6.1% to 5.8% in May, but the drop was the result of 166k Americans exiting the labor force during the month as the labor force participation rate slipped to 61.6%. Average hourly earnings climbed +0.5% in May after a +0.7% jump in April. These are significant single month increases as employers must pay more to find and retain workers. Retail sales took a breather in May, declining -1.3%, but upward revisions boosted April's previously reported unchanged reading to +0.9% and March's already lofty +9.8% gain was increased to +11.3%. Recall that March and April sales were boosted by the last round of government stimulus, so a pullback in May was expected. May's decline doesn't change the fact that consumer spending has been on a torrid pace. The total value of retail sales was $620.2 billion in May, an +18% increase over February 2020's pre-pandemic level. On the inflation front, the headline consumer price index rose +0.6% in May while core CPI climbed +0.7%. On a year-over-year basis, headline CPI was advancing at a +5.0% pace, *the biggest annual increase in almost 13 years*. Core CPI rose +3.8% year-over-year, the most since 1992. Much of the year-over-year gains can be attributed to the "base effect" as prices were severely depressed 12 months ago while many U.S. businesses were shuttered. The base effect will dissipate going forward, but shortages of materials and labor promise to keep prices high for much of the year. Estimates for second quarter GDP growth center around +10%. Fiscal and monetary stimulus, combined with pent up demand and consumers eagerly returning to pre-pandemic habits, mean the summer should see substantial growth.

The Fed made no official change to policy at its June FOMC meeting, holding rates steady and maintaining the monthly addition of $120 billion to its balance sheet. However, the FOMC did signal they will discuss tapering these QE purchases soon. The updated "dot plot" showed Fed officials expect initial rate hikes earlier than previously indicated with 13 of 18 Fed officials now envisioning at least one hike in 2023. The FOMC also made two technical adjustments, increasing the interest on excess reserves (IOER) rate from 0.10% to 0.15%, and the overnight reverse repo rate from 0% to 0.05%. The IOER hike incentivizes banks to hold higher balances with the Fed while the reverse repo facility allows eligible financial firms and money market mutual funds to place cash at the Fed and earn 0.05%. Both should help to ease overall demand for short-term securities and nudge yields higher. The Fed's action had an immediate effect on yields with the two-year treasury yield climbing from 0.15% to 0.26%. Treasury bills inside of 3 months, which had been trading near 0% were up a few basis points. Longer-term yields have fallen as inflation expectations moderate.

For the Quarter Ended

June 30, 2021

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Officer Names and Titles:

Name: Michael W. Loftin — Title: Asst. City Manager-Finance

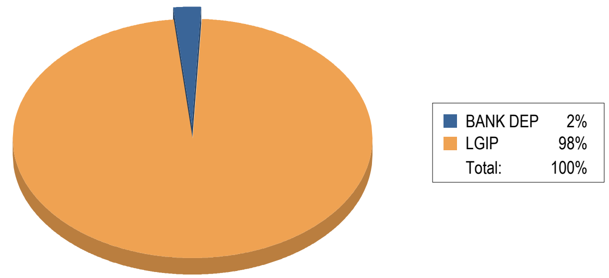
Name: Tammy Y. Jacobs — Title: Executive Director & City Controller

City of Galveston
Executive Summary
As of 06/30/21

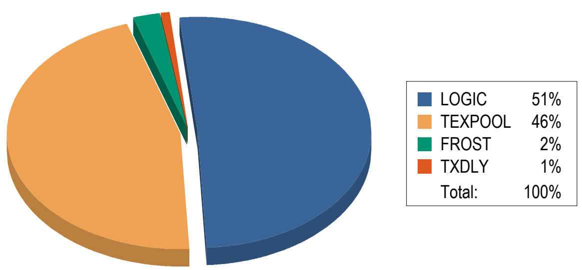
Account Summary

	Beginning Values as of 03/31/21	Ending Values as of 06/30/21
Par Value	151,646,665.68	139,246,532.50
Market Value	151,646,665.68	139,246,532.50
Book Value	151,646,665.68	139,246,532.50
Unrealized Gain /(Loss)	0.00	0.00
Market Value %	**100.00%**	**100.00%**
Weighted Avg. YTW	0.057%	0.037%
Weighted Avg. YTM	0.057%	0.037%

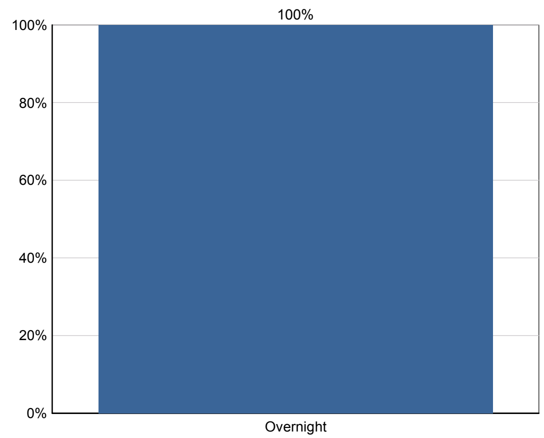
Allocation by Security Type



Allocation by Issuer

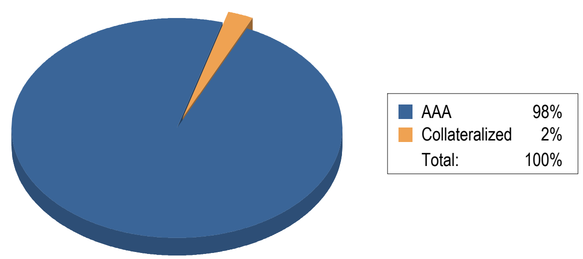


Maturity Distribution %

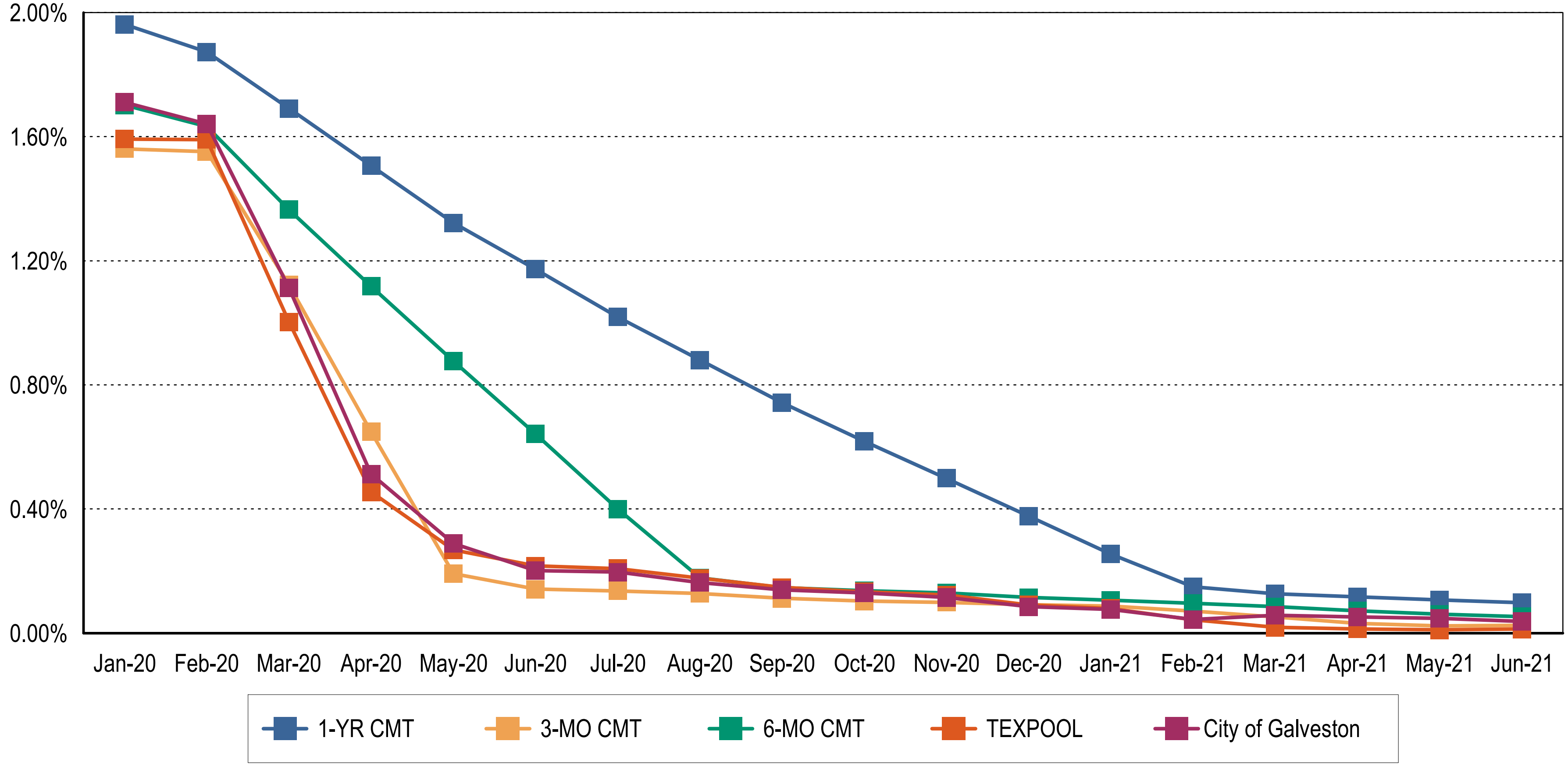


Weighted Average Days to Maturity: 1

Credit Quality



City of Galveston
Benchmark Comparison
As of 06/30/2021



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Note 2: Benchmark data for TexPool is the monthly average yield.

City of Galveston
Detail of Security Holdings
As of 06/30/2021

CUSIP	Settle Date	Sec. Type	Sec. Description	CPN	Mty Date	Next Call	Call Type	Par Value	Purch Price	Orig Cost	Book Value	Mkt Price	Market Value	Days to Mty	Days to Call	YTM	YTW
Operating Fund																	
FROSTGLVS		BANK DEP	Frost Bk Sweep - Repo					3,473,000.00	100.000	3,473,000.00	3,473,000.00	100.000	3,473,000.00	1		0.050	0.050
LOGIC		LGIP	LOGIC					70,887,159.82	100.000	70,887,159.82	70,887,159.82	100.000	70,887,159.82	1		0.059	0.059
TEXPOOL		LGIP	TexPool					63,731,257.88	100.000	63,731,257.88	63,731,257.88	100.000	63,731,257.88	1		0.013	0.013
TXDAILY		LGIP	TexasDAILY					1,155,114.80	100.000	1,155,114.80	1,155,114.80	100.000	1,155,114.80	1		0.030	0.030
Total for Operating Fund								**139,246,532.50**	**100.000**	**139,246,532.50**	**139,246,532.50**	**100.000**	**139,246,532.50**	**1**		**0.037**	**0.037**
Total for City of Galveston								**139,246,532.50**	**100.000**	**139,246,532.50**	**139,246,532.50**	**100.000**	**139,246,532.50**	**1**		**0.037**	**0.037**

City of Galveston
Change in Value
From 03/31/2021 to 06/30/2021

CUSIP	Security Type	Security Description	03/31/21 Book Value	Cost of Purchases	Maturities / Calls / Sales	Amortization / Accretion	Realized Gain/(Loss)	06/30/21 Book Value	03/31/21 Market Value	06/30/21 Market Value	Change in Mkt Value
Operating Fund											
FROSTGLVS	BANK DEP	Frost Bk Sweep - Repo	8,825,000.00	931,000.00	(6,283,000.00)	0.00	0.00	3,473,000.00	8,825,000.00	3,473,000.00	(5,352,000.00)
LOGIC	LGIP	LOGIC	70,874,224.16	12,935.66	0.00	0.00	0.00	70,887,159.82	70,874,224.16	70,887,159.82	12,935.66
TEXPOOL	LGIP	TexPool	70,874,462.87	10,686,450.23	(17,829,655.22)	0.00	0.00	63,731,257.88	70,874,462.87	63,731,257.88	(7,143,204.99)
TXDAILY	LGIP	TexasDAILY	1,072,978.65	82,136.15	0.00	0.00	0.00	1,155,114.80	1,072,978.65	1,155,114.80	82,136.15
Total for Operating Fund			**151,646,665.68**	**11,712,522.04**	**(24,112,655.22)**	**0.00**	**0.00**	**139,246,532.50**	**151,646,665.68**	**139,246,532.50**	**(12,400,133.18)**
Total for City of Galveston			**151,646,665.68**	**11,712,522.04**	**(24,112,655.22)**	**0.00**	**0.00**	**139,246,532.50**	**151,646,665.68**	**139,246,532.50**	**(12,400,133.18)**

City of Galveston

Earned Income

From 03/31/2021 to 06/30/2021

CUSIP	Security Type	Security Description	Beg. Accrued	Interest Earned	Interest Rec'd / Sold / Matured	Interest Purchased	Ending Accrued	Disc Accr / Prem Amort	Net Income
Operating Fund									
FROSTGLVS	BANK DEP	Frost Bk Sweep - Repo	0.00	672.89	672.89	0.00	0.00	0.00	672.89
LOGIC	LGIP	LOGIC	0.00	12,935.66	12,935.66	0.00	0.00	0.00	12,935.66
TEXPOOL	LGIP	TexPool	0.00	1,922.51	1,922.51	0.00	0.00	0.00	1,922.51
TXDAILY	LGIP	TexasDAILY	0.00	112.03	112.03	0.00	0.00	0.00	112.03
Total for Operating Fund			**0.00**	**15,643.09**	**15,643.09**	**0.00**	**0.00**	**0.00**	**15,643.09**
Total for City of Galveston			**0.00**	**15,643.09**	**15,643.09**	**0.00**	**0.00**	**0.00**	**15,643.09**

HilltopSecurities Asset Management

Investment Portfolio Summary

Galveston Industrial Development Corp

For the Quarter Ended

March 31, 2021

Prepared by
HilltopSecurities Asset Management

Table of Contents / Market Recap

Report Name

MARKET RECAP - MARCH 2021:

The economic outlook brightened considerably in March as the pace of vaccine distribution accelerated and Congress passed another massive stimulus package. Consumers were already sitting on an abundance of cash and the $1.9 trillion American Rescue Plan will add to that pile. Progress on the vaccine front suggests herd immunity could be reached by early summer, several months sooner than previously expected, setting the stage for a return to something resembling normal in the second half of 2021.

The headline ISM manufacturing index climbed from 58.7 to a 10-year high of 60.8 in February. Numbers above 50 indicate expansion, while numbers above 60 are consistent with exceptionally strong growth. The ISM non-manufacturing index slipped to a nine-month low as the service sector remains hamstrung by the virus-related shutdowns and restrictions, but it is poised to rebound as the economy normalizes. Employment conditions improved as U.S. businesses added +379k jobs to payrolls in February, nearly twice the median forecast. Upward revisions to prior months boosted the tally by another +38k. The unemployment rate declined from 6.3% to 6.2% and while unemployment remains well above the five-decade low of 3.5% from a year ago, it is much improved from the 14.8% pandemic high ten months ago. Initial jobless claims, though still elevated relative to pre-pandemic levels, fell to their lowest level in over a year. Consumer spending soared in January, with the original +5.3% gain revised even higher to +7.6%. February retail sales couldn't keep up the pace, falling -3.0% month-over-month. This was to be expected as January's torrid pace, supported by stimulus checks, wasn't sustainable. Freezing weather across much of the nation had a negative impact as well. Spending is set to boom in the months ahead as the American Rescue Plan includes almost $450 billion in aid to individuals and families. If the last round of $600 stimulus checks managed to bolster retail sales so much in January, imagine what March's $1,400 checks will do to sales in the next few months. That idea is supported by a big jump in March's consumer confidence index which posted its biggest single month gain in 18 years, climbing to 109.7. March's slate of housing data reflected February's freezing weather with both new and existing home sales declining, though home prices continue to rise. Existing home sales are being restrained by a lack of homes available for sale. Low inventories and higher prices are a recipe for new construction, which will further add to 2021 GDP growth.

With conditions rapidly improving on both the Covid-19 and economic fronts, economists have been busy revising their 2021 growth forecasts higher. The median forecast in Bloomberg's survey of economists currently shows first quarter gross domestic product advancing at a +4.7% quarter-over-quarter annualized rate, followed by a second quarter booming at +7%. GDP could easily expand more than +6% in 2021. Bond markets have taken note. Although the short end remains anchored by a Fed determined to stand pat until they see both sustained inflation and full employment, intermediate to long yields have climbed significantly. The five-year Treasury note yield, which rose 31 basis points during February, climbed another 21 basis points in March to close the month at 0.94%. The 10-year T-note closed March at 1.74%, up 83 bps since the year began.

For the Quarter Ended

March 31, 2021

This report is prepared for the **Galveston Industrial Development Corp** (the "Entity") in accordance with Chapter 2256 of the Texas Public Funds Investment Act ("PFIA"). Section 2256.023(a) of the PFIA states that: "Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of the investment transactions for all funds covered by this chapter for the preceding reporting period." This report is signed by the Entity's investment officers and includes the disclosures required in the PFIA. To the extent possible, market prices have been obtained from independent pricing sources.

The investment portfolio complied with the PFIA and the Entity's approved Investment Policy and Strategy throughout the period. All investment transactions made in the portfolio during this period were made on behalf of the Entity and were made in full compliance with the PFIA and the approved Investment Policy.

Officer Names and Titles:

Name: Michael W. Loftin	Title: Asst. City Manager-Finance
Name: Tammy Y. Jacobs	Title: Executive Director & City Controller

Galveston Industrial Development Corp

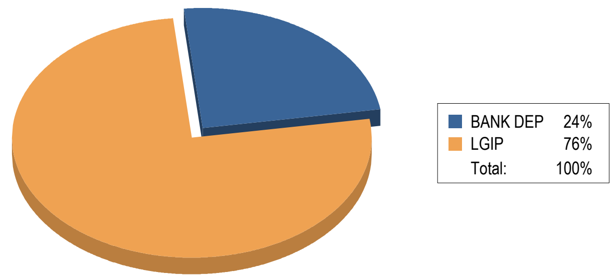
Executive Summary

As of 03/31/21

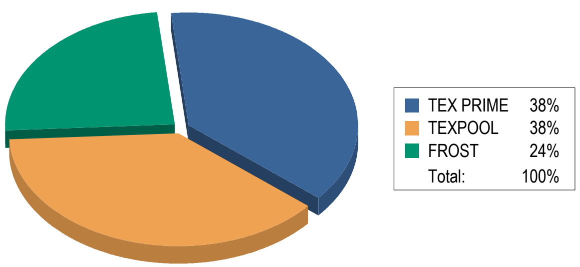
Account Summary

	Beginning Values as of 12/31/20	Ending Values as of 03/31/21
Par Value	14,237,731.71	14,285,681.57
Market Value	14,237,731.71	14,285,681.57
Book Value	14,237,731.71	14,285,681.57
Unrealized Gain /(Loss)	0.00	0.00
Market Value %	**100.00%**	**100.00%**
Weighted Avg. YTW	0.072%	0.044%
Weighted Avg. YTM	0.072%	0.044%

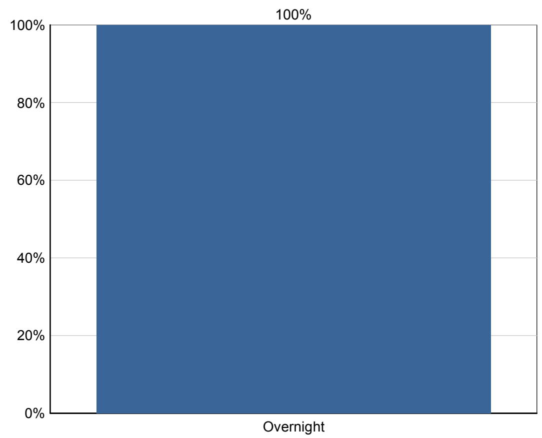
Allocation by Security Type



Allocation by Issuer

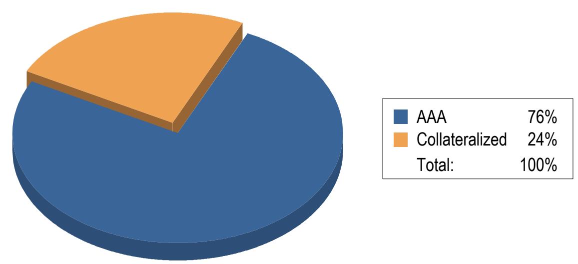


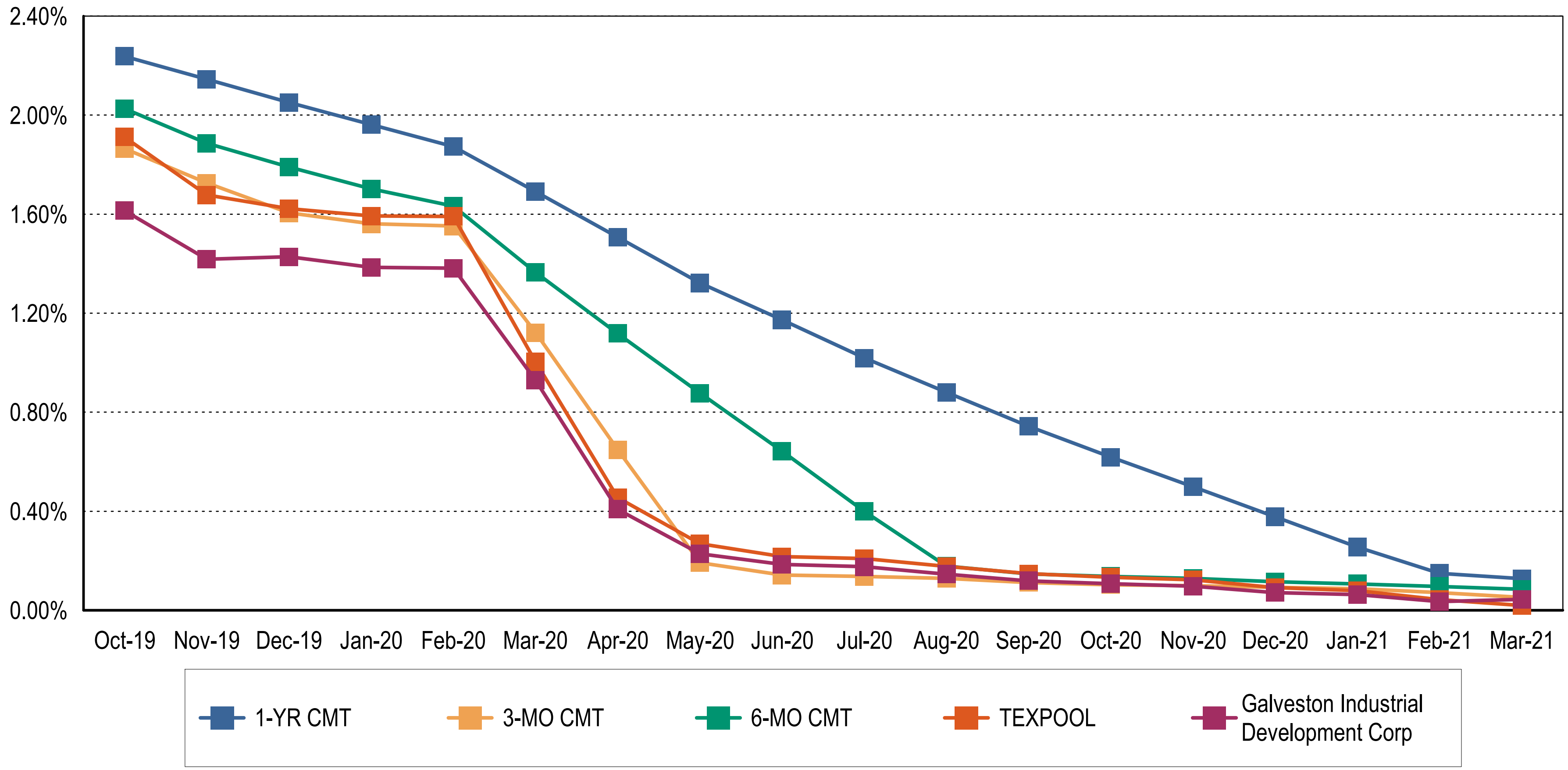
Maturity Distribution %



Weighted Average Days to Maturity: 1

Credit Quality





Note 1: CMT stands for Constant Maturity Treasury. This data is published in Federal Reserve Statistical Release H.15 and represents an average of all actively traded Treasury securities having that time remaining until maturity. This is a standard industry benchmark for Treasury securities. The CMT benchmarks are moving averages. The 3-month CMT is the daily average for the previous 3 months, the 6-month CMT is the daily average for the previous 6 months, and the 1-year and 2-year CMT's are the daily averages for the previous 12-months.

Note 2: Benchmark data for TexPool is the monthly average yield.

HilltopSecurities Asset Management

Galveston Industrial Development Corp
Detail of Security Holdings
As of 03/31/2021

CUSIP	Settle Date	Sec. Type	Sec. Description	CPN	Mty Date	Next Call	Call Type	Par Value	Purch Price	Orig Cost	Book Value	Mkt Price	Market Value	Days to Mty	Days to Call	YTM	YTW
Galveston Industrial Development Corp																	
FROSTGIDC		BANK DEP	Frost Bk					3,459,989.14	100.000	3,459,989.14	3,459,989.14	100.000	3,459,989.14	1		0.010	0.010
TEXPOOL		LGIP	TexPool					5,412,570.99	100.000	5,412,570.99	5,412,570.99	100.000	5,412,570.99	1		0.019	0.019
TEXPRIME		LGIP	TexPool Prime					5,413,121.44	100.000	5,413,121.44	5,413,121.44	100.000	5,413,121.44	1		0.092	0.092
Total for Galveston Industrial Development Corp								**14,285,681.57**	**100.000**	**14,285,681.57**	**14,285,681.57**	**100.000**	**14,285,681.57**	**1**		**0.044**	**0.044**
Total for Galveston Industrial Development Corp								**14,285,681.57**	**100.000**	**14,285,681.57**	**14,285,681.57**	**100.000**	**14,285,681.57**	**1**		**0.044**	**0.044**

Galveston Industrial Development Corp
Change in Value
From 12/31/2020 to 03/31/2021

CUSIP	Security Type	Security Description	12/31/20 Book Value	Cost of Purchases	Maturities / Calls / Sales	Amortization / Accretion	Realized Gain/(Loss)	03/31/21 Book Value	12/31/20 Market Value	03/31/21 Market Value	Change in Mkt Value
Galveston Industrial Development Corp											
FROSTGIDC	BANK DEP	Frost Bk	3,413,398.88	138,385.92	(91,795.66)	0.00	0.00	3,459,989.14	3,413,398.88	3,459,989.14	46,590.26
TEXPOOL	LGIP	TexPool	10,824,332.83	1,086.31	(5,412,848.15)	0.00	0.00	5,412,570.99	10,824,332.83	5,412,570.99	(5,411,761.84)
TEXPRIME	LGIP	TexPool Prime	0.00	5,413,121.44	0.00	0.00	0.00	5,413,121.44	0.00	5,413,121.44	5,413,121.44
Total for Galveston Industrial Development Corp			**14,237,731.71**	**5,552,593.67**	**(5,504,643.81)**	**0.00**	**0.00**	**14,285,681.57**	**14,237,731.71**	**14,285,681.57**	**47,949.86**
Total for Galveston Industrial Development Corp			**14,237,731.71**	**5,552,593.67**	**(5,504,643.81)**	**0.00**	**0.00**	**14,285,681.57**	**14,237,731.71**	**14,285,681.57**	**47,949.86**

Galveston Industrial Development Corp
Earned Income
From 12/31/2020 to 03/31/2021

CUSIP	Security Type	Security Description	Beg. Accrued	Interest Earned	Interest Rec'd / Sold / Matured	Interest Purchased	Ending Accrued	Disc Accr / Prem Amort	Net Income
Galveston Industrial Development Corp									
FROSTGIDC	BANK DEP	Frost Bk	0.00	78.94	78.94	0.00	0.00	0.00	78.94
TEXPOOL	LGIP	TexPool	0.00	1,238.16	1,238.16	0.00	0.00	0.00	1,238.16
TEXPRIME	LGIP	TexPool Prime	0.00	121.44	121.44	0.00	0.00	0.00	121.44
Total for Galveston Industrial Development Corp			**0.00**	**1,438.54**	**1,438.54**	**0.00**	**0.00**	**0.00**	**1,438.54**
Total for Galveston Industrial Development Corp			**0.00**	**1,438.54**	**1,438.54**	**0.00**	**0.00**	**0.00**	**1,438.54**

HilltopSecurities
Asset Management

Investment Portfolio Summary

Galveston Industrial Development Corp

CITY OF GALVESTON
1839

For the Quarter Ended

June 30, 2021

Prepared by
HilltopSecurities Asset Management

Table of Contents / Market Recap

Report Name

MARKET RECAP - JUNE 2021:

At this point, nearly everyone who wants a vaccine has been able to receive one, and while new strains continue to pop up it seems that vaccines by and large provide a high level of protection. Covid restrictions are becoming more and more relaxed with most of the United States "open" or at least partially open. As the country returns to normalcy this summer, we should continue to see the economy improve.

The ISM manufacturing index rose from 60.7 to a two-month high of 61.2 in May. The ISM non-manufacturing (service sector) index rose from 62.7 in April to 64.0 in May, the highest reading since the survey started in 1997. Nonfarm payrolls missed the mark for the second month in a row, increasing by +559k, which in a pre-pandemic world would be huge, but the median forecast was +675k and we're still 7.6 million jobs below last year's pre-pandemic peak. The unemployment rate dropped from 6.1% to 5.8% in May, but the drop was the result of 166k Americans exiting the labor force during the month as the labor force participation rate slipped to 61.6%. Average hourly earnings climbed +0.5% in May after a +0.7% jump in April. These are significant single month increases as employers must pay more to find and retain workers. Retail sales took a breather in May, declining -1.3%, but upward revisions boosted April's previously reported unchanged reading to +0.9% and March's already lofty +9.8% gain was increased to +11.3%. Recall that March and April sales were boosted by the last round of government stimulus, so a pullback in May was expected. May's decline doesn't change the fact that consumer spending has been on a torrid pace. The total value of retail sales was $620.2 billion in May, an +18% increase over February 2020's pre-pandemic level. On the inflation front, the headline consumer price index rose +0.6% in May while core CPI climbed +0.7%. On a year-over-year basis, headline CPI was advancing at a +5.0% pace, *the biggest annual increase in almost 13 years*. Core CPI rose +3.8% year-over-year, the most since 1992. Much of the year-over-year gains can be attributed to the "base effect" as prices were severely depressed 12 months ago while many U.S. businesses were shuttered. The base effect will dissipate going forward, but shortages of materials and labor promise to keep prices high for much of the year. Estimates for second quarter GDP growth center around +10%. Fiscal and monetary stimulus, combined with pent up demand and consumers eagerly returning to pre-pandemic habits, mean the summer should see substantial growth.

The Fed made no official change to policy at its June FOMC meeting, holding rates steady and maintaining the monthly addition of $120 billion to its balance sheet. However, the FOMC did signal they will discuss tapering these QE purchases soon. The updated "dot plot" showed Fed officials expect initial rate hikes earlier than previously indicated with 13 of 18 Fed officials now envisioning at least one hike in 2023. The FOMC also made two technical adjustments, increasing the interest on excess reserves (IOER) rate from 0.10% to 0.15%, and the overnight reverse repo rate from 0% to 0.05%. The IOER hike incentivizes banks to hold higher balances with the Fed while the reverse repo facility allows eligible financial firms and money market mutual funds to place cash at the Fed and earn 0.05%. Both should help to ease overall demand for short-term securities and nudge yields higher. The Fed's action had an immediate effect on yields with the two-year treasury yield climbing from 0.15% to 0.26%. Treasury bills inside of 3 months, which had been trading near 0% were up a few basis points. Longer-term yields have fallen as inflation expectations moderate.

For the Quarter Ended

June 30, 2021

This report is prepared for the **Galveston Industrial Development Corp** (the "Entity") in accordance with Chapter 2256 of the Texas Public Funds Investment Act ("PFIA"). Section 2256.023(a) of the PFIA states that: "Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of the investment transactions for all funds covered by this chapter for the preceding reporting period." This report is signed by the Entity's investment officers and includes the disclosures required in the PFIA. To the extent possible, market prices have been obtained from independent pricing sources.

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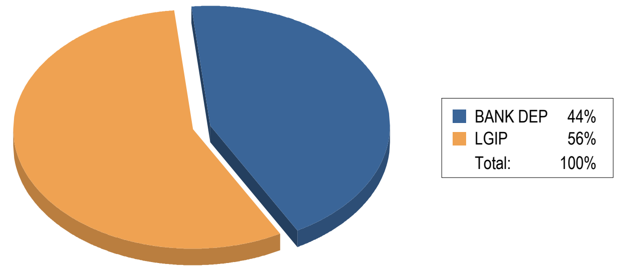
Officer Names and Titles:

Name: Michael W. Loftin	Title: Asst. City Manager-Finance
Name: Tammy Y. Jacobs	Title: Executive Director & City Controller

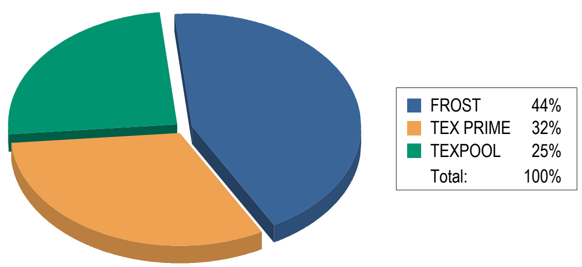
Account Summary

	Beginning Values as of 03/31/21	Ending Values as of 06/30/21
Par Value	14,285,681.57	13,895,718.01
Market Value	14,285,681.57	13,895,718.01
Book Value	14,285,681.57	13,895,718.01
Unrealized Gain /(Loss)	0.00	0.00
Market Value %	**100.00%**	**100.00%**
Weighted Avg. YTW	0.044%	0.030%
Weighted Avg. YTM	0.044%	0.030%

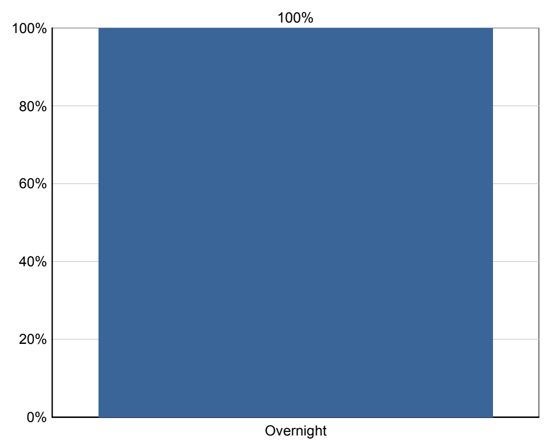
Allocation by Security Type



Allocation by Issuer

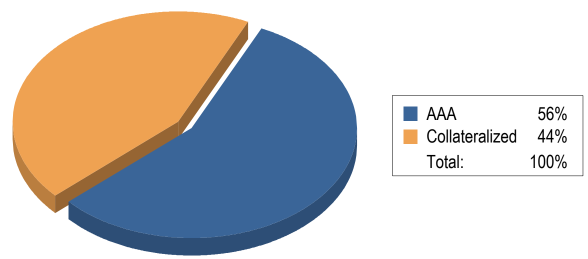


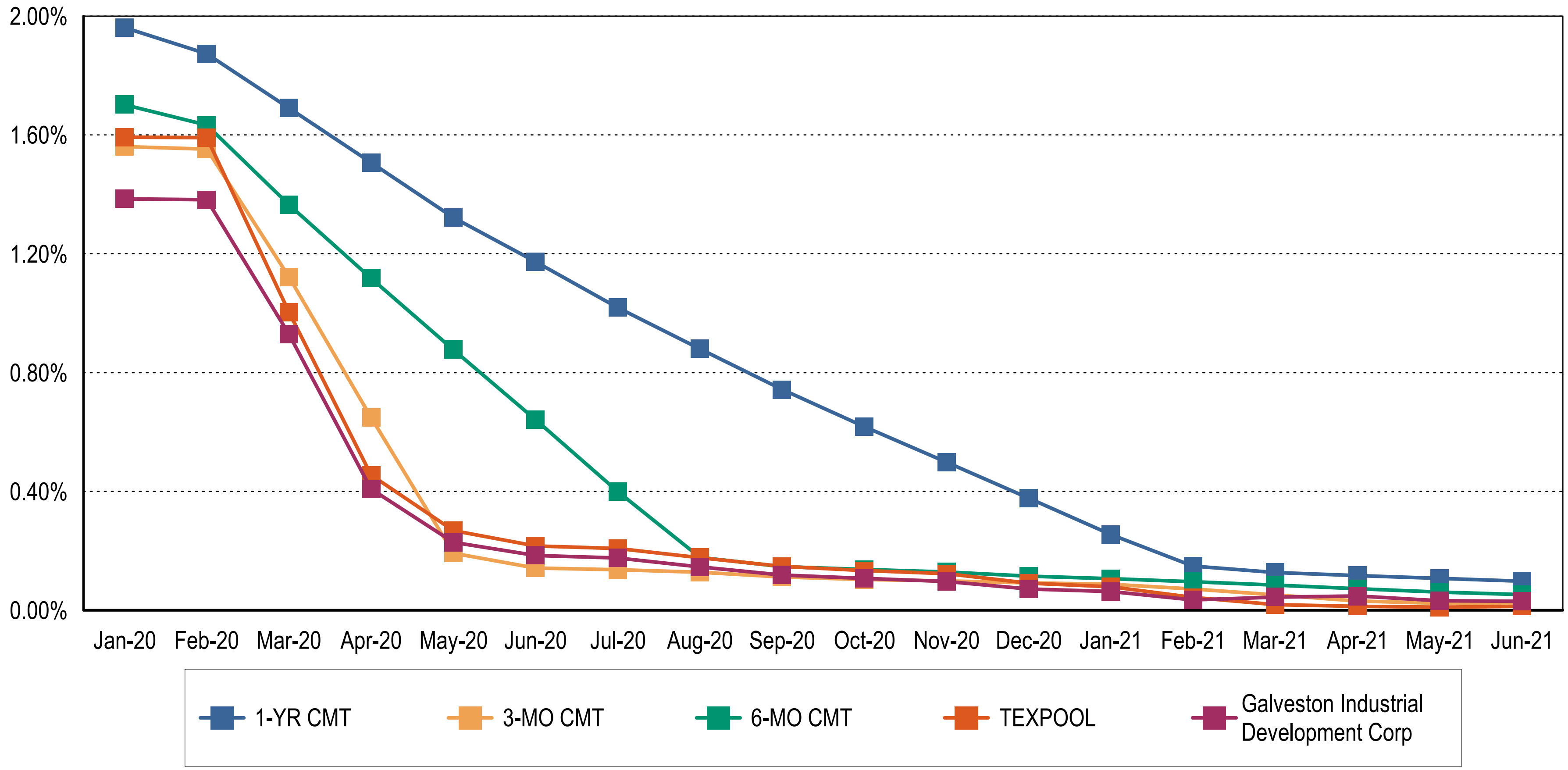
Maturity Distribution %



Weighted Average Days to Maturity: 1

Credit Quality





Note 1: CMT stands for Constant Maturity Treasury. This data is published in Federal Reserve Statistical Release H.15 and represents an average of all actively traded Treasury securities having that time remaining until maturity. This is a standard industry benchmark for Treasury securities. The CMT benchmarks are moving averages. The 3-month CMT is the daily average for the previous 3 months, the 6-month CMT is the daily average for the previous 6 months, and the 1-year and 2-year CMT's are the daily averages for the previous 12-months.

Note 2: Benchmark data for TexPool is the monthly average yield.

Hilltop Securities Asset Management

Galveston Industrial Development Corp
Detail of Security Holdings
As of 06/30/2021

CUSIP	Settle Date	Sec. Type	Sec. Description	CPN	Mty Date	Next Call	Call Type	Par Value	Purch Price	Orig Cost	Book Value	Mkt Price	Market Value	Days to Mty	Days to Call	YTM	YTW
Galveston Industrial Development Corp																	
FROSTGIDC		BANK DEP	Frost Bk					6,053,987.19	100.000	6,053,987.19	6,053,987.19	100.000	6,053,987.19	1		0.010	0.010
TEXPOOL		LGIP	TexPool					3,427,687.75	100.000	3,427,687.75	3,427,687.75	100.000	3,427,687.75	1		0.013	0.013
TEXPRIME		LGIP	TexPool Prime					4,414,043.07	100.000	4,414,043.07	4,414,043.07	100.000	4,414,043.07	1		0.071	0.071
Total for Galveston Industrial Development Corp								**13,895,718.01**	**100.000**	**13,895,718.01**	**13,895,718.01**	**100.000**	**13,895,718.01**	**1**		**0.030**	**0.030**
Total for Galveston Industrial Development Corp								**13,895,718.01**	**100.000**	**13,895,718.01**	**13,895,718.01**	**100.000**	**13,895,718.01**	**1**		**0.030**	**0.030**

Galveston Industrial Development Corp
Change in Value
From 03/31/2021 to 06/30/2021

CUSIP	Security Type	Security Description	03/31/21 Book Value	Cost of Purchases	Maturities / Calls / Sales	Amortization / Accretion	Realized Gain/(Loss)	06/30/21 Book Value	03/31/21 Market Value	06/30/21 Market Value	Change in Mkt Value
Galveston Industrial Development Corp											
FROSTGIDC	BANK DEP	Frost Bk	3,459,989.14	4,090,002.73	(1,496,004.68)	0.00	0.00	6,053,987.19	3,459,989.14	6,053,987.19	2,593,998.05
TEXPOOL	LGIP	TexPool	5,412,570.99	66.49	(1,984,949.73)	0.00	0.00	3,427,687.75	5,412,570.99	3,427,687.75	(1,984,883.24)
TEXPRIME	LGIP	TexPool Prime	5,413,121.44	626.00	(999,704.37)	0.00	0.00	4,414,043.07	5,413,121.44	4,414,043.07	(999,078.37)
Total for Galveston Industrial Development Corp			**14,285,681.57**	**4,090,695.22**	**(4,480,658.78)**	**0.00**	**0.00**	**13,895,718.01**	**14,285,681.57**	**13,895,718.01**	**(389,963.56)**
Total for Galveston Industrial Development Corp			**14,285,681.57**	**4,090,695.22**	**(4,480,658.78)**	**0.00**	**0.00**	**13,895,718.01**	**14,285,681.57**	**13,895,718.01**	**(389,963.56)**

Galveston Industrial Development Corp

Earned Income

From 03/31/2021 to 06/30/2021

CUSIP	Security Type	Security Description	Beg. Accrued	Interest Earned	Interest Rec'd / Sold / Matured	Interest Purchased	Ending Accrued	Disc Accr / Prem Amort	Net Income
Galveston Industrial Development Corp									
FROSTGIDC	BANK DEP	Frost Bk	0.00	97.23	97.23	0.00	0.00	0.00	97.23
TEXPOOL	LGIP	TexPool	0.00	116.76	116.76	0.00	0.00	0.00	116.76
TEXPRIME	LGIP	TexPool Prime	0.00	921.63	921.63	0.00	0.00	0.00	921.63
Total for Galveston Industrial Development Corp			**0.00**	**1,135.62**	**1,135.62**	**0.00**	**0.00**	**0.00**	**1,135.62**
Total for Galveston Industrial Development Corp			**0.00**	**1,135.62**	**1,135.62**	**0.00**	**0.00**	**0.00**	**1,135.62**

Hilltop Securities
Asset Management

CITY OF GALVESTON

ECONOMIC REVIEW AND INVESTMENT STRATEGY

AUGUST 24, 2021

Events Driving the Market

DELTA VARIANT ASSERTS ITSELF
Since the end of June, daily average new cases have exploded from just over 17,000 to the most recent 137,000, still roughly half of the January 2021 peak, but more than triple the average cases on September 1st of 2020.

GDP IS MODERATING
Q2 GDP fell short of expectations, however, if supply chain issues and labor and materials shortages weren't so prevalent, the overall number would have likely met or exceeded expectations. Housing and auto production are slowing overall growth. If demand remains brisk, future growth should get a boost.

INFLATIONARY PRESSURE STILL RISING
Core CPI and core PCE are both near 30-year highs. However, market participants seem to agree with Fed officials, believing price pressures are *transitory*.

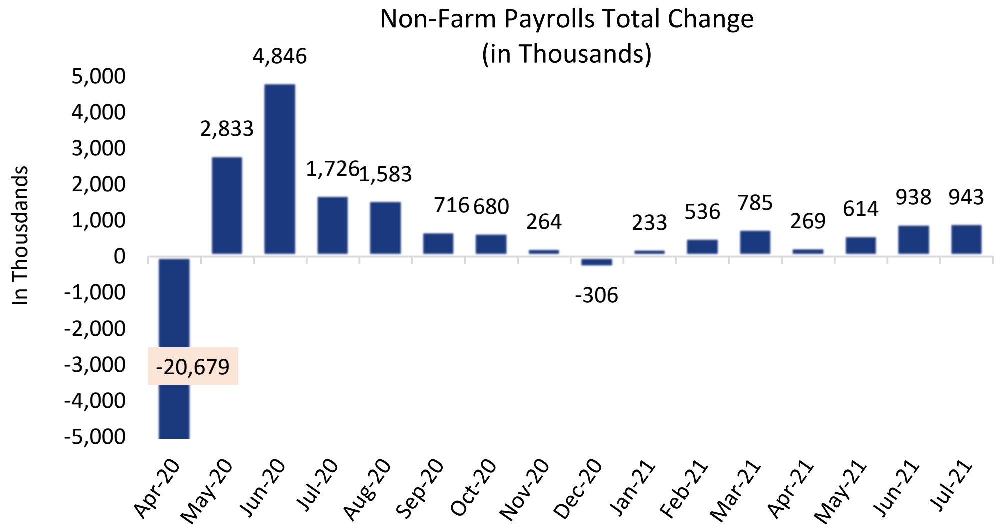
THE FED
At the June FOMC meeting , the Fed did increase the rate on interest on excess reserves (IOER) as well as on overnight reverse repos, providing some much-needed relief to the short-end of the curve and keeping short yield from going negative. At the July FOMC meeting, the Fed discussed tapering their QE purchases, though no action was taken. The FOMC remains determined to hold the overnight rate target steady until at least mid-2023.

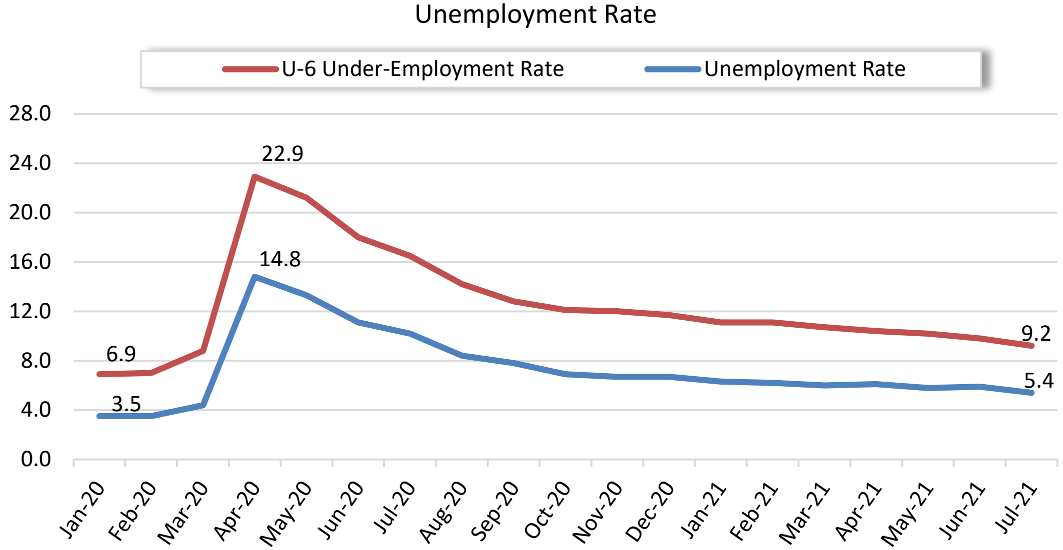
Employment

- U.S. companies added +943k jobs to payrolls in July, while the June payroll count was revised upward from +850k to +938k. After two solid months of gains, total nonfarm payrolls have now returned all but 5.7 million jobs shed during last years' shutdown.

- The headline unemployment rate fell from 5.9% to 5.4% in July, the lowest since March of 2020. However, the unemployment rate only includes those actively looking for work, and millions are still on the sidelines. *The BLS reported the number of Americans not included in the labor force but still wanting a job was 6.5 million*, 1.5 million above the pre-pandemic count.

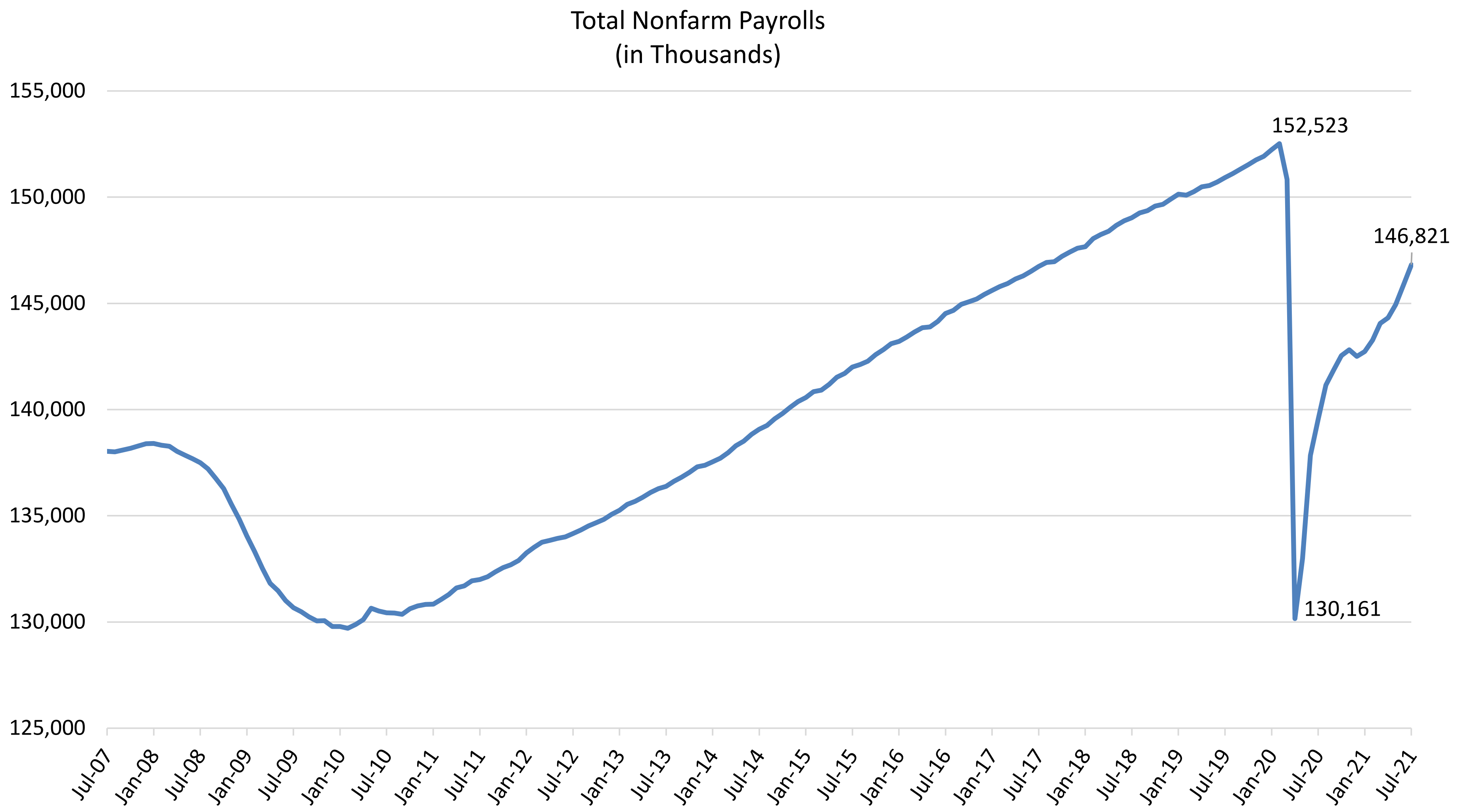
- The broader U6 measure, or "under-employment rate," which includes those working part-time but preferring fulltime employment, along with those not currently looking for work but willing to accept a suitable position if offered, fell to 9.2%.





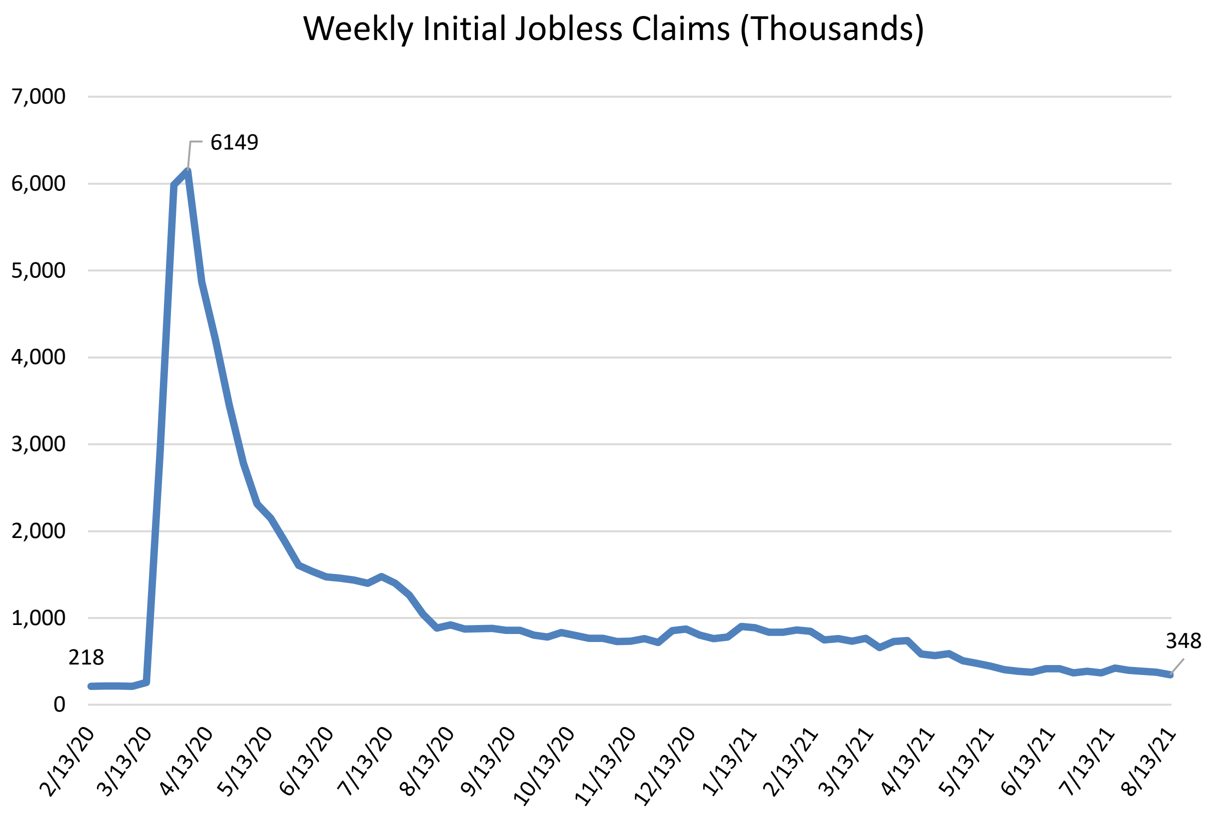
Source: Bureau of Labor Statistics / Bloomberg

HilltopSecurities

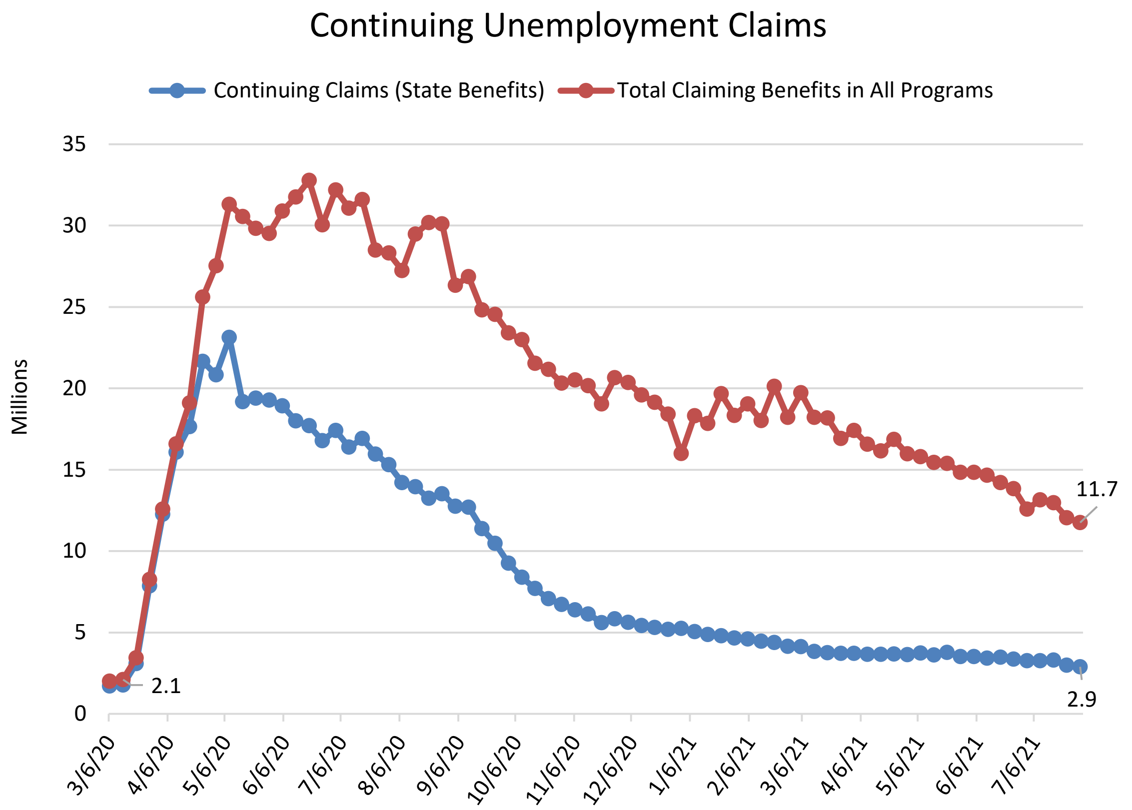


Source: Bureau of Labor Statistics

Employment



Source: Bureau of Labor Statistics

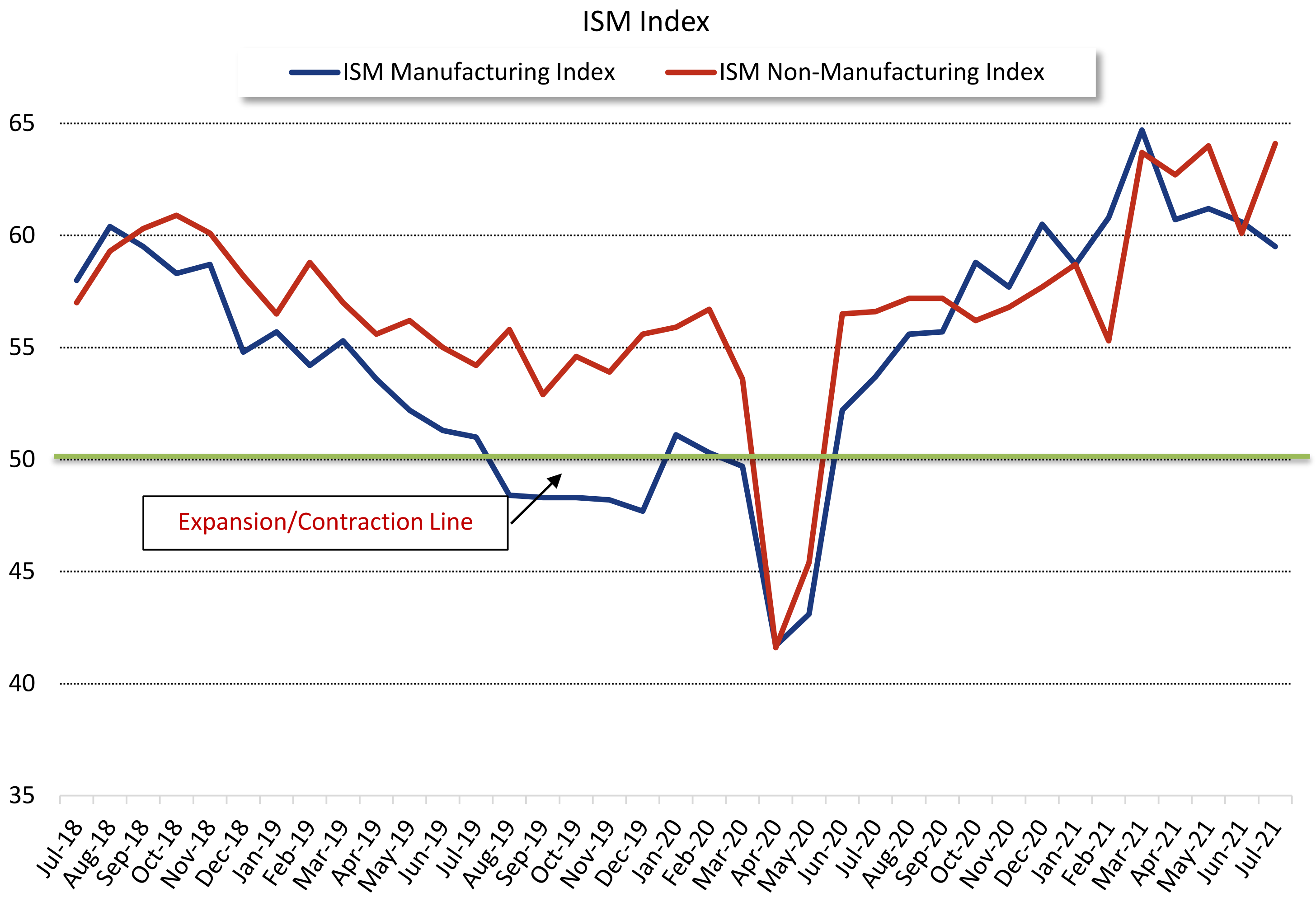


Source: Bureau of Labor Statistics

The Institute for Supply Management (ISM) Surveys

HilltopSecurities

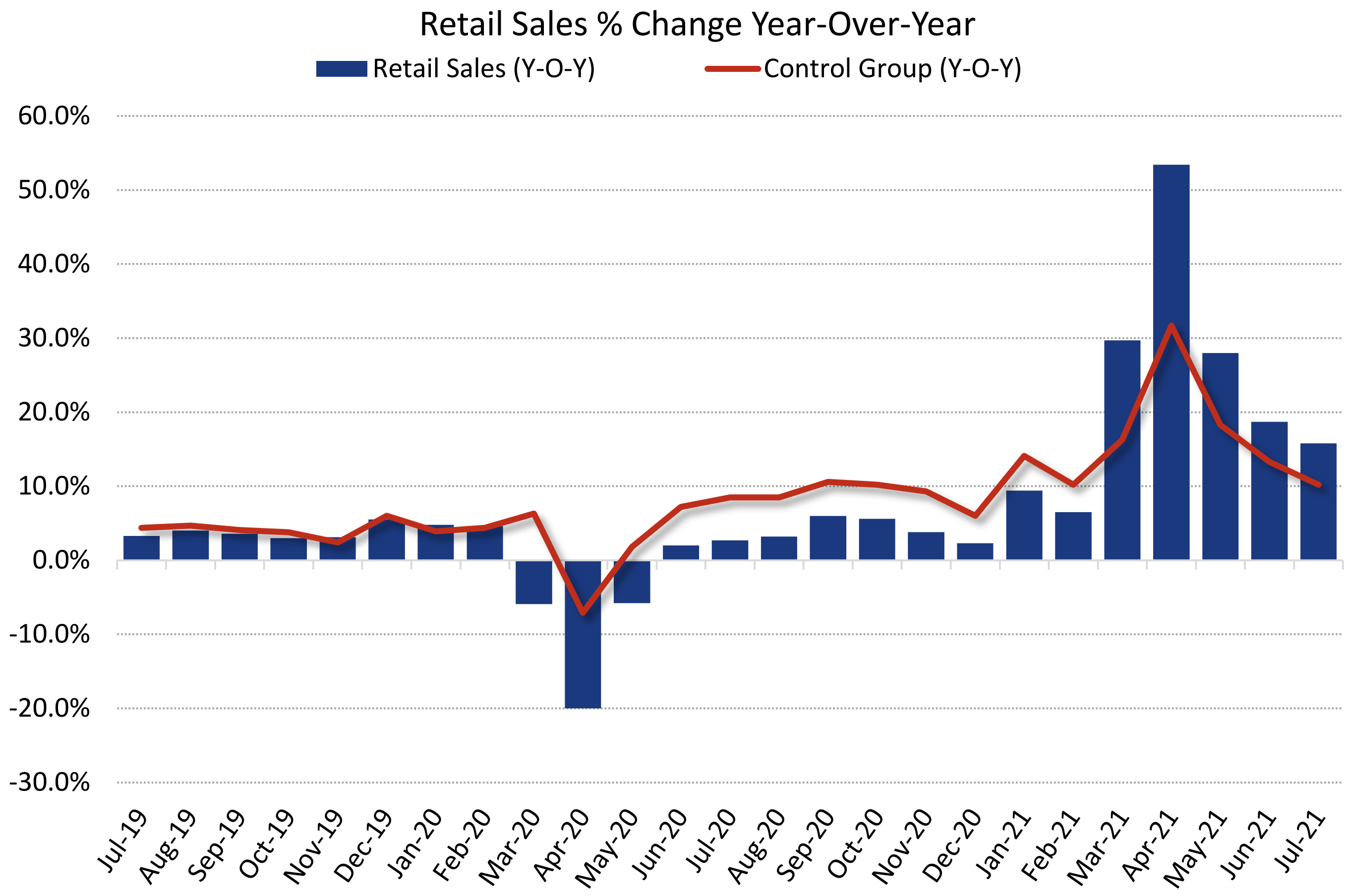
- The ISM manufacturing index fell from 60.6 to 59.5 in July, falling short of the median forecast. The index is under 60 for the first time since January, but nevertheless indicates solid manufacturing demand.
- The ISM <u>non-manufacturing</u> (service sector) index rose from 60.1 to 64.1, well above the 60.5 median forecast, the *highest since the report started in 1997.*
- Both sector surveys show purchasing managers are experiencing ***historically strong demand*** but are unable to respond due to supply chains disruptions, difficulty finding workers and elevated prices.



Source: Institute for Supply Management

Consumer Spending

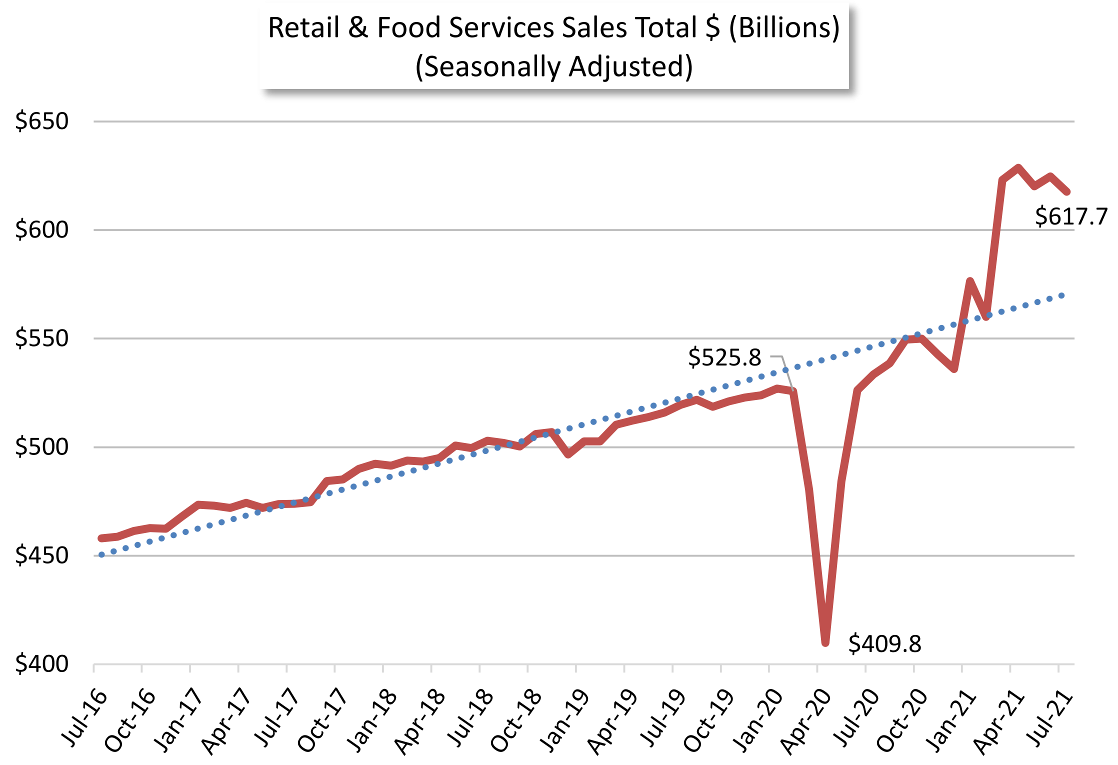
- Retail sales fell -1.1% month-over-month in July, well below the -0.3% forecast. A -3.9% drop in vehicle sales and a -2.6% drop in clothing sales did most of the damage, but 8 of 13 categories were down last month.
- Headline retail sales are still up +15.9% year-over-year, but the base effect is fading after posting enormous annual gains of +53.6%, +27.4% and +19.1% in the previous three months.
- The University of Michigan's Consumer Sentiment Index dropped a stunning -13.5 percentage points in August to 71.2, well below the median forecast of 81.2. *What makes this confidence measure so surprising is that it's below the pandemic low point in April of last year.*



Source: US Census Bureau

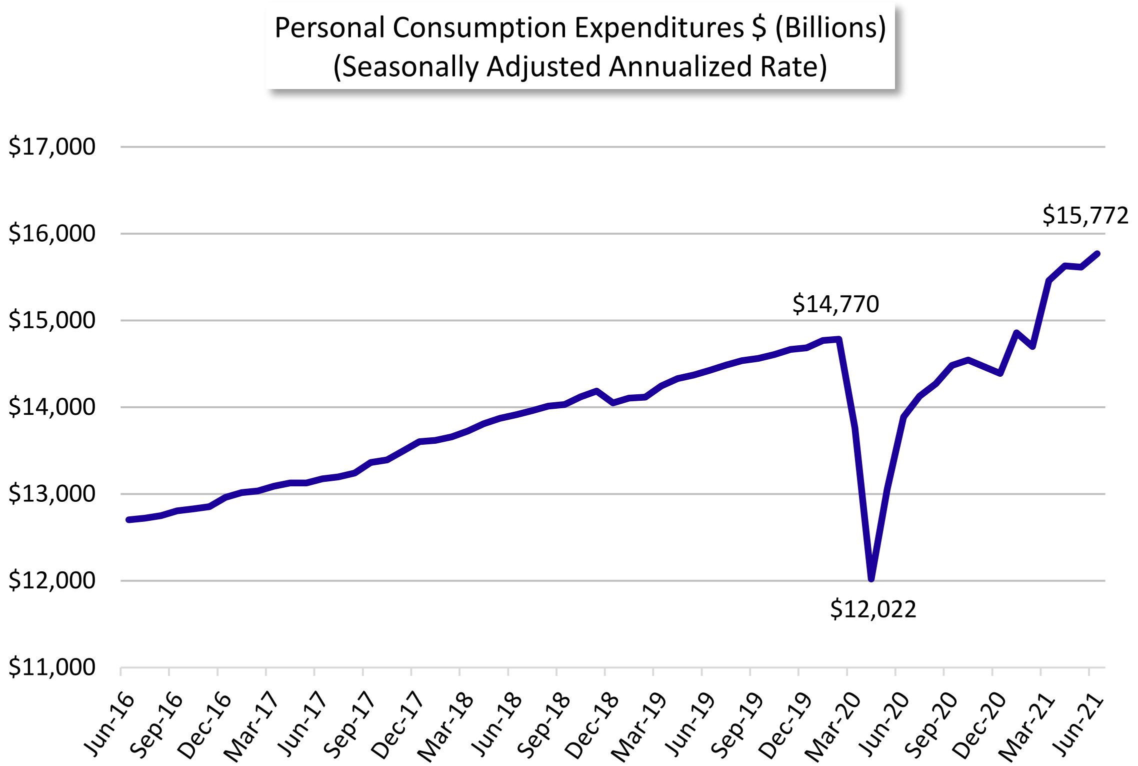
Consumer Spending

Total sales are +18.2% above pre-pandemic levels.



Source: US Census Bureau

The service sector has resumed its pre-pandemic trend.

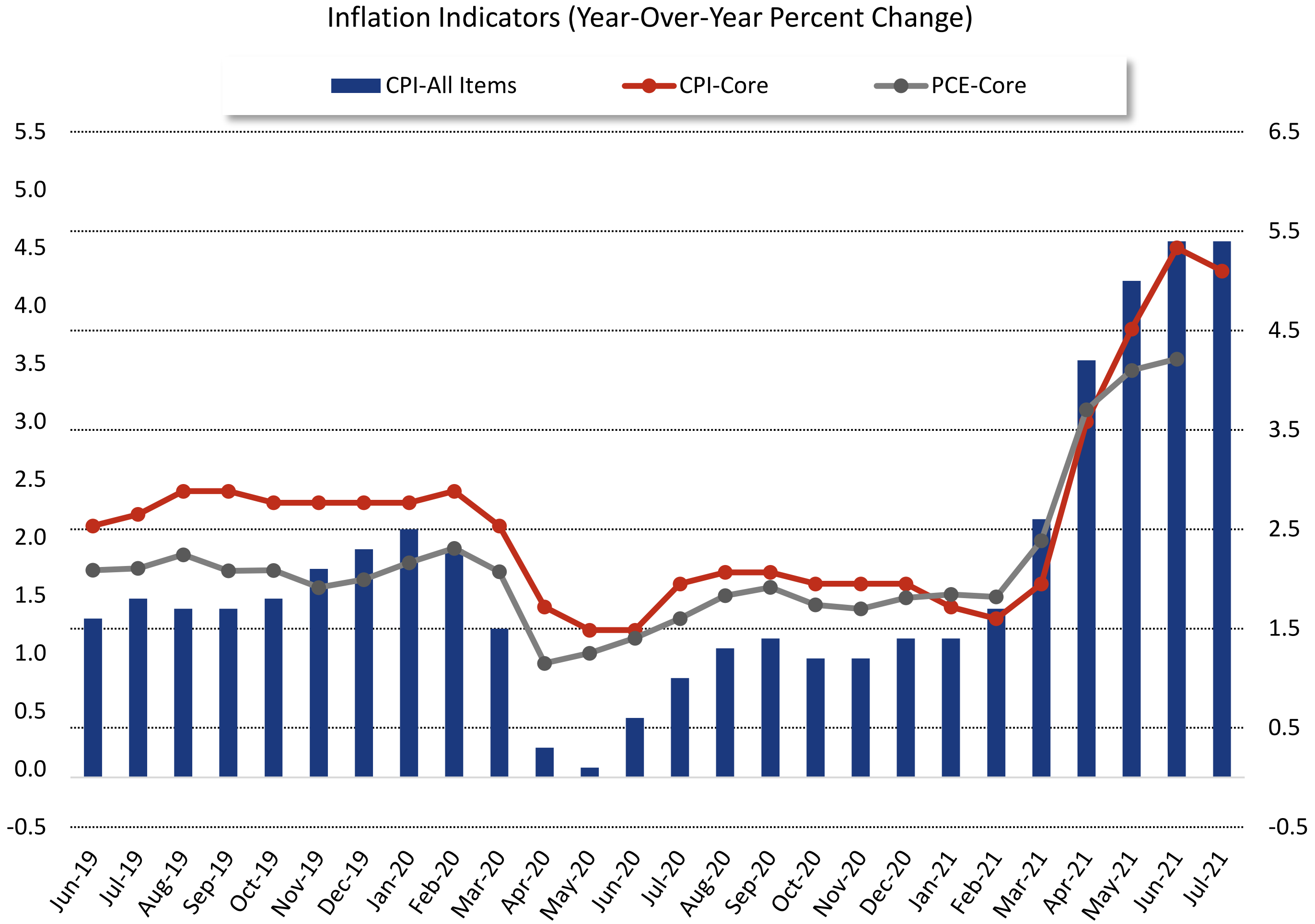


Source: US Census Bureau

Inflation

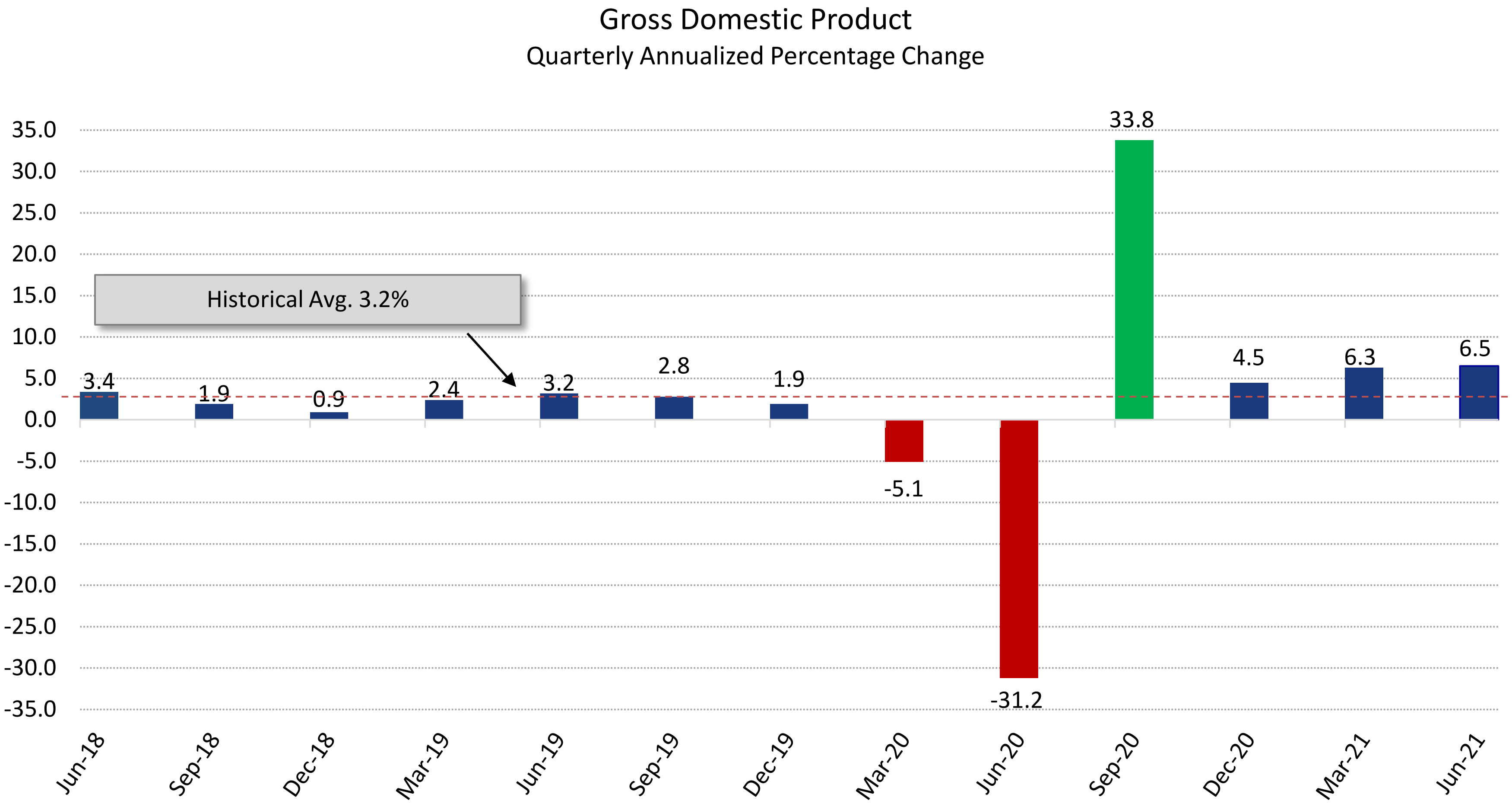
HilltopSecurities

- The headline consumer price index (CPI) rose +0.5% in July, down from the +0.9% reading in June, while core CPI was up +0.3%, well below the +0.9% June core advance.
- On a year-over-year basis, headline CPI held steady at +5.4%, while the core declined from a +4.5% annual pace to +4.3%.
- As of June, the Fed's preferred measure, core Personal Consumption Expenditures (PCE), was increasing at a +3.5% year-over-year pace.



Source: Bureau of Labor Statistics / Bureau of Economic Analysis

Base effects do account for some of the year-over-year change, but the monthly gains continue to be driven by transportation, supply bottlenecks, and other reopening-related factors.



Q2 GDP fell short of expectations, however, If supply chain issues and labor and materials shortages weren't so prevalent, the overall number would have likely met or exceeded expectations. If demand remains brisk, future growth should get a boost.

Source: US Census Bureau

Interest Rate Outlook

- At the conclusion of the June FOMC meeting, Fed officials announced no change in the overnight target rate or the pace of asset purchases (QE) as the Fed will continue adding $120 billion in assets monthly until further notice. The Fed did begin to discuss tapering of these QE purchases at the July meeting, though no change was made.

- However, at the June meeting, the FOMC made two important technical adjustments to address the supply demand imbalance in the bond market that has effectively put a floor under short yields, keeping them above zero:
  - *Increased the interest on excess reserves (IOER) rate from 0.10% to 0.15%*
  - *Increased the overnight reverse repo rate from 0.00% to 0.05%*

- The IOER hike incentivizes banks to hold higher balances with the Fed, thereby easing overall demand for short securities. Likewise, the reverse repo facility allows eligible financial firms to place idle cash at the Fed. With few available options, broker-dealers and money funds have used this program to invest over $1.1 trillion with the Fed at 0.05%. The reverse repo rate adjustment, similar to the IOER increase, has nudged the entire front end higher.

Bloomberg Yield Forecast

Survey release date – **8/13/21**

	8/13/21 Most Current	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23
Median Fed Funds (Upper Bound)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Median Fed Funds (Lower Bound)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Average US 2-Year	0.20	0.25	0.29	0.36	0.46	0.55	0.65	0.71
Average US 10-Year	1.24	1.48	1.64	1.75	1.84	1.88	2.02	2.07

Survey release date – **4/9/21**

	4/9/21 Prior	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22
Median Fed Funds (Upper Bound)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Median Fed Funds (Lower Bound)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Average US 2-Year	0.17	0.20	0.25	0.31	0.38	0.45	0.54	0.63
Average US 10-Year	1.57	1.71	1.79	1.84	1.93	1.99	2.05	2.13

Market Movement

EQUITY INDEXES			
	DOW	**S&P 500**	**NASDAQ**
12/31/2020	30,606	3,756	12,888
8/20/2021	35,120	4,442	14,715
YTD % Change	14.7%	18.3%	14.2%
8/20/2020	27,740	3,386	11,265
8/20/2021	35,120	4,442	14,715
Y-o-Y % Change	26.6%	31.2%	30.6%
3/19/2021	32,628	3,913	13,215
8/20/2021	35,120	4,442	14,715
% Change	7.6%	13.5%	11.3%

Equity markets have been a bit more volatile recently, but the major averages remain at or near record highs

INTEREST RATES							
	Date	**Fed Funds**	**6 mo. T-bill**	**12 mo. T-bill**	**2 yr. T-note**	**5 yr. T-note**	**10 yr. T-note**
Last	**3/19/2021**	0.00%-0.25%	0.03%	0.06%	0.15%	0.88%	1.72%
High			0.05%	0.08%	0.27%	0.98%	1.74%
Low			0.02%	0.04%	0.14%	0.65%	1.17%
End	**8/20/2021**	0.00%-0.25%	0.05%	0.06%	0.23%	0.78%	1.26%

It's been quite a roller coaster ride for U.S. government bond yields. The two-year Treasury note has traded as low as 0.14% and as high as 0.27%. The five-year has traded between 0.65% and 0.98% while the 10-year saw its trading range expand from a low of 1.17% to a high of 1.74%.

Relative Value Report

Hilltop Securities Asset Management

MATURITY DATE	SECURITY TYPE	DISCOUNT/ SPREAD	YIELD
Agency Discount Notes			
17-Sep-21	FHLB	0.025%	0.025%
20-Oct-21	FHLB	0.035%	0.035%
19-Nov-21	FHLB	0.040%	0.040%
17-Dec-21	FHLB	0.040%	0.040%
20-Jan-22	FHLB	0.040%	0.040%
23-Feb-22	FHLB	0.045%	0.045%
23-Mar-22	NQ	NQ	NQ
23-Apr-22	NQ	NQ	NQ
23-May-22	NQ	NQ	NQ
23-Jun-22	NQ	NQ	NQ
23-Jul-22	NQ	NQ	NQ
23-Aug-22	NQ	NQ	NQ
Commercial Paper			
13-Sep-21	MUFG Bank NY	0.060%	0.060%
22-Oct-21	MUFG Bank NY	0.070%	0.070%
22-Nov-21	Toyota Motor Credit	0.080%	0.080%
22-Dec-21	Toyota Motor Credit	0.090%	0.090%
18-Jan-22	Toyota Motor Credit	0.100%	0.100%
21-Feb-22	Toyota Motor Credit	0.120%	0.120%
20-May-22	Toyota Motor Credit	0.150%	0.150%
Agency Bullets (Non-Callable)			
25-Aug-22	FFCB 0.070	-15.8	0.071%
23-Nov-22	FFCB 0.100	-12.0	0.108%
19-Jan-23	NQ	NQ	NQ
19-Jun-23	FHLMC 2.750	-0.5	0.223%
10-Aug-23	FFCB 0.160	+.8	0.236%
5-Feb-24	FNMA 2.500	+6.5	0.293%
23-Jul-24	FFCB 0.450***	-0.5	0.441%

*** Spread versus 3-Year Treasury (All others vs 2-Year)

Relative Value Report

Today's Date: 23-Aug-21

Settlement Date: **24-Aug-21**

DISCLAIMER: Securities listed here represent the best market offers as of early morning on this date. All information is subject to change at any time without notice. This report is intended for informational purposes only, and is in no way a solicitation or offer to sell any securities or services. This information has been obtained from sources believed to be reliable, but we do not warrant or guarantee the accuracy or timeliness of this information. There are no warranties, expressed or implied, as to accuracy, completeness, or results obtained from this information.

Investment Pool Yields:	TexPool	TexSTAR
Previous Day:	0.024%	0.010%
7 Day Moving Avg:	0.023%	0.010%

Agency Discount Note Yields	Current	Week Ago	Month Ago
1 Mo	0.025%	0.035%	0.035%
2 Mo	0.035%	0.040%	0.040%
3 Mo	0.040%	0.025%	0.040%
6 Mo	0.045%	0.025%	NQ
9 Mo	NQ	0.025%	NQ
12 Mo	NQ	0.025%	NQ

Commercial Paper Yields	Current	Week Ago	Month Ago
1 Mo	0.060%	0.060%	0.060%
2 Mo	0.070%	0.070%	0.070%
3 Mo	0.080%	0.080%	0.080%
4 Mo	0.090%	NQ	NQ
5 Mo	0.100%	NQ	NQ
6 Mo	0.120%	NQ	NQ
9 Mo	0.150%	0.160%	0.140%

Agency Bullet Yields	Current	Week Ago	Month Ago
1 Yr	0.071%	0.070%	0.075%
1.5 Yr	NQ	0.160%	0.145%
2 Yr	0.236%	0.215%	0.205%
2.5 Yr	0.293%	NQ	NQ
3 Yr	0.441%	0.417%	0.388%

Contacts

Scott McIntyre | Managing Director
Scott.McIntyre@HilltopSecurities.com

Greg Warner | Director
Greg.Warner@HilltopSecurities.com

Dan Grant | Portfolio Manager
Dan.Grant@HilltopSecurities.com

Andrea Cash | Portfolio Manager
Andrea.Cash@HilltopSecurities.com

Amber Galloway | Investment Analyst
Amber.Galloway@HilltopSecurities.com

2700 Via Fortuna, Suite 410
Austin, Texas 78746
512.481.2009
HilltopSecurities.com

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City of Galveston

FINANCE DEPARTMENT
PO Box 779| Galveston, TX 77553-0779
mloftin@galvestontx.gov |409-797-3562

July 22, 2021

To: City Manager Brian Maxwell
Honorable Mayor and City Council

From: Michael W. Loftin, Assistant City Manager – Finance

RE: Consider a proposed amendment to the Memorandum of Understanding between the Rosenberg Library and the City of Galveston to provide for payments by the Library to the City that address an inequitable distribution of property tax revenue caused by the combined effect of City Charter requirements and State property tax laws approved in 2019.

Prior Council Action

In 2018, the City and the Library approved the Memorandum of Understanding formalizing the process of administering the City Charter provision that provides for the Rosenberg Library to receive a specific portion of the City's annual property tax revenue. By the time this is before City Council on July 22, the Library Board will likely not have met and approved it. But it is being presented for Council approval because of initial favorable responses from Library representatives.

Background

1. The City is severely limited in its property tax administration by the State property tax that effectively limits the City to an annual increase in revenue of 3.5% over the prior year, not including new construction. If the City's total taxable value excluding new construction as certified by the Galveston County Chief Appraiser increases by more than 3.5%, the City has two choices: reduce its property tax rate to offset the taxable value increase and/or request the voters to approve a higher property tax rate before beginning tax collections for the Budget year already underway.

2. The City chooses to adhere to the 3.5% limit on its revenue increase which is handled through the setting of its tax rate. By State law, the City's rate is comprised of two parts:

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A. A debt service rate that is levied to retire principal and interest on previously sold general obligation bonds;
B. A maintenance and operations rate intended to cover all operating needs normally funded as a part of a jurisdiction's General Fund.

3. The City's debt service repayment schedule is generally flat so the debt service rate is held constant over time to meet bond covenant requirements. Therefore, the maintenance and operations portion of the rate must be reduced in order to comply with the 3.5% revenue increase limit. And the M&O rate is also the portion of the rate that must include the Library's property tax portion.

4. This year, the Galveston County Appraisal District has raised the City taxpayers' values by an initial rate of 35% overall. The after-protest taxable value is certain to increase by well over 3.5%. The current estimate is around 15%, but it could easily be 20% when values are certified to the City. Because of the City Charter language, none of the rate reduction can be taken out of the Library's share of the M&O rate.

5. The City Charter includes the following language under Article VIII Taxation, Section 2 Powers of Taxation:

   "(2) Effective January 1, 1979, for the conduct, maintenance, improvement and extension of Rosenberg Library, a tax rate which will yield that amount which would be derived by the levy of a Five Cent ($0.05) tax, or at the discretion of the City Council, an additional amount up to a maximum total of an Eight Cent ($0.08) tax, per $100.00 of assessed valuation based upon a one hundred (100) per cent assessment ratio."

6. For the last number of years, the City has based its payment under the charter language above on the minimum property tax rate of $0.05. This will mean in the upcoming FY2022 Budget, that the Library will receive an increase in its share of City property tax revenue that is equal to the taxable value increase received from the CAD. Whatever the taxable value is, 15 or 20% more, the Library is mandated to receive its five-cent rate's worth of the revenue produced.

City of Galveston

FINANCE DEPARTMENT

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General Fund Rate Drops with Increases in Taxable Value

Fund	FY 2020 Actual	FY 2021 Actual	FY 2022 3.5% Increase in TV	FY 2022 10% Increase in TV	FY 2022 15% Increase in TV	FY 2022 20% Increase in TV
General Fund	$0.47739	$0.45750	$0.45750	$0.42750	$0.40750	$0.38950
Debt	$0.05250	$0.05250	$0.05250	$0.05250	$0.05250	$0.05250
Library	$0.05000	$0.05000	$0.05000	$0.05000	$0.05000	$0.05000
Total *	$0.57989	$0.56000	$0.56000	$0.53000	$0.51000	$0.49200

General Fund Revenue ($Thousands) Drops with Increases in Total Revenue

Fund	FY 2020 Actual	FY 2021 Projected	FY 2022 3.5% Increase in TV	FY 2022 10% Increase in TV	FY 2022 15% Increase in TV	FY 2022 20% Increase in TV
General Fund	$29,102	$31,473	$32,554	$32,131	$31,825	$31,550
Debt	$3,205	$3,587	$3,722	$3,933	$4,088	$4,242
Library	$3,046	$3,418	$3,547	$3,748	$3,898	$4,042
Total *	$35,353	$38,477	$39,823	$39,812	$39,809	$39,834

Note: Totals do not match because of complexity of tax calculation (freeze, P&I, et al).

Increase/(Decrease) from Prior Year ($Thousands)

Fund	FY 2020 Actual	FY 2021 Projected	FY 2022 3.5% Increase in TV	FY 2022 10% Increase in TV	FY 2022 15% Increase in TV	FY 2022 20% Increase in TV
General Fund	$2,618	$2,371	$1,082	$659	$353	$78
Debt	$166	$382	$135	$346	$501	$655
Library	$159	$372	$129	$330	$480	$624
Total *	$2,944	$3,124	$1,346	$1,335	$1,332	$1,357

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General Fund Percent Share Drops with Growth in Tax Roll

Fund	FY 2020 Actual	FY 2021 Projected	FY 2022 3.5% Increase in TV	FY 2022 10% Increase in TV	FY 2022 15% Increase in TV	FY 2022 20% Increase in TV
General Fund	9.9%	8.1%	3.4%	2.1%	1.1%	0.2%
Debt	5.5%	11.9%	3.8%	9.7%	14.0%	18.3%
Library	5.5%	12.2%	3.8%	9.7%	14.0%	18.3%
Total	9.1%	8.8%	3.5%	3.5%	3.5%	3.5%

7. Note the following:
   A. In FY 2020, the General Fund share increased by a larger percentage than the Library (9.9% versus 5.5%). This occurred because the City increased the M&O tax rate and this raised the General Fund portion of that rate only.
   B. In FY 2021, the 3.5% limit on growth in revenue from properties on the tax roll in the prior year took effect. As a result, the M&O portion of the tax rate was reduced $0.01988 and this reduced the General Fund's rate only.
   C. In FY 2022, as the potential taxable value increase gets larger, the General Fund revenue share of total revenue gets smaller. If the taxable roll goes up by 20%, which is highly possible, the General Fund share of the total will go up $78,000 or only 0.2%. This would lead to significant cuts in the General Fund budget in order to maintain public safety budgets intact.
   D. Differences in the percent increase for Debt and the Library from year to year are rounding differences.

Issues

1. Clearly, changing the City Charter language to something more equitable is needed; however, this will require some time and will be too late for this year's Budget problem caused by the unusually high taxable value increases. And the Charter provision will have to be complied with until it is changed.
2. A simple interim solution is to implement an agreement between the City and the Rosenberg Library whereby each shares equally in the overall percentage increase in property tax revenue.
   A. The inside cover page of the Proposed Budget is required to have the following language by the State of Texas Budget Law, Section 102.007 of the Local Government

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Code. The statement shown was in the FY 2021 Adopted Budget document because the final certified roll was not available until after the Proposed Budget was released.

"This budget will raise more revenue from property taxes than last year's budget by an amount of $3,156,000, which is a 8.95 percent increase from last year's budget. The property tax revenue to be raised from new property added to the tax roll this year."

This calculation was based on the following numbers found in the chart on page 37 of the Adopted Budget.

PROPERTY TAX REVENUE GROWTH
FY 2021 ADOPTED BUDGET ESTIMATE

By Fund	FY 2020 Estimate	FY 2021 Adopted	Amount of Increase	Percent Increase
General Fund Operations	$29,031,300	$31,381,600	$2,350,300	8.10%
Debt Service Fund	$3,196,200	$3,608,900	$412,700	12.91%
Rosenberg Library	$3,045,900	$3,438,900	$393,000	12.90%
Total	**$35,273,400**	**$38,429,400**	**$3,156,000**	8.95%

B. If the City and the Library shared equally in the overall increase in taxable value, the resulting payment by the Library to the City would have been $120,392, netting the Library a revenue gain of $272,608 over FY 2020.

PROPERTY TAX REVENUE GROWTH
CALCULATION OF LIBRARY PAYMENT FOR FY 2021

By Fund	FY 2020 Estimate	FY 2021 Adopted	FY 2021 Equitable Shares	Percent Increase	Amount of Increase
General Fund Operations	$29,031,300	$31,381,600	$31,629,601	8.95%	$2,598,301
Debt Service Fund	$3,196,200	$3,608,900	$3,482,260	8.95%	$286,060
Rosenberg Library	$3,045,900	$3,438,900	$3,318,508	8.95%	$272,608
Total	**$35,273,400**	**$38,429,400**	**$38,430,369**	8.95%	**$3,156,969**

C. In FY 2022, if the roll increases by 16.5%, including new construction at 1.5%, the two-step process would look like this:

(1) Calculate the Proposed Budget based on the City Charter mandated $0.05 cent tax levy for the Library. The Budget disclosure language required by State law would indicate that the overall increase in the property tax revenue would be $1,333,000 or 3.46% growth. The Budget would reflect the allocations shown below, and the City

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would make its property tax payments to the Library as it always has under the Charter.

PROPERTY TAX REVENUE GROWTH
PROSPECTIVE FY 2022 BUDGET ESTIMATE

By Fund	FY 2021 Estimate	FY 2022 Proposed	Amount of Increase	Percent Increase Over FY 2021
General Fund Operations	$31,473,000	$31,825,000	$352,000	1.12%
Debt Service Fund	$3,587,000	$4,088,000	$501,000	13.97%
Rosenberg Library	$3,418,000	$3,898,000	$480,000	14.04%
Total	**$38,478,000**	**$39,811,000**	**$1,333,000**	3.46%

(2) Calculate the equitable share of the overall property tax revenue increase of 3.46% not including new construction. The result is a net increase for the Library of $118,263 over FY 2021 (see below) instead of the $480,000 increase in the Charter mandated budget calculation (see above). The PILOT payment to the City would be $361,737 ($480,000 less $118,263). Should new construction equal 1.5%, the overall increase in the property tax for the City and the Library would be five percent. In this case, the Library revenue amount would be $3,589,000, constituting an increase over FY 2021 of $171,000.

PROPERTY TAX REVENUE GROWTH
CALCULATION OF LIBRARY PAYMENT FOR FY 2022

By Fund	FY 2021 Estimate	FY 2022 Proposed	FY 2022 Equitable Shares	Percent Increase	Amount of Increase over FY 2021
General Fund Operations	$31,473,000	$31,825,000	$32,561,966	3.46%	$1,088,966
Debt Service Fund	$3,587,000	$4,088,000	$3,711,110	3.46%	$124,110
Rosenberg Library	$3,418,000	$3,898,000	$3,536,263	3.46%	$118,263
Total	**$38,478,000**	**$39,811,000**	**$39,809,339**	3.46%	**$1,331,339**

(3) In the above example, the City's overall share of the increase in property tax revenue would grow 3.46% for the total of the Debt Service Fund and the General Fund. For policy reasons, the City may decide to leave its debt service rate where it is which would

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reduce the General Fund rate somewhat. The options in this regard will not be known until the property tax roll is delivered and the Proposed Budget is sent to City Council in August.

(4) Also, the Library's total shown in the above box does not include new construction. This could raise the Library's full payment by as much as $35,000 to $75,000 depending on how much new construction is a part of the final certified tax roll.

Recommendation: Implementation in FY 2022

1. Approve an amendment to the existing Memorandum of Understanding between the Library and the City that recognizes the proposed payment as a form of revenue sharing or payment in lieu of taxes (PILOT). Secure approval of the Council and Library Board prior to the submission of the budget to Council.
2. The City would make payments to the Library as it always has using the five-cent tax levy amount budgeted (estimated in the table above at $3,898,000 not including new construction).
3. In turn, the Library would make payments in the table above to the City totaling $361,737 in equal monthly installments of $30,145. Again, this is not including new construction.
4. At the end of the fiscal year, actual property tax amounts collected would be audited and "trued up" using the same distribution rules used to formulate the budget. The first step would entail using the percent actual property tax increase for the year just closed over the actual amount for the prior year.

Recommendation: Adopt the Memorandum of Understanding as proposed.

MEMORANDUM OF UNDERSTANDING BETWEEN THE
CITY OF GALVESTON TEXAS AND THE
ROSENBERG LIBRARY ASSOCIATION RELATED TO THE PAYMENT OF
AD VALOREM TAXES TO THE ROSENBERG LIBRARY IN ACCORDANCE WITH
THE CHARTER OF THE CITY OF GALVESTON

This agreement is entered into by and between the City of Galveston (City) and the Rosenberg Library Association (Library), a 501(c)(3) not for profit corporation. The City and Library are hereinafter referred to as the "Parties".

The Parties agree that City Charter Art. VIII §2 provides that the City shall pass "for the conduct, maintenance, improvement and extension of Rosenberg Library, a tax rate which will yield that amount which would be derived by the levy of a Five Cent ($0.05) tax…"

The City has been delivering funds to the Library in conformity with the City Charter since that section has been passed.

In 2018 the parties entered into Memorandum of Understanding to formalize the process of delivery of funds, referred to as "City Support" to the Library by the City. A copy of that Memorandum is attached as Exhibit A and is incorporated herein as if fully set forth. All terms and conditions set forth in the 2018 Memorandum are continued in force by this agreement.

The parties agree to the following refinements of the 2018 Memorandum as set forth herein:

1) The City shall continue to meet its obligations to provide City Support for the Library as set forth in City Charter Art. VIII §2.
2) The Library will accept the funds provided by the City under the Charter as continued City support; the Library agrees the delivery of these funds satisfies the City's obligations under the City Charter.
3) The Library elects for the term of this agreement to make payments to the City of Galveston in lieu of taxes in the amount set forth herein.

The parties agree that the payments between the parties shall be determined as follows.

I. Fiscal years: Both the City and Library utilize fiscal years beginning on October 1 and ending the following September 30. It is the intent of the parties this agreement will be effective for the fiscal years beginning on October 1, 2021 and 2022.

II. Setting of payment to Library: As set forth in the 2018 memorandum as attached, the City will make payment to the Library in a total amount equal to the certified value supplied by the Central Appraisal District multiplied by five cents ($0.05) for each one hundred dollars ($100) of assessed value. The payments shall be made monthly by the fifth business day of the month for each fiscal year in which this agreement is in place, beginning with FY 2022 that begins October 1, 2021.

III. Payments to the City from Library: The Library has determined that it is amenable to make an annual payment in lieu of taxes to the City. It is the intent of this agreement that the City and the Library will share this overall percent increase in total property tax revenue as presented and prepared under State law. For this purpose, the sum to be paid to the City by the library will be the amount which when netted against the property tax payment made by the City under section II ensures that the City and the Library have the same percent increase over the prior year. This calculation is to be made as follows:

A. The State of Texas Local Government Code Section 102.007 requires that the top page of the City Budget include the following language:
   "This budget will raise more revenue from property taxes than last year's budget by an amount of $________ which is a ____ percent increase from last year's budget."
B. This language is required to be the broadest measure of property taxes including principal, penalties and interest paid on a current or delinquent basis during the City's fiscal year. It includes property tax revenue allocated within the City Budget by the City Council to the City's General Fund, the City's Debt Service Fund, and the Library.
C. These allocations are based on the State defined and regulated property tax rate passed by Council for debt and for maintenance and operations, with the latter portion of the rate including the Library's $0.05 tax rate. The percent increase is calculated as the total amount budgeted for the upcoming budget year less the total amount estimated for the current year in the aforementioned budget (variable C) divided by the amount estimated for the current year in total.
D. The Library's payment to the City is calculated as follows:
   A = Percent increase in the City's total budgeted property tax revenue for the upcoming fiscal year over the estimated total for the current fiscal year as shown on the cover page of the City Budget and required by State law.
   B = Proposed Budget for the property tax payment by the City to the Library in the upcoming fiscal year as required by the City Charter at the $0.05 rate.
   C = Estimated property tax payment by the City as presented in the Budget for the upcoming fiscal year being made in the current fiscal year to the Library under the City Charter.
   D = Equitable share of the upcoming fiscal year's property tax revenue for the Library.
   E = Library payment to the City.

   Applying the variables above the formula is a two-step process
   Step 1 – (1 plus A) times C equals D
   Step 2 – B less D equals E
C. The Library's payments shall be made in monthly installments using the Budgeted amounts by the tenth business day of each month for each fiscal year in which this agreement is in place beginning with FY 2022 October 1, 2021.

IV. Actual property taxes collected will vary from the Budget; the parties agree this is a common occurrence which must be contemplated. Therefore as soon as practicable after the close of the fiscal year but not later than December 15, the City will calculate the final amount owed to the library under the City Charter requirement, as well as the amount payable by the Library to the City using the actual increase in total property taxes over the prior fiscal year and calculating the Library's final amount due to the City using the same steps above. As it does now, the City will issue the Library a statement showing these calculations and will adjust its payment to the Library in satisfaction of the Charter requirement. If the City shows any funds are due for the Pilot Payment, the Library will remit that payment within thirty days.

V. The parties will follow this methodology for the fiscal years beginning October 1, 2021 and October 1 2022. It is the intention of the parties to analyze the results and make amendments to this agreement accordingly; however, if the parties fail to do so this agreement shall remain in effect for each ensuing fiscal year beginning in October 2023 and thereafter.

VI. This agreement may be terminated by the parties by the issuance of a notice to the remaining party to be delivered by July 1 of each year this agreement is in effect. Failure to give notice by July 1 each year will result in the agreement remaining in effect for the ensuing fiscal year.

2021 Tax Rate Calculation Worksheet

Date: 07/29/2021 10:37 AM

Taxing Units Other Than School Districts or Water Districts

City of Galveston

Taxing Unit Name

Phone *(area code and number)*

Taxing Unit's Address, City, State, ZIP Code

Taxing Unit's Website Address

GENERAL INFORMATION: Tax Code Section 26.04(c) requires an officer or employee designated by the governing body to calculate the No-New-Revenue (NNR) tax rate and Voter-Approval tax rate for the taxing unit. These tax rates are expressed in dollars per $100 of taxable value calculated. The calculation process starts after the chief appraiser delivers to the taxing unit the certified appraisal roll and the estimated values of properties under protest. The designated officer or employee shall certify that the officer or employee has accurately calculated the tax rates and used values shown for the certified appraisal roll or certified estimate. The officer or employee submits the rates to the governing body by Aug. 7 or as soon thereafter as practicable.

School districts do not use this form, but instead use Comptroller Form 50-859 *Tax Rate Calculation Worksheet, School Districts without Chapter 313 Agreements* or Comptroller Form 50-884 *Tax Rate Calculation Worksheet, School District with Chapter 313 Agreements*.

Water districts as defined under Water Code Section 49.001(1) do not use this form, but instead use Comptroller Form 50-858 *Water District Voter-Approval Tax Rate Worksheet for Low Tax Rate and Developing Districts* or Comptroller Form 50-860 *Developed Water District Voter-Approval Tax Rate Worksheet*.

The Comptroller's office provides this worksheet to assist taxing units in determining tax rates. The information provided in this worksheet is offered as technical assistance and not legal advice. Taxing units should consult legal counsel for interpretations of law regarding tax rate preparation and adoption.

SECTION 1: No-New-Revenue Tax Rate

The NNR tax rate enables the public to evaluate the relationship between taxes for the prior year and for the current year based on a tax rate that would produce the same amount of taxes (no new taxes) if applied to the same properties that are taxed in both years. When appraisal values increase, the NNR tax rate should decrease.

The NNR tax rate for a county is the sum of the NNR tax rates calculated for each type of tax the county levies.

While uncommon, it is possible for a taxing unit to provide an exemption for only maintenance and operations taxes. In this case, the taxing unit will need to calculate the NNR tax rate separately for the maintenance and operations tax and the debt tax, then add the two components together.

No-New-Revenue Tax Rate Worksheet	Amount/Rate
1. 2020 total taxable value. Enter the amount of 2020 taxable value on the 2020 tax roll today. Include any adjustments since last year's certification; exclude Tax Code Section 25.25(d) one-fourth and one-third over-appraisal corrections from these adjustments. Exclude any property value subject to an appeal under Chapter 42 as of July 25 (will add undisputed value in Line 6). This total includes the taxable value of homesteads with tax ceilings (will deduct in Line 2) and the captured value for tax increment financing (adjustment is made by deducting TIF taxes, as reflected in Line 17).[1]	$7,252,693,771
2. 2020 tax ceilings. Counties, cities and junior college districts. Enter 2020 total taxable value of homesteads with tax ceilings. These include the homesteads of homeowners age 65 or older or disabled. Other taxing units enter 0. If your taxing units adopted the tax ceiling provision in 2020 or a prior year for homeowners age 65 or older or disabled, use this step.[2]	$814,465,165
3. Preliminary 2020 adjusted taxable value. Subtract Line 2 from Line 1.	$6,438,228,606
4. 2020 total adopted tax rate.	$0.560000/$100
5. 2020 taxable value lost because court appeals of ARB decisions reduced 2020 appraised value. A. **Original 2020 ARB values:**	$31,007,410

B. **2020 values resulting from final court decisions:** C. **2020 value loss.** Subtract B from A.[3]	$27,679,890 $3,327,520
6. 2020 taxable value subject to an appeal under Chapter 42, as of July 25. A. **2020 ARB certified value:** B. **2020 disputed value:** C. **2020 undisputed value.** Subtract B from A.[4]	$0 $0 $0
7. 2020 Chapter 42 related adjusted values Add Line 5C and Line 6C.	$3,327,520
8. 2020 taxable value, adjusted for actual and potential court-ordered adjustments. Add Line 3 and Line 7.	$6,441,556,126
9. 2020 taxable value of property in territory the taxing unit deannexed after Jan. 1, 2020. Enter the 2020 value of property in deannexed territory.[5]	$0
10. 2020 taxable value lost because property first qualified for an exemption in 2021. If the taxing unit increased an original exemption, use the difference between the original exempted amount and the increased exempted amount. Do not include value lost due to freeport, goods-in-transit, temporary disaster exemptions. Note that lowering the amount or percentage of an existing exemption in 2021 does not create a new exemption or reduce taxable value. A. **Absolute exemptions.** Use 2020 market value: B. **Partial exemptions.** 2021 exemption amount or 2021 percentage exemption times 2020 value: C. **Value loss.** Add A and B.[5]	$3,349,710 $39,241,524 $42,591,234
11. 2020 taxable value lost because property first qualified for agricultural appraisal (1-d or 1-d-1), timber appraisal, recreational/scenic appraisal or public access airport special appraisal in 2021. Use only properties that qualified in 2021 for the first time; do not use properties that qualified in 2020. A. **2020 market value:** B. **2021 productivity or special appraised value:** C. **Value loss.** Subtract B from A.[7]	$18,268 $110 $18,158
12. Total adjustments for lost value. Add lines 9, 10C and 11C.	$42,609,392
13. 2020 captured value of property in a TIF. Enter the total value of 2020 captured appraised value of property taxable by a taxing unit in a tax increment financing zone for which 2020 taxes were deposited into the tax increment fund.[8] If the taxing unit has no captured appraised value in line 18D, enter 0.	$106,242,607
14. 2020 total value. Subtract Line 12 and Line 13 from Line 8.	$6,292,704,127
15. Adjusted 2020 total levy. Multiply Line 4 by Line 14 and divide by $100.	$35,239,143
16. Taxes refunded for years preceding tax year 2020. Enter the amount of taxes refunded by the taxing unit for tax years preceding tax year 2020. Types of refunds include court	$43,878

decisions, Tax Code Section 25.25(b) and (c) corrections and Tax Code Section 31.11 payment errors. Do not include refunds for tax year 2020. This line applies only to tax years preceding tax year 2020.[8]	
17. Adjusted 2020 levy with refunds and TIF adjustment. Add Lines 15 and 16.[10]	$35,283,021
18. Total 2021 taxable value on the 2021 certified appraisal roll today. This value includes only certified values or certified estimate of values and includes the total taxable value of homesteads with tax ceilings (will deduct in Line 20). These homesteads include homeowners age 65 or older or disabled.[11] A. **Certified values:** B. **Counties:** Include railroad rolling stock values certified by the Comptroller's office: C. **Pollution control and energy storage system exemption:** Deduct the value of property exempted for the current tax year for the first time as pollution control or energy storage system property: D. **Tax increment financing:** Deduct the 2021 captured appraised value of property taxable by a taxing unit in a tax increment financing zone for which the 2021 taxes will be deposited into the tax increment fund. Do not include any new property value that will be included in Line 23 below.[12] **E. Total 2021 value.** Add A and B, then subtract C and D.	$8,262,938,900 $0 $0 $129,617,776 $8,133,321,124
19. Total value of properties under protest or not included on certified appraisal roll.[13] A. **2021 taxable value of properties under protest.** The chief appraiser certifies a list of properties still under ARB protest. The list shows the appraisal district's value and the taxpayer's claimed value, if any, or an estimate of the value if the taxpayer wins. For each of the properties under protest, use the lowest of these values. Enter the total value under protest.[14] B. **2021 value of properties not under protest or included on certified appraisal roll.** The chief appraiser gives taxing units a list of those taxable properties that the chief appraiser knows about, but are not included in the appraisal roll certification. These properties also are not on the list of properties that are still under protest. On this list of properties, the chief appraiser includes the market value, appraised value and exemptions for the preceding year and a reasonable estimate of the market value, appraised value and exemptions for the current year. Use the lower market, appraised or taxable value (as appropriate). Enter the total value of property not on the certified roll.[15] C. **Total value under protest or not certified:** Add A and B.	$482,393,773 $0 $482,393,773
20. 2021 tax ceilings. Counties, cities and junior colleges enter 2021 total taxable value of homesteads with tax ceilings. These include the homesteads of homeowners age 65 or older or disabled. Other taxing units enter 0. If your taxing units adopted the tax ceiling provision in 2020 or a prior year for homeowners age 65 or older or disabled, use this step.[16]	$895,156,149
21. 2021 total taxable value. Add Lines 18E and 19C. Subtract Line 20.[17]	$7,720,558,748
22. Total 2021 taxable value of properties in territory annexed after Jan. 1, 2020.	$0

Include both real and personal property. Enter the 2021 value of property in territory annexed.[18]	
23. Total 2021 taxable value of new improvements and new personal property located in new improvements. New means the item was not on the appraisal roll in 2020. An improvement is a building, structure, fixture or fence erected on or affixed to land. New additions to existing improvements may be included if the appraised value can be determined. New personal property in a new improvement must have been brought into the taxing unit after Jan. 1, 2020, and be located in a new improvement. New improvements **do** include property on which a tax abatement agreement has expired for 2021.[19]	$141,907,142
24. Total adjustments to the 2021 taxable value. Add Lines 22 and 23.	$141,907,142
25. Adjusted 2021 taxable value. Subtract Line 24 from Line 21.	$7,578,651,606
26. 2021 NNR tax rate. Divide Line 17 by Line 25 and multiply by $100.[20]	$0.465558/$100
27. COUNTIES ONLY. Add together the NNR tax rates for each type of tax the county levies. The total is the 2021 county NNR tax rate.[21]	

[1]Tex. Tax Code Section 26.012(14)
[2]Tex. Tax Code Section 26.012(14)
[3]Tex. Tax Code Section 26.012(13)
[4]Tex. Tax Code Section 26.012(13)
[5]Tex. Tax Code Section 26.012(15)
[6]Tex. Tax Code Section 26.012(15)
[7]Tex. Tax Code Section 26.012(13)
[8]Tex. Tax Code Section 26.012(13)
[9]Tex. Tax Code Section 26.03(c)
[10]Tex. Tax Code Section 26.012(13)
[11]Tex. Tax Code Section 26.012,26.04(c-2)
[12]Tex. Tax Code Section 26.03(c)
[13]Tex. Tax Code Section 26.01(c) and (d)
[14]Tex. Tax Code Section 26.01(c)
[15]Tex. Tax Code Section 26.01(d)
[16]Tex. Tax Code Section 26.012(6)(b)
[17]Tex. Tax Code Section 26.012(6)
[18]Tex. Tax Code Section 26.012(17)
[19]Tex. Tax Code Section 26.012(17)
[20]Tex. Tax Code Section 26.04(c)
[21]Tex. Tax Code Section 26.04(d)
[22]*Reserved for expansion*

SECTION 2: Voter-Approval Tax Rate

The voter-approval tax rate is the highest tax rate that a taxing unit may adopt without holding an election to seek voter approval of the rate. The voter-approval tax rate is split into two separate rates:

1. **Maintenance and Operations (M&O) Tax Rate:** The M&O portion is the tax rate that is needed to raise the same amount of taxes that the taxing unit levied in the prior year plus the applicable percentage allowed by law. This rate accounts for such things as salaries, utilities and day-to-day operations
2. **Debt Rate:** The debt rate includes the debt service necessary to pay the taxing unit's debt payments in the coming year. This rate accounts for principal and interest on bonds and other debt secured by property tax revenue.

The Voter-Approval tax rate for a county is the sum of the Voter-Approval tax rates calculated for each type of tax the county levies. In most cases the Voter-Approval tax rate exceeds the No-New-Revenue tax rate, but occasionally decreases in a taxing unit's debt service will cause the NNR tax rate to be higher than the voter-approval tax rate.

Voter-Approval Tax Rate Worksheet	Amount/Rate
28. 2020 M&O tax rate. Enter the 2020 M&O tax rate.	$0.507500/$100
29. 2020 taxable value, adjusted for actual and potential court-ordered adjustments. Enter the amount in Line 8 of the *No-New-Revenue Tax Rate Worksheet*.	$6,441,556,126
30. Total 2020 M&O levy. Multiply Line 28 by Line 29 and divide by $100.	$32,690,897
31. Adjusted 2020 levy for calculating NNR M&O rate.	
A. M&O taxes refunded for years preceding tax year 2020 Enter the amount of M&O taxes refunded in the preceding year for taxes before that year. Types of refunds include court decisions, Tax Code Section 25.25(b) and (c) corrections and Tax Code Section 31.11 payment errors. Do not include refunds for tax year 2020. This line applies only to tax years preceding tax year 2020.	$39,765
B. 2020 taxes in TIF Enter the amount of taxes paid into the tax increment fund for a reinvestment zone as agreed by the taxing unit. If the taxing unit has no 2021 captured appraised value in Line 18D, enter 0.	$594,674
C. 2020 transferred function. If discontinuing all of a department, function or activity and transferring it to another taxing unit by written contract, enter the amount spent by the taxing unit discontinuing the function in the 12 months preceding the month of this calculation. If the taxing unit did not operate this function for this 12-month period, use the amount spent in the last full fiscal year in which the taxing unit operated the function. The taxing unit discontinuing the function will subtract this amount in D below. The taxing unit receiving the function will add this amount in D below. Other taxing units enter 0.	$0
D. 2020 M&O levy adjustments. Subtract B from A. For taxing unit with C, subtract if discontinuing function and add if receiving function.	$-554,909
E. Add Line 30 to 31D.	$32,135,988
32. Adjusted 2021 taxable value. Enter the amount in Line 25 of the *No-New-Revenue Tax Rate Worksheet*.	$7,578,651,606
33. 2021 NNR M&O rate (unadjusted). Divide Line 31E by Line 32 and multiply by $100.	$0.424033/$100
34. Rate adjustment for state criminal justice mandate.[23]	
A. 2021 state criminal justice mandate: Enter the amount spent by a county in the previous 12 months providing for the maintenance and operation cost of keeping inmates in county-paid facilities after they have been sentenced. Do not include any state reimbursement received by the county for the same purpose.	$0

B. 2020 state criminal justice mandate: Enter the amount spent by a county in the 12 months prior to the previous 12 months providing for the maintenance and operation cost of keeping inmates in county-paid facilities after they have been sentenced. Do not include any state reimbursement received by the county for the same purpose. Enter zero if this is the first time the mandate applies. **C.** Subtract B from A and divide by Line 32 and multiply by $100. **D.** Enter the rate calculated in C. If not applicable, enter 0.	$0 $0.000000/$100 $0.000000/$100
35. Rate adjustment for indigent health care expenditures.[24] **A. 2021 indigent health care expenditures:** Enter the amount paid by a taxing unit providing for the maintenance and operation cost of providing indigent health care for the period beginning on July 1, 2020 and ending on June 30, 2021, less any state assistance received for the same purpose. **B. 2020 indigent health care expenditures:** Enter the amount paid by a taxing unit providing for the maintenance and operation cost of providing indigent health care for the period beginning on July 1, 2019 and ending on June 30, 2020, less any state assistance received for the same purpose. **C.** Subtract B from A and divide by Line 32 and multiply by $100. **D.** Enter the rate calculated in C. If not applicable, enter 0.	$0 $0 $0.000000/$100 $0.000000/$100
36. Rate adjustment for county indigent defense compensation.[25] **A. 2021 indigent defense compensation expenditures:** Enter the amount paid by a county to provide appointed counsel for indigent individuals for the period beginning on July 1, 2020 and ending on June 30, 2021, less any state grants received by the county for the same purpose. **B. 2020 indigent defense compensation expenditures:**Enter the amount paid by a county to provide appointed counsel for indigent individuals for the period beginning on July 1, 2019 and ending on June 30, 2020, less any state grants received by the county for the same purpose. **C.** Subtract B from A and divide by Line 32 and multiply by $100. **D.**Multiply B by 0.05 and divide by Line 32 and multiply by $100. **E.** Enter the lessor of C and D. If not applicable, enter 0.	$0 $0 $0.000000/$100 $0.000000/$100 $0.000000/$100
37. Rate adjustment for county hospital expenditures.[26] **A. 2021 eligible county hospital expenditures:** Enter the amount paid by the county or municipality to maintain and operate an eligible county hospital for the period beginning on July 1, 2020 and ending on June 30, 2021. **B. 2020 eligible county hospital expenditures:**Enter the amount paid by the county or municipality to maintain and operate an eligible county hospital for the period beginning on July 1, 2019 and ending on June 30, 2020.	$0 $0

C. Subtract B from A and divide by Line 32 and multiply by $100. **D.**Multiply B by 0.08 and divide by Line 32 and multiply by $100. **E.** Enter the lessor of C and D, if applicable. If not applicable, enter 0.	$0.000000/$100 $0.000000/$100 $0.000000/$100
38. Rate adjustment for defunding municipality. This adjustment only applies to a municipality that is considered to be a defunding municipality for the current tax year under Chapter 109, Local Government Code. Chapter 109, Local Government Code only applies to municipalities with a population of more than 250,000 and includes a written determination by the Office of the Governor. See Tax Code 26.0444 for more information. **A. Amount appropriated for public safety in 2020.** Enter the amount of money appropriated for public safety in the budget adopted by the municipality for the preceding fiscal year **B. Expenditures for public safety in 2020.** Enter the amount of money spent by the municipality for public safety during the preceding fiscal year. **C.** Subtract B from A and divide by Line 32 and multiply by $100. **D.** Enter the rate calculated in C. If not applicable, enter 0.	$0 $0 $0.000000/$100 $0.000000/$100
39. Adjusted 2021 NNR M&O rate. Add Lines 33, 34D, 35D, 36E, and 37E. Subtract Line 38D.	$0.424033/$100
40. Adjustment for 2020 sales tax specifically to reduce property values. Cities, counties and hospital districts that collected and spent additional sales tax on M&O expenses in 2020 should complete this line. These entities will deduct the sales tax gain rate for 2021 in Section 3. Other taxing units, enter zero. **A.** Enter the amount of additional sales tax collected and spent on M&O expenses in 2020, if any. Counties must exclude any amount that was spent for economic development grants from the amount of sales tax spent. **B.** Divide Line 40A by Line 32 and multiply by $100. **C.** Add Line 40B to Line 39.	$5,753,042 $0.075911 $0.499944
41. 2021 voter-approval M&O rate. Enter the rates as calculated by the scenario below. **Special Taxing Unit.** If the taxing unit qualifies as a special taxing unit, multiply Line 40C by 1.08. **- or -** **Other Taxing Unit.** If the taxing unit does not qualify as a special taxing unit, multiply Line 40C by 1.035.	$0.517442/$100
D41. ***Disaster Line 41 (D41):*** **2021 voter-approval M&O rate for taxing unit affected by disaster declaration.** If the taxing unit is located in an area declared a disaster area and at least one person is granted an exemption under Tax Code Section 11.35 for property located in the taxing unit, the governing body may direct the person calculating the voter-approval	$0.000000/$100

tax rate to calculate in the manner provided for a special taxing unit. The taxing unit shall continue to calculate the voter-approval tax rate in this manner until the earlier of 1. the first year in which total taxable value on the certified appraisal roll exceeds the total taxable value of the tax year in which the disaster occurred, or 2. the third tax year after the tax year in which the disaster occurred. If the taxing unit qualifies under this scenario, multiply Line 40C by 1.08.[27] If the taxing unit does not qualify, do not complete Disaster Line 41 (Line D41).	
42. Total 2021 debt to be paid with property taxes and additional sales tax revenue. Debt means the interest and principal that will be paid on debts that: (1) are paid by property taxes, (2) are secured by property taxes, (3) are scheduled for payment over a period longer than one year and (4) are not classified in the taxing unit's budget as M&O expenses A. **Debt** also includes contractual payments to other taxing units that have incurred debts on behalf of this taxing unit, if those debts meet the four conditions above. Include only amounts that will be paid from property tax revenue. Do not include appraisal district budget payments. If the governing body of a taxing unit authorized or agreed to authorize a bond, warrant, certificate of obligation, or other evidence of indebtedness on or after Sept. 1, 2021, verify if it meets the amended definition of debt before including it here.[28] Enter debt amount. B. Subtract **unencumbered fund amount** used to reduce total debt. C. Subtract **certified amount spent from sales tax to reduce debt** (enter zero if none) D. Subtract **amount paid** from other resources. E. **Adjusted debt.** Subtract B, C, and D from A.	$5,272,088 $0 $0 $839,650 $4,432,438
43. Certified 2020 excess debt collections. Enter the amount certified by the collector.[28]	$411,947
44. Adjusted 2021 debt. Subtract Line 43 from Line 42E.	$4,020,491
45. 2021 anticipated collection rate. A. Enter the 2021 anticipated collection rate certified by the collector:[29] B. Enter the 2020 actual collection rate C. Enter the 2019 actual collection rate D. Enter the 2018 actual collection rate E. If the anticipated collection rate in A is lower than actual collection rates in B, C and D, enter the lowest collection rate from B, C and D. If the anticipated rate in A is higher than at least one of the rates in the prior three years, enter the rate from A. Note that the rate can be greater than 100%.[31]	99.19% 100.97% 99.19% 99.72% 99.19%
46. 2021 debt adjusted for collections. Divide Line 44 by Line 45E	$4,053,322
47. 2021 total taxable value. Enter the amount on Line 21 of the *No-New-Revenue Tax Rate Worksheet*.	$7,720,558,748
48. 2021 debt tax rate. Divide Line 46 by Line 47 and multiply by $100.	$0.052500/$100

49. 2021 voter-approval tax rate. Add Lines 41 and 48.	$0.569942/$100
D49. ***Disaster Line 49 (D49):*** **2021 voter-approval tax rate for taxing unit affected by disaster declaration.** Complete this line if the taxing unit calculated the voter-approval tax rate in the manner provided for a special taxing unit on Line D41. Add Line D41 and 48.	$0.000000/$100
50. COUNTIES ONLY. Add together the voter-approval tax rates for each type of tax the county levies. The total is the 2021 county voter-approval tax rate.	

[23]Tex. Tax Code Section 26.044
[24]Tex. Tax Code Section 26.0442
[25]Tex. Tax Code Section 26.0442
[26]Tex. Tax Code Section 26.0443
[27]Tex. Tax Code Section 26.04(c-1)
[28]Tex. Tax Code Section 26.012(10) and 26.04(b)
[29]Tex. Tax Code Section 26.04(b)
[30]Tex. Tax Code Section 26.04(b)

SECTION 3: NNR Tax Rate and Voter-Approval Tax Rate Adjustments for Additional Sales Tax to Reduce Property Taxes	
Cities, counties and hospital districts may levy a sales tax specifically to reduce property taxes. Local voters by election must approve imposing or abolishing the additional sales tax. If approved, the taxing unit must reduce its NNR and voter-approval tax rates to offset the expected sales tax revenue. This section should only be completed by a county, city or hospital district that is required to adjust its NNR tax rate and/or voter-approval tax rate because it adopted the additional sales tax.	
Additional Sales and Use Tax Worksheet	**Amount/Rate**
51. Taxable Sales. For taxing units that adopted the sales tax in November 2020 or May 2021, enter the Comptroller's estimate of taxable sales for the previous four quarters.[20] Estimates of taxable sales may be obtained through the Comptroller's Allocation Historical Summary webpage. Taxing units that adopted the sales tax before November 2020, enter 0.	$0
52. Estimated sales tax revenue. Counties exclude any amount that is or will be spent for economic development grants from the amount of estimated sales tax revenue.[33] **Taxing units that adopted the sales tax in November 2020 or in May 2021.** Multiply the amount on Line 51 by the sales tax rate (.01, .005 or .0025, as applicable) and multiply the result by .95.[34] **- or -** **Taxing units that adopted the sales tax before November 2020.** Enter the sales tax revenue for the previous four quarters. Do not multiply by .95.	$5,756,618
53. 2021 total taxable value. Enter the amount from Line 21 of the *No-New-Revenue Tax Rate Worksheet*.	$7,720,558,748
54. Sales tax adjustment rate. Divide Line 52 by Line 53 and multiply by $100.	$0.074563/$100
55. 2021 NNR tax rate, unadjusted for sales tax.[35] Enter the rate from Line 26 or 27, as applicable, on the *No-New-Revenue Tax Rate Worksheet*.	$0.465558/$100
56. 2021 NNR tax rate, adjusted for sales tax. **Taxing units that adopted the sales tax in November 2020 or in May 2021.** Subtract Line 54 from Line 55. Skip to Line 57 if you adopted the additional sales tax before November 2020.	$0.465558/$100
57. 2021 voter-approval tax rate, unadjusted for sales tax.[36] Enter the rate from Line 49, Line D49 (disaster), or Line 50 (counties), as applicable, of the *Voter-Approval Tax Rate Worksheet*.	$0.569942/$100
58. 2021 voter-approval tax rate, adjusted for sales tax. Subtract Line 54 from Line 57.	$0.495379/$100

[31] *Reserved for expansion*
[32] Tex. Tax Code Section 26.041(d)
[33] Tex. Tax Code Section 26.041(i)
[34] Tex. Tax Code Section 26.041(d)
[35] Tex. Tax Code Section 26.04(c)
[36] Tex. Tax Code Section 26.04(c)

SECTION 4: Voter-Approval Tax Rate Adjustment for Pollution Control	
A taxing unit may raise its rate for M&O funds used to pay for a facility, device or method for the control of air, water or land pollution. This includes any land, structure, building, installation, excavation, machinery, equipment or device that is used, constructed, acquired or installed wholly or partly to meet or exceed pollution control requirements. The taxing unit's expenses are those necessary to meet the requirements of a permit issued by the Texas Commission on Environmental Quality (TCEQ). The taxing unit must provide the tax assessor with a copy of the TCEQ letter of determination that states the portion of the cost of the installation for pollution control. This section should only be completed by a taxing unit that uses M&O funds to pay for a facility, device or method for the control of air, water or land pollution.	

Voter-Approval Protection for Pollution Control Worksheet	Amount/Rate
59. Certified expenses from the Texas Commission on Environmental Quality (TCEQ). Enter the amount certified in the determination letter from TCEQ.[37] The taxing unit shall provide its tax assessor-collector with a copy of the letter.[38]	$0
60. 2021 total taxable value. Enter the amount from Line 21 of the *No-New-Revenue Tax Rate Worksheet*.	$7,720,558,748
61. Additional rate for pollution control. Divide Line 59 by Line 60 and multiply by $100.	$0.000000/$100
62. 2021 voter-approval tax rate, adjusted for pollution control. Add Line 61 to one of the following lines (as applicable): Line 49, Line D49 (disaster), Line 50 (counties) or Line 58 (taxing units with the additional sales tax).	$0.495379/$100

[37]Tex. Tax Code Section 26.045(d)
[38]Tex. Tax Code Section 26.045(i)

SECTION 5: Voter-Approval Tax Rate Adjustment for Unused Increment Rate
The unused increment rate is the rate equal to the difference between the adopted tax rate and voter-approval tax rate before the unused increment rate for the prior three years.[39] In a year where a taxing unit adopts a rate by applying any portion of the unused increment rate, the unused increment rate for that year would be zero. The difference between the adopted tax rate and voter-approval tax rate is considered zero in the following scenarios: • a tax year before 2020; and[40] • a tax year in which the municipality is a defunding municipality, as defined by Tax Code Section 26.0501(a);[41] or • after Jan. 1, 2022, a tax year in which the comptroller determines that the county implemented a budget reduction or reallocation described by Local Government Code Section 120.002(a) without the required voter approval.[42] This section should only be completed by a taxing unit that does not meet the definition of a special taxing unit.[43]

Unused Increment Rate Worksheet	Amount/Rate
63. 2020 unused increment rate. Subtract the 2020 actual tax rate and the 2020 unused increment rate from the 2020 voter-approval tax rate. If the number is less than zero, enter zero. If the year is prior to 2020, enter zero.	$0.003158
64. 2019 unused increment rate. Subtract the 2019 actual tax rate and the 2019 unused increment rate from the 2019 voter-approval tax rate. If the number is less than zero, enter zero. If the year is prior to 2020, enter zero	$0
65. 2018 unused increment rate. Subtract the 2018 actual tax rate and the 2018 unused increment rate from the 2018 voter-approval tax rate. If the number is less than zero, enter zero. If the year is prior to 2020, enter zero.	$0.000000
66. 2021 unused increment rate. Add Lines 63, 64 and 65.	$0.003158/$100
67. 2021 voter-approval tax rate, adjusted for unused increment rate.[23] Add Line 66 to one of the following lines (as applicable): Line 49, Line D49(disaster), Line 50 (counties), Line 58 (taxing units with the additional sales tax) or Line 62 (taxing units with pollution control).	$0.498537/$100

[39] Tex. Tax Code Section 26.013(a)
[40] Tex. Tax Code Section 26.013(c)
[41] Tex. Tax Code Section 26.063(a)(1)

SECTION 6: De Minimis Rate	
The de minimis rate is the rate equal to the sum of the no-new-revenue maintenance and operations rate, the rate that will raise $500,000, and the current debt rate for a taxing unit.[42] This section should only be completed by a taxing unit that is a municipality of less than 30,000 or a taxing unit that does not meet the definition of a special taxing unit.[43]	
De Minimis Rate Worksheet	**Amount/Rate**
68. Adjusted 2021 NNR M&O tax rate. Enter the rate from Line 39 of the *Voter-Approval Tax Rate Worksheet*	$0.424033/$100
69. 2021 total taxable value. Enter the amount on Line 21 of the *No-New-Revenue Tax Rate Worksheet*.	$7,720,558,748
70. Rate necessary to impose $500,000 in taxes. Divide $500,000 by Line 69 and multiply by $100.	$0.006476
71. 2021 debt rate. Enter the rate from Line 48 of the *Voter-Approval Tax Rate Worksheet*.	$0.052500/$100
72. De minimis rate.[23] Add Lines 68, 70 and 71.	$0.000000/$100

[42]Tex. Tax Code Section 26.012(8-a)
[43]Tex. Tax Code Section 26.063(a)(1)
[44]Tex. Tax Code Section 26.04(c)

SECTION 7: Voter-Approval Tax Rate Adjustment for Emergency Revenue Rate

In the tax year after the end of the disaster calculation time period detailed in Tax Code Section 26.042(a), a taxing unit that calculated its voter-approval tax rate in the manner provided for a special taxing unit due to a disaster must calculate its emergency revenue rate and reduce its voter-approval tax rate for that year.[46]

Similarly, if a taxing unit adopted a tax rate that exceeded its voter-approval tax rate, calculated normally, without holding an election to respond to a disaster, as allowed by Tax Code Section 26.042(d), in the prior year, it must also reduce its voter-approval tax rate for the current tax year.

NOTE: This section will not apply to any taxing units in 2021. It is added to implement Senate Bill 1438 (87th Regular Session) and does not apply to a taxing unit that calculated its voter-approval tax rate in the manner provided for a special taxing unit due to a declared disaster in 2020, as provided for in the recently repealed Tax Code Sections 26.04(c-1) and 26.041(c-1).

In future tax years, this section will apply to a taxing unit other than a special taxing unit that:

- directed the designated officer or employee to calculate the voter-approval tax rate of the taxing unit in the manner provided for a special taxing unit in the prior year; and
- the current year is the first tax year in which the total taxable value of property taxable by the taxing unit as shown on the appraisal roll for the taxing unit submitted by the assessor for the taxing unit to the governing body exceeds the total taxable value of property taxable by the taxing unit on January 1 of the tax year in which the disaster occurred or the disaster occurred four years ago.

In future tax years, this section will also apply to a taxing unit in a disaster area that adopted a tax rate greater than its voter-approval tax rate without holding an election in the prior year.

Note: This section does not apply if a taxing unit is continuing to calculate its voter-approval tax rate in the manner provided for a special taxing unit because it is still within the disaster calculation time period detailed in Tax Code Section 26.042(a) because it has not met the conditions in Tax Code Section 26.042(a)(1) or (2).

Emergency Revenue Rate Worksheet	Amount/Rate
73. 2020 adopted tax rate. Enter the rate in Line 4 of the *No-New-Revenue Tax Rate Worksheet.*	N/A
74. Adjusted 2020 voter-approval tax rate. Use the taxing unit's Tax Rate Calculation Worksheets from the prior year(s) to complete this line. If a disaster occurred in 2020 and the taxing unit calculated its 2020 voter-approval tax rate using a multiplier of 1.08 on Disaster Line 41 (D41) of the 2020 worksheet due to a disaster, enter the 2020 voter-approval tax rate as calculated using a multiplier of 1.035 from Line 49. **- or -** If a disaster occurred prior to 2020 for which the taxing unit continued to calculate its voter-approval tax rate using a multiplier of 1.08 on Disaster Line 41 (D41) in 2020, complete the separate *Adjusted Voter-Approval Tax Rate for Taxing Units in Disaster Area Calculation Worksheet* to recalculate the voter-approval tax rate the taxing unit would have calculated in 2020 if it had generated revenue based on an adopted tax rate using a multiplier of 1.035 in the year(s) following the disaster.[48] Enter the final adjusted 2020 voter-approval tax rate from the worksheet. **- or -** If the taxing unit adopted a tax rate above the 2020 voter-approval tax rate without calculating a disaster tax rate or holding an election due to a disaster, no recalculation is necessary. Enter the voter-approval tax rate from the prior year's worksheet.	N/A
75. Increase in 2020 tax rate due to disaster. Subtract Line 74 from Line 73.	N/A
76. Adjusted 2020 taxable value. Enter the amount in Line 14 of the *No-New-Revenue Tax Rate Worksheet.*	N/A
77. Emergency revenue. Multiply Line 75 by Line 76 and divide by $100.	N/A

78. Adjusted 2021 taxable value. Enter the amount in Line 25 of the *No-New-Revenue Tax Rate Worksheet.*	N/A
79. Emergency revenue rate. Divide Line 77 by Line 78 and multiply by $100. [49]	N/A
80. 2021 voter-approval tax rate, adjusted for emergency revenue. Subtract Line 79 from one of the following lines (as applicable): Line 49, Line D49(disaster), Line 50 (counties), Line 58 (taxing units with the additional sales tax), Line 62 (taxing units with pollution control) or Line 67 (taxing units with the unused increment rate).	N/A

SECTION 8: Total Tax Rate

Indicate the applicable total tax rates as calculated above.

No-New-Revenue tax rate
As applicable, enter the 2021 NNR tax rate from: Line 26, Line 27 (counties), or Line 56 (adjusted for sales tax).
Indicate the line number used: 26

$0.465558/$100

Voter-Approval tax rate
As applicable, enter the 2021 voter-approval tax rate from: Line 49, Line 50 (counties), Line 58 (adjusted for sales tax), Line 62 (adjusted for pollution control), Line 67 (adjusted for unused increment), or Line 80 (adjusted for emergency revenue).
Indicate the line number used: 67

$0.498537/$100

De minimis rate
If applicable, enter the de minimis rate from Line 72.

$0.000000/$100

SECTION 9: Taxing Unit Representative Name and Signature

Enter the name of the person preparing the tax rate as authorized by the governing body of the taxing unit. By signing below, you certify that you are the designated officer or employee of the taxing unit and have accurately calculated the tax rates using values that are the same as the values shown in the taxing unit's certified appraisal roll or certified estimate of taxable value, in accordance with requirements in Tax Code. [50]

print here Michael W. Loftin
Printed Name of Taxing Unit Representative

sign here Michael W. Loftin
Taxing Unit Representative

7/29/21
Date

Cheryl E. Johnson

FY 2022 Proposed Budget and CIP
City Council Workshop
August 12, 2021

Mike Loftin

Assistant City Manager – Finance

See the Proposed Budget at

https://www.galvestontx.gov/DocumentCenter/View/12727/FY2022-Proposed-Budget

See the Proposed CIP at

https://www.galvestontx.gov/DocumentCenter/View/12728/FY2022-FY2026-Proposed-Capital-Improvement-Plan

Or go to galvestontx.gov and look under “Financial Transparency”

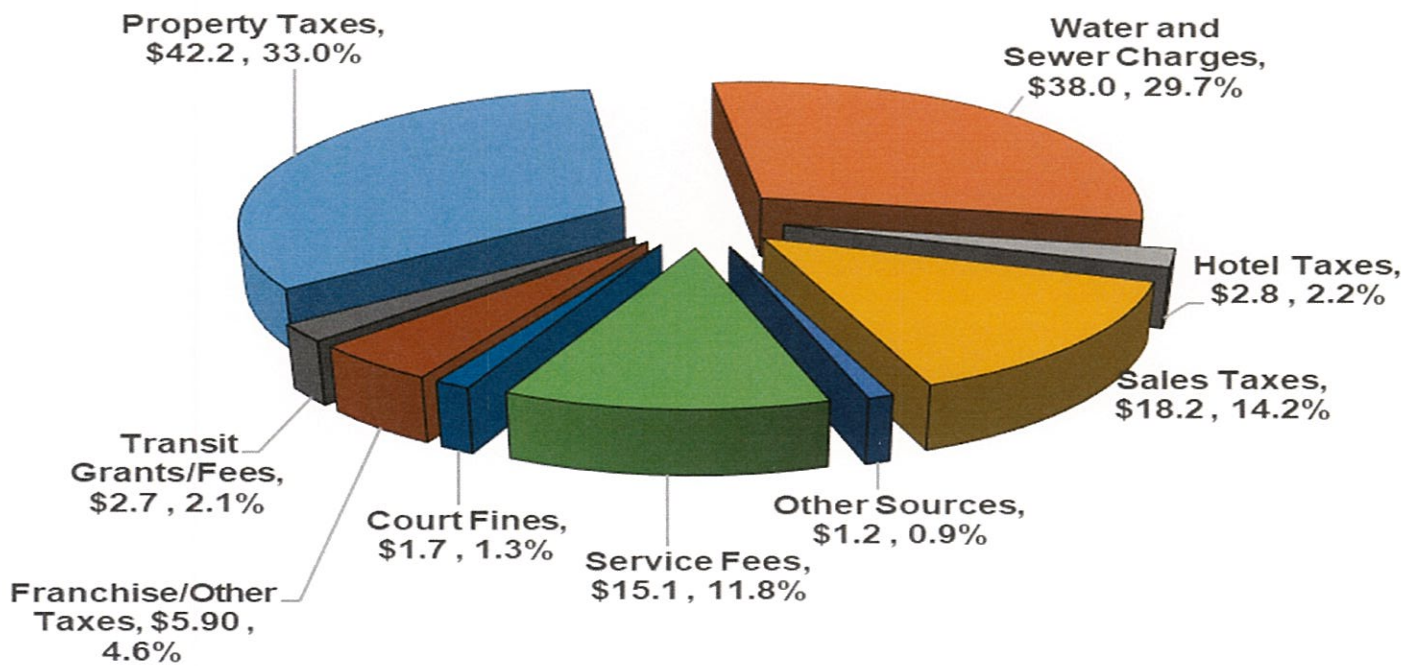
FY 2022 Budget and CIP Schedule

- June 24 – Overview of major issues and forecast
- July 22 – Discuss Budget and CIP
- August 11 (Wednesday) – File City Manager's Proposed Budget and CIP with City Secretary and City Council
- August 12 Workshop – Discuss Proposed Budget and CIP
- August 12 Regular Meeting – Present property tax roll and adopt proposed tax rate, call public hearings on Budget and tax rate
- August 26 – Discuss Budget and CIP
- September 9 – Conduct public hearings on budget and property tax rate, Consider adoption of both
- September 16 – Consider adoption of Budget, CIP and property tax rate

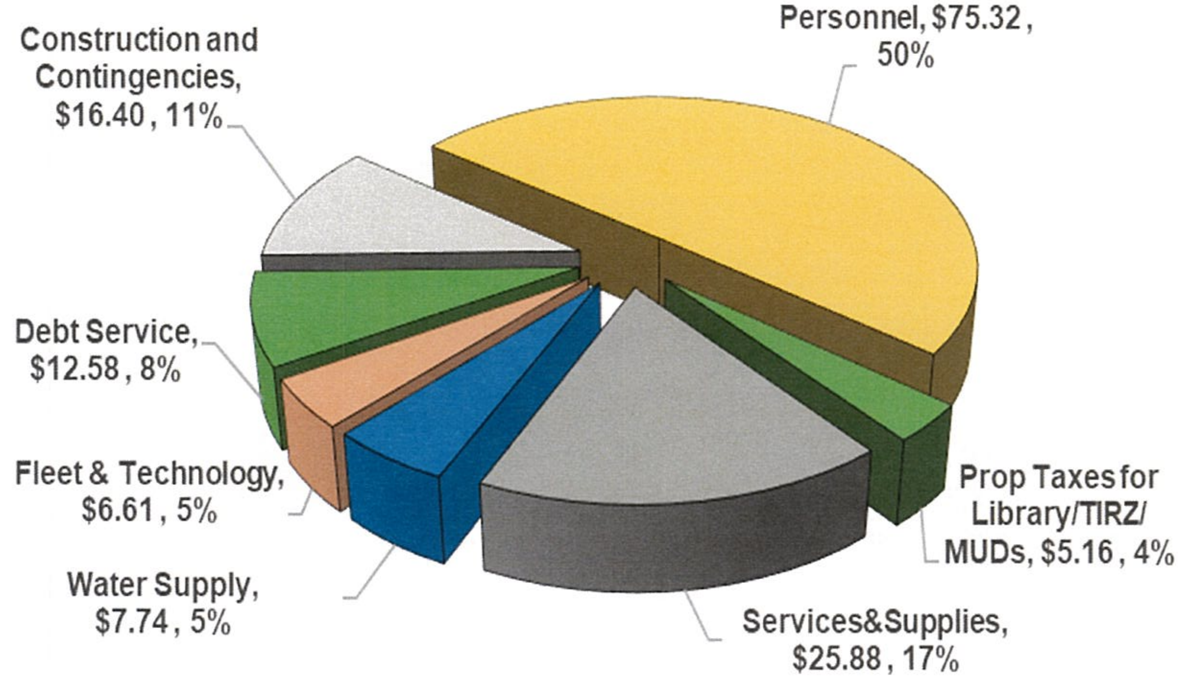
FY 2022 Proposed Operating Budget versus FY 2021

- Total Operating Budget $159.2 million – Last year's Budget $150.1 million: $9.1 million higher
- General Fund is $64.4 million - $3.4 million more for Public safety, infrastructure and health benefits
- Special Revenue Funds up $4.3 million – All restricted to specific purposes as provided by law
- Enterprise Funds – Up $1.2 million net, including equipment and transfers to CIP
- Debt Service Fund – No change

Where the City's Revenue Comes From (Total: $127.8 Million)



Where the Money Goes
$149.7 Million



Key Budget Items

- Proposed reduction of 6.15 cents in the Property Tax rate such that the increase in City property taxes is 6.29 percent overall including the Library – Offsets vast majority of a 20.3 percent in taxable value
- Pay increases for police and fire that bring both groups to an overall increase of approximately 33 percent since FY 2015 (including base pay and pension contribution by the City)
- Civilian employees: 2 percent COLA, and funds to bring everyone up to at least $15/hour
- Net growth of four additional civilian staff citywide
- Vehicles and equipment budget of $6.6M
- Revenue not included in the budget: Library payment to share property taxes equitably, sanitation fee increases, tap fees increase, Moody Gardens payment that ended in FY 2021

Recommended Approach to Budget Review

- Table of Contents (TOC) is indexed – pdf page 5 online: Click the section you want to review
- Start with City Manager's Transmittal in Introduction Section (IS-1 or pdf page 14)
- Next the Budget Summary section starts on pdf page 38, including a consolidated view of the budget for all revenue and expenditures total (Economic Outlook pdf page 42; Revenue Summary pdf page 48; and Expenditure Summary pdf page 62)
- Next use the TOC to toggle around the budget

Budget as Management Plan

- Each department's proposed budget is a management plan – (see pdf page 87 online)
- Planning (FY22 Goals and FY21 Accomplishments)
- Management (Performance indicators, expenditure summary, Highlights explaining budget differences by category)
- Control (Personnel roster and line item expenditure detail)

General Budget Process

- Major tax revenue sources are monitored and forecast for current and subsequent years
- Departments are provided spending targets by line item at start of the process and afforded opportunity to ask for different levels of resources
- City Manager proposes City budget that stays within available revenue and presents a comprehensive financial and operations management plan – State law (see pdf page 451) and City Charter (pdf page 436-7)
- City Council adopts the Proposed Budget as a plan, amended or otherwise, and approves appropriations by ordinance at the fund and department level – State law (see pdf page 453 online) and City Charter (see pdf page 437 online)
- City Manager manages the budget in each department so as to achieve goals and objectives as directed by City Council; This includes year ending projections presented quarterly; Amendments across departments are proposed to City Council throughout the year

Major Budget Principles

- Fund current expense with current income – “Structural balance”
- City revenue is not fungible: Legal restrictions exist for $90M of $154M budget
- When funding options exist: Use most flexible funding source last
- City has only one truly flexible fund, the General Fund: 74% for public safety and infrastructure
- Make budget decisions based on the long view
- Be as accurate as possible in individual line items and departments – No padding or contingencies at department level
- Fund balance: For use in one-time costs, cashflow for Hurricane season, pay up front costs for grant funded projects and programs

Major Revenues: Property Taxes (Page 49 online)

- FY22 Proposed Budget is based on 6.15 cent reduction in the property tax rate from $0.56 to $0.4985 per $100 taxable value – Recommendation on this weeks agenda to propose this tax rate for consideration during the budget review process
- No-New-Revenue Rate is $0.465558
- Voter-Approval Rate is $0.498537
- City Council can always adopt a lower rate but not a higher rate

Property Tax Revenue (page 49 online)

PROPERTY TAX REVENUE GROWTH
PROPOSED FY 2022 BUDGET ESTIMATE

By Fund	FY 2021 Estimate	FY 2022 Proposed	Amount of Increase	Percent Increase Over FY 2021
General Fund Operations	$31,668,800	$32,734,000	$1,065,200	3.36%
Debt Service Fund	$3,617,400	$4,317,600	$700,200	19.36%
Rosenberg Library	$3,444,100	$4,114,400	$670,300	19.46%
Total	**$38,730,300**	**$41,166,000**	**$2,435,700**	6.29%

FY 2022 PROPERTY TAX REVENUE
ESTIMATED USING THE NO-NEW-REVENUE TAX RATE

By Fund	FY 2021 Estimate	FY 2022 Proposed Rate of $0.4985	FY 2022 under NNR Rate of $0.465558	Amount of Change
General Fund Operations	$31,473,000	$32,734,000	$30,205,900	($2,528,100)
Debt Service Fund	$3,587,000	$4,317,600	$4,339,300	$21,700
Rosenberg Library	$3,418,000	$4,114,400	$4,135,000	$20,600
Total	**$38,478,000**	**$41,166,000**	**$38,680,200**	($2,485,800)

The proposal to the Rosenberg Library would result in a payment to the City by the Library of $453,000. The Library would then net $3,660,700, a $216,600 increase (6.29%) over FY 2021.

See the General Fund Summary (pdf page 75 online) for an explanation of what this might mean and why it is not recommended

NNR Tax Rate: General Fund Impact (see pdf page 75 online)

- $2,528,100 in lost property tax revenue – Offset with cuts from $64.4 million budget
- Priorities to be saved from cuts ($48.6M) – Public safety ($39.7M), Streets and Traffic ($3.8M), Infrastructure Set aside (5.1M)
- $15.4M left to take $2.5M from

  - Non-Civil Service Employee pay $522K

  - Fixed costs: facility maint. and taxation ($1.6M)

  - Vehicle replacement, much for public safety ($1M) –
- Administration - $5.9M, $3.1M of which is paid by Enterprise funds: Only partial benefit here from any cuts
- Service cuts: Island Transit, park & Rec, Development Services - $4.8M total
- A lot of layoffs and remaining employees

Sales Taxes: Strong for now

- Post-pandemic boom effects may not be permanent:

  - Tourism boom due to pent-up demand: Cautious about FY 2022

  - Over 330,000 metro jobs lost due to pandemic in first quarter of 2020; 141,800 recovered as of second quarter 2021: Expect the recovery to continue at a steady pace through first quarter of 2023 (FY 2023 – the Fiscal Year after next)

  - The Delta Variant is here and we need to budget with caution

- If three remaining months in FY21 match the FY19 totals for those months, we'll have $18 million for the General Fund in FY 2021; Budget includes FY 2021 estimate of $17.25 million
- If trend continues, including employment recovery, FY22 could see as much as $19 million, $1 million of which would be attributable to lingering effects of federal government stimulus; current FY22 Budget amount is $18.2 million.

Property and Sales Tax
Fund Major General Fund Commitments

- Revenue growth: $2.0 million over FY 2021 Estimate for property and sales tax combined
- Other revenue: Annual payment ($441,864) from Moody Gardens ended in FY 2021; Library payment not in budget because no agreement yet
- Public Safety- $1.26 million total: Police and fire pay ($973,000),EMS ($97,000, civilian staffing in PD (two positions, $132,400), 0.5 position in Emergency Management ($62,700)
- Rising costs - Health Benefits ($710,400 for General Fund personnel only), $330,400(materials affected by supply shortages)
- Added positions - $236,200 (City Auditor, Purchasing, Budget, Office one position in each office)
- Infrastructure – Infrastructure set-aside increase to $5.12 million ($244,400);
- Also, the property tax revenue increase for debt service ($700,000) is reducing the demand for the contribution amount required from the Infrastructure set aside fund by $551,000.

After-Effects of NNR Cuts

- Layoffs would be required – Unemployment benefits would offset some savings
- Service demands would not go down
- Low employee morale would lead to high turnover
- Cuts would be so hurried that they most certainly be ineffective and disorganized
- The organization would find it very difficult to recover
- Recruiting high quality staff would become much more difficult
- Solution? Continue as we have been doing, reducing expenditures steadily ($2M reduced over 6 years)

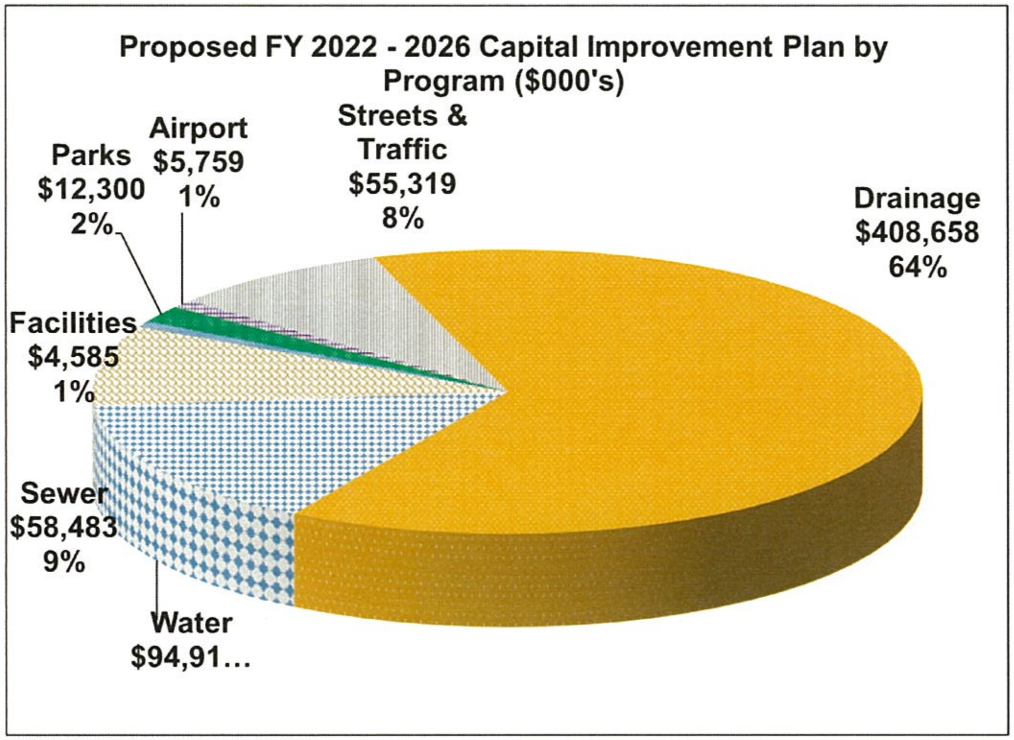
Water and Sewer Overview

- No water and sewer rate increase in FY 22
- GCWA payments reduced by $3.5M (from $11.2M to $7.7M) as GCWA bonds issued for the City's benefit are paid off
- Materials and supply costs including gasoline are up
- Annual debt service savings ($665K) from refunding revenue bonds in FY22
- Proposed Budget also rebalances annual debt service on 2017 and 2019 bonds to have more debt paid by water fund and less by sewer fund ($1,011,932, see Debt Service Highlight on pdf page 265 and 291)
- CIP bolstered with addition of $27M American Rescue Plan grant used for water and sewer projects: AMI, Pirates Beach WWTP and Infiltration and Inflow.

Water and Sewer CIP Overview

- Uncommitted Balance in Water and Sewer Bond funds - $16.2M
- Previously Estimated Funding Needs may be 15-20% higher because of larger economy and rising prices
  - $4.7M for water/sewer lines for 37th Street project
  - $6.5M for water/sewer lines for County Street Bond Projects (23rd St and Avenue S)
  - Port ($400K) and TxDOT Broadway ($200K) projects
  - Contingencies and inspections for ongoing projects
- FY 2021 CIP anticipated water and sewer CO sale

FY 2022-2026 Proposed CIP



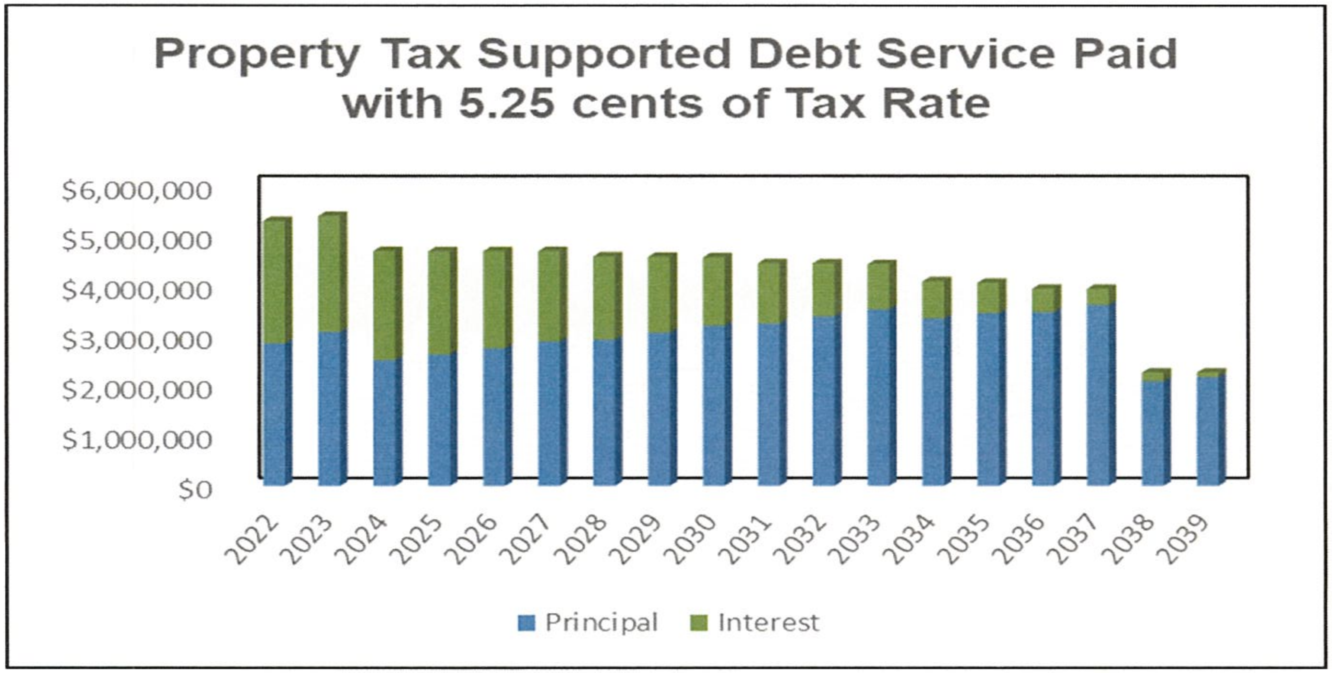
FY 2022 Capital Budget versus FY 2021: By Program

PROGRAM	FY 2022	FY 2022	FY22 Over/ (Under) FY21
Streets and Traffic	$22,938,867	$39,728,629	$16,789,762
Drainage	1,101,750	73,476,698	$72,374,948
Water	22,775,415	19,351,330	($3,424,085)
Sewer	16,025,400	15,524,887	($500,513)
Facilities	2,165,202	1,205,431	($959,771)
Parks & Recreation	3,425,501	5,600,000	$2,174,499
Airport	1,123,682	4,659,096	$3,535,414
TOTAL	**$69,555,817**	**$159,546,071**	**$89,990,254**

Streets and Drainage CIP Overview

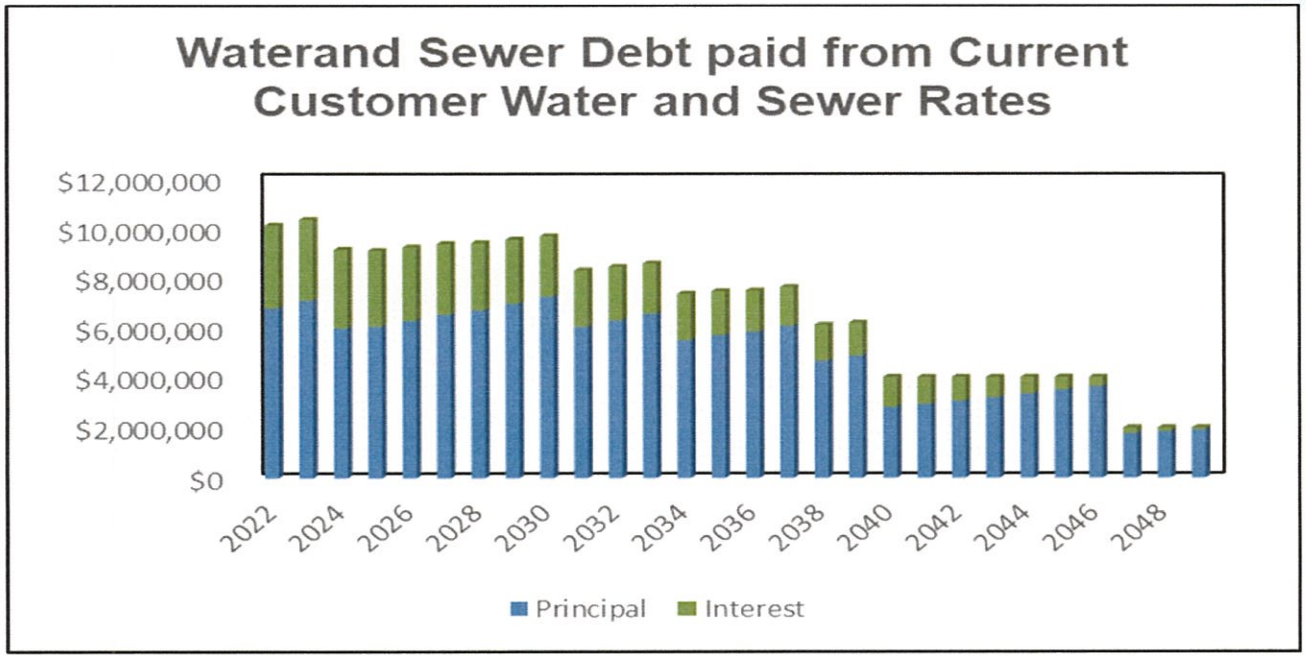
- Uncommitted Balance in Street and Drainage Bond funds - $16.2M
- Previously Estimated Funding Needs may be 15-20% higher because of larger economy and rising prices
  - $8.2M for 37th Street project (Broadway to P and P to Seawall)
  - $6.5M for County Street Bond Projects (23rd St and Avenue S)
  - Potential matching requirement for South Shore Pump Station ($1.5M may be grant funded)
  - Contingencies and inspections for ongoing projects
- Completes 2017 Bond election list of projects

General Obligation Debt



Declining debt structure because property tax revenue is more subject to economic swings;
GO debt authorized by voters in 2017 is finished in 2039
$82M total, $56.9M principal and $25.1M interest (See pdf page 234 online)

Water and Sewer Debt



Level payments for each bond sale results in a debt structure that declines with time

Issued to fund fifty-year improvements in water and sewer system

$134.2M total, $85.8M principal and $48.4M interest (see pdf page 238 online)

Budget Items of Interest

- Citywide personnel budget explained, pdf pages 63-4
- Property taxes explained, pdf pages 49-54
- General Fund Budget FY17-22, pdf pages 71-74
- Administrative overhead rate, pdf pages 79-80
- General Fund revenue detail, pdf pages 77-78
- Citywide revenue by line item, pdf page 523
- Citywide expenditures by line item, pdf page 526

Questions and Followup

City of Galveston

FINANCE DEPARTMENT
PO Box 779| Galveston, TX 77553-0779
mloftin@galvestontx.gov |409-797-3562

June 24, 2021

To: City Manager Brian Maxwell
Honorable Mayor and City Council

From: Michael W. Loftin, Assistant City Manager – Finance

RE: Consider approving a Voluntary Disclosure Agreement of Texas Limited Sales, Excise, and Use Tax between the State Comptroller and the City and authorize the payment of sales tax not collected between May 1, 2017 and May 31, 2021 which amount will be finalized after audit by the State Comptroller's office; and authorize the City Manager to approve final payment due based on the audit from the Parking Management Fund balance.

Prior Council Action

On April 23, 2021, City Council adopted Ordinance 21-015 amending Sections 34-118 and 34-120 of the Code of Ordinances to further define parking regulations.

Background

1. The Finance Department realized in mid-May 2021 that the City should be collecting sales tax on its own parking fees and paying it monthly to the State Comptroller's office as required by State law. We immediately contacted sales tax officials in the State Comptroller's Office and self-reported this information. In turn, the Comptroller's Office assigned an examiner to work with the City to correct the oversight.
2. Approving the attached agreement, provided by the Comptroller's office and approved by the City Attorney's Office, is the second step to compliance. The agreement provides that:
   a. The City will be audited by the Comptroller's Office, providing all requested information in the form specified by the Comptroller's staff,
   b. The City will begin reporting and paying current sales tax for taxable parking services and charges based on the State's 6.25 percent rate, as of June 1, 2021, and
   c. The City will make final payment to the State within sixty days after the agreement is approved for the sales tax that should have been paid for a four-year period beginning May 1, 2017 and ending May 31, 2021.

COUNCIL APPROVED
DATE 6/24/21
SIG. J. Williams

City of Galveston

FINANCE DEPARTMENT
PO Box 779| Galveston, TX 77553-0779
mloftin@galvestontx.gov |409-797-3562

3. The estimated amount of State sales tax that should have been collected and reported in the four-year capture period is approximately $198,000. The additional local sales tax not reported is estimated at $63,000 that needs to be recorded in the City's books. The total pre-audit estimate is $261,000 but the final amount due will be determined through the State's audit process. The current Parking Management Fund balance is $685,000, and it is projected to end FY 2021 at $697,000 (see page 14 in the Second Quarter Budget Status Report as of March 31, 2021). The final amount due will be paid out of this balance.
4. The City already charges and collects sales tax on its garbage collection fee, reporting all 8.25 percent, but paying only the 6.25 percent State portion to the State by virtue of previous State approval. The City retains the amount from its 2 percent local sales tax, depositing the amount produced by 1.5 percent or three fourths of that amount in its General Fund and the remaining 0.5 percent or one fourth in the Industrial Development Corporation's four "silos." The State has specified that it expects this process to be used with tax receipts collected for parking services going forward. The City began reporting its parking services sales tax as a part of its May sales tax report.
5. The Finance Department will make a final accounting adjustment when the State's audit is finished to apply the City's 2 percent tax rate, and transfer the result to the General Fund and the IDC from the Parking Management Fund as required. This step is also dependent on the final audit outcome.
6. The City is being excused from potential liability for not collecting and reporting sales taxes on parking services previously. Penalty and interest is being waived because:
   a. The City is entering into this process voluntarily, self-reporting the oversight immediately,
   b. The City has never been audited by the State and then failed to correct deficiencies identified in such audit, and
   c. The City did not advertise that it was collecting sales tax as a part of its parking fees.
7. In the near term, the City will pay the sales tax from its fees already in place. In the meantime, the City will investigate the process of adding the 8.25 percent for sales taxes to the existing fees going forward.
8. This issue does not include Seawall Parking fees because they are Beach User Fees under the regulation of the General Land Office, and are not subject to sales tax. Attorney General Opinion No. JC-0081 from 1999 specifically considered this issue and addressed it directly.
9. The State Comptroller's examiner indicated that the VCA needed to be executed and returned by July 1, 2021. The City then has sixty days from the date the VCA is signed to pay the outstanding amount of unpaid state sales tax as agreed.

Fiscal Impact Report

City of Galveston

FINANCE DEPARTMENT
PO Box 779| Galveston, TX 77553-0779
mloftin@galvestontx.gov |409-797-3562

- Totals estimated sales tax liability of $261,000 to be paid from the Parking Management Fund balance.

GLENN HEGAR TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

BUSINESS ACTIVITY RESEARCH TEAM
PO Box 13003, Austin, Texas 78711
1700 N. Congress, Ste. 300 SFA Bldg., Austin, Texas 78701
800-688-6829 ext. 59892 Fax: 512-305-9918

June 1, 2021

Tammy Jacobs
Executive Director and City Controller
City of Galveston
823 Rosenberg
Galveston, TX 77550

RE: Voluntary Disclosure Agreement 26-17408510018 for Sales/Use Tax

Dear Ms. Jacobs:

Thank you for your email dated May 28, 2021 regarding your voluntary disclosure and payment of Texas sales/use tax. Please complete the enclosed Voluntary Disclosure Agreement (VDA) and Texas Nexus Questionnaire (TNQ). Please furnish all items by **July 1, 2021**.

Please do not make any changes to the agreements. A sample sales/use tax worksheet is enclosed so that the taxpayer can begin working on the data.

Upon receipt, we will verify that the City of Galveston is eligible to participate in the VDA program. Once verified, we will execute the agreement and send you the materials necessary to report the tax for the disclosed period. Based on the facts presented in your letter, we will waive penalty and interest on the sales/use taxes disclosed and paid in accordance with the enclosed agreement on which tax was not collected and not remitted. **Penalty only will be waived on any tax collected not remitted. There is no limit on the lookback period for tax collected not remitted.**

We appreciate your effort to bring your client into compliance with our tax laws. If you have any questions, please email me or call me toll-free at 1-800-688-6829 extension 5-9892.

Sincerely,

Bert R

Bert Roberts
Auditor, Business Activity Research Team
bert.roberts@cpa.texas.gov
Direct phone 512-305-9892

Enclosures

VOLUNTARY DISCLOSURE AGREEMENT OF
TEXAS LIMITED SALES, EXCISE, AND USE TAX
BETWEEN
COMPTROLLER OF PUBLIC ACCOUNTS, STATE OF TEXAS
AND
TAXPAYER

This Agreement is made and entered into by and between the Comptroller of Public Accounts, State of Texas (the "***Comptroller***") and City of Galveston (the "***Taxpayer***"). The effective date of this Agreement will be the date that ***Taxpayer*** returns a signed original of this Agreement to ***Comptroller*** by U. S. mail as indicated by the postmark on the face of ***Taxpayer's*** transmittal envelope; said date being the __________ day of __________________, 202__ (date to be filled in by ***Comptroller*** upon receipt).

FACTS: To induce ***Comptroller*** to enter into this Agreement, ***Taxpayer*** has made the factual representations contained within the fact letter attached hereto as Exhibit "A." The same are incorporated by reference herein and form a part of this Agreement. ***Taxpayer*** agrees to and acknowledges ***Comptroller's*** reliance on the accuracy and truthfulness of these facts in entering this Agreement.

1. **Tax Collections, Accruals and Remittances:** ***Taxpayer*** will report and remit all outstanding Texas State and Local Sales or Use taxes for periods beginning May 1, 2017 and ending May 31, 2021 within sixty (60) days after the ***Comptroller*** signs the Agreement. Taxpayer will submit the tax data by transaction detail in the format specified by Comptroller, which will include local tax allocated correctly for each local taxing authority. The tax data will be submitted in excel format via electronic media. The beginning period does not apply to tax previously collected but not remitted.

   The ***Comptroller*** and ***Taxpayer*** agree that ***Taxpayer*** will begin properly reporting Texas Sales or Use taxes effective June 1, 2021 (first day after ending Agreement period).

   Taxpayer will collect on taxable sales, accrue on taxable purchases, and remit Texas sales and use taxes at the state rate of 6-1/4 cents per dollar plus local taxes at the proper rate for each individual jurisdiction. Should tax rates established by state or local law change, ***Taxpayer*** will adjust its rates to correspond with the new state or local tax rates. C***omptroller*** will distribute the tax over and above the state rate to local taxing jurisdictions.

   Further, ***Taxpayer*** agrees to report and remit all Texas State, City, County, Metropolitan Transit Authority, and Special Purpose District Sales or Use taxes that were collected prior to the Agreement beginning period which have not previously been reported and paid.

2. **Verification and Right to Rescind:** If:

   a). ***Taxpayer*** was informed prior to the effective date of this Agreement of ***Comptroller's*** intent to conduct an audit of ***Taxpayer***;

   b). ***Taxpayer*** is under an active investigation by ***Comptroller***;

   c). ***Taxpayer*** was audited for periods prior to the VDA period and the tax errors disclosed in the VDA are similar to the ***errors revealed in the prior audit.***

d). ***Taxpayer*** submits returns under this Agreement showing no additional tax;

e). ***Taxpayer*** is not in compliance with reporting or remitting requirements for Texas taxes not disclosed pursuant to this Agreement; or;

f). Agreement was not entered in good faith

then this Agreement will be rescinded.

In addition, if one of ***Taxpayer's*** customers or vendors disclosed in the Agreement has been contacted by the ***Comptroller's*** office regarding an audit or investigation, the customer or vendor will be excluded from the Agreement.

3. **Releases:** Contingent upon ***Taxpayer's*** good faith compliance with this Agreement, ***Comptroller*** releases ***Taxpayer*** from all actual or potential liability for not collecting, accruing on taxable purchases, and remitting Texas State, City, County, Metropolitan Transit Authority, and Special Purpose District Sales or Use taxes on sales in the State of Texas for periods prior to the beginning period provided in Section 1 of the Agreement. This release applies only to issues disclosed under this Agreement. This release does not apply to tax previously collected but not remitted.

4. **Confidentiality:** ***Taxpayer*** information disclosed to the ***Comptroller*** in this Agreement or pursuant to this Agreement will be kept confidential by the ***Comptroller*** to the greatest extent permitted by law.

5. **Examination of Records:** It is expressly understood that the execution of this Agreement does not constitute an acceptance by the ***Comptroller*** of the methodology used to determine the taxes remitted under this Agreement. ***Taxpayer*** will keep and preserve suitable records, including the methodology used, in determination of taxes included in this Voluntary Disclosure Agreement for sales made in the State of Texas, including the tax collected on said sales, and purchases of taxable services and items delivered and/or used in the State of Texas. ***Comptroller*** may inspect, review, and/or audit any ***Taxpayer*** books and records, including books and records on sales made in the State of Texas and purchases of taxable items and/or services used in the State of Texas. All periods included in this Agreement are subject to audit as allowed by the statute of limitation.

6. **Governing Law:** Interpretation, performance, and enforcement of this Agreement shall be governed exclusively by the laws of the State of Texas.

7. **Venue and Jurisdiction:** Venue for and jurisdiction of any suit arising from this Agreement is exclusively conferred upon the district courts of Travis County, Texas.
8. **Waiver of Penalties and/ or Interest:** The taxes disclosed by this Agreement must be timely paid in full, as required above, before ***Comptroller*** will waive any applicable penalties or accrued interest. Once so paid, ***Comptroller*** will waive both penalties and interest unless the taxes disclosed have been collected by ***Taxpayer*** or a previous ***Comptroller*** audit or investigation reflects a history of similar omissions or errors by ***Taxpayer*** in reporting and/or remitting taxes. No waiver will be granted on tax due related to similar omissions or errors. Only penalties will be waived on the tax previously collected.

In addition, the ***Taxpayer*** acknowledges that if a refund is approved for periods that overlap the Agreement periods, credit interest on the refund will be waived up to the amount of interest waived in the Agreement for the periods that overlap.

9. **Modification:** This Agreement may not be modified.

10. **Final and Binding Agreement**: The ***Comptroller*** and the ***Taxpayer*** acknowledge and affirm that the stated terms of this Agreement are binding and final. These terms represent the complete understanding of the parties with regard to this matter and there are no verbal agreements that vary from or supplement them. By signing this Agreement, the ***Taxpayer*** acknowledges and agrees that it is not entitled to any additional administrative review or redetermination or refund hearing involving the tax, penalty or interest in question, and that it may not file a protest payment under Tex. Tax Code §112.051.

APPROVED, AGREED, AND ACCEPTED ON THE FOLLOWING DATES BY:

Comptroller of Public Accounts, State of Texas by:

____
(Signature of Comptroller's Representative)

____
(Printed Name of Comptroller's Representative)

____
(Title)

Date: ______________________

Taxpayer:

City of Galveston
(Printed-name of Taxpayer)

17408510018
(Taxpayer's State Identification Number)

74-6000905
(Taxpayer's Federal Identification Number)

823 Rosenberg St
(Mailing Address)

Galveston, Tx 77550
(City, State, Zip Code)

____
(Signature of Signer for Taxpayer)

Brian Maxwell
(Printed Name of Signer for Taxpayer)

City Manager
(Title-Must be Officer, Director, Partner or Owner)

Date: 6/29/21

Rev 4/23/13

APPROVED AS TO FORM:

____
CITY ATTORNEY'S OFFICE

AP-114
(Rev.4-21/19)

Texas Nexus Questionnaire

ACID

CITY OF GALVESTON
823 ROSENBERG
GALVESTON, TX 77550

Texas taxpayer number
17408510018

File number

You have certain rights under Chapters 552 and 559, Government Code, to review, request and correct information we have on file about you. Contact us at the address or phone number listed on this form.

1. Entity name
City of Galveston

2. Federal employer identification number (FEIN)
74-6000905

3. Mailing address (if different than above address)
823 Rosenberg
Street
Galveston | TX | 77550
City | State | ZIP code

4a. Contact person
Tammy Jacobs

4b. Contact phone *(Area code and number)*
(409) 797-3567

5a. Contact email
TJacobs@GalvestonTX.Gov

5b. Website address
https://www.galvestontx.gov/

6. Organization Structure

- ☐ Profit corporation *(CF)*
- ☐ Professional corporation *(CU)*
- ☐ Nonprofit corporation *(CM)*
- ☐ Limited liability company *(CI)*
- ☐ General partnership *(PB,PI)*
- ☐ Professional association *(AF)*
- ☐ Business association *(AC)*
- ☐ Business trust *(TF)*
- ☐ Limited partnership *(PF)*
- ☐ Real estate investment trust *(TI)*
- ☐ Joint venture *(PW)*
- ☑ Other Governmental

7. In what state or country was this entity formed? Texas Formation date (month day year) ______

8. If this entity is registered with the Texas Secretary of State, please provide the file number. ______

9. Please provide the entity's North American Industry Classification System (NAICS) code. ______
(NAICS codes are available at https://www.census.gov/eos/www/naics/)

10a. Please list any tax permits or licenses issued to this entity by the Texas Comptroller.
Type of permit or license ______ Taxpayer number for permit or license ______

10b. If included in a combined group Texas Franchise Tax Report, provide the reporting entity's Texas taxpayer number ______

11. Please describe this entity's business activities in Texas: ______

12. Please provide the earliest date this entity had a physical presence in Texas. Examples of physical presence in Texas include but are not limited to the items below. See Rule 3.586 for further details. Check all that apply.

Start Date (month day year) ______

- ☐ Place of Business (maintaining a place of business, manufacturing plant, office, warehouse or retail outlet, owned or leased)
- ☐ Real/Personal Property (hold, acquire, lease, install, erect, modify, maintain, repair or dispose of real or personal property used or located in Texas)
- ☐ Employees/Independent Representatives (including temporary employees, contractors, agents)
- ☐ Inventory/Storing Goods (including consigned goods)
- ☐ Provide a Service (through employees, independent contractors, agents or other representatives)
- ☐ Holding Company (maintain place of business, manage, direct and/or perform services for subsidiaries or related entities)
- ☐ Manufacturing/Shipping
- ☐ Loan Production Activities (solicit sales/loan contracts, gather data, make credit checks or other financial activities in Texas with own employees, independent contractors or agents)
- ☐ Delivery/Transportation (facilities, vehicles, employees, or representatives for transportation of passengers or property in Texas, including the service, maintenance, and repair of vehicles or other equipment and coordinating/directing the transportation of passengers or property)
- ☐ Perform a Contract (with own employees, local labor or contractors)
- ☐ Sell and License Software in Texas
- ☐ Franchisor (contracts where a franchisee is granted the right to engage in business under a marketing plan/system substantially prescribed by the franchisor or if franchisee's business is substantially associated with the franchisor's brand service mark or other commercial symbol)
- ☐ Solicitation (promote sales/service using employees, independent contractors, agents or other representatives)
- ☐ General Partner (in a general or limited partnership that is doing business in Texas)
- ☐ Shows/Sporting Events (staging of or participation in shows, theatrical performances, sporting events)
- ☐ Advertising (enter Texas to purchase, place or display advertising for the benefit of another)
- ☐ Federal Enclave (doing business in Texas even if the area is leased, owned or controlled by the federal government)
- ☐ Warranty Work (with own employees or third party)
- ☐ Manage or Operate Business from Texas

13a. Will the entity exceed $500,000 in gross receipts from business done in Texas? ☑ Yes ☐ No

13b. If yes, please provide the start date of any federal income tax accounting period in which gross receipts from business done in Texas exceeded $500,000.

Start Date
month day year

14. If nexus ended, provide the reason and the last date of activity in Texas. Include home state documents if the entity ceased to exist.

Nexus end date
month day year

15. Please complete this information for all members, all general partners and each limited partner with a 10% or more interest in the partnership. (For limited partnerships, general partnerships, joint ventures and joint stock companies.)
(Attach additional sheets if necessary.)

Name	Type of owner ☐ Member ☐ General Partner ☐ Limited Partner	FEIN	Percentage of ownership %
Mailing address	City State	ZIP code	Begin date in Partnership
sign here	Printed name	Title	
Name	Type of owner ☐ Member ☐ General Partner ☐ Limited Partner	FEIN	Percentage of ownership %
Mailing address	City State	ZIP code	Begin date in Partnership
sign here	Printed name	Title	
Name	Type of owner ☐ Member ☐ General Partner ☐ Limited Partner	FEIN	Percentage of ownership %
Mailing address	City State	ZIP code	Begin date in Partnership
sign here	Printed name	Title	

I declare that the information in this document and any attachment is true and correct to the best of my knowledge and belief.

Print preparer's name	Title	Phone (Area code and number)
Tammy Y. Jacobs	City Controller	409 797 3567
sign here Tammy Y Jacobs	Date	

Information about franchise tax is available online at www.comptroller.texas.gov/taxes/franchise/. For taxpayer assistance, call 800-252-1381 or 512-463-4600.

Please return this completed questionnaire to:
Texas Comptroller of Public Accounts
P.O. Box 149348
Austin, TX 78714-9348

OFFICE OF THE ATTORNEY GENERAL · STATE OF TEXAS
JOHN CORNYN

July 14, 1999

The Honorable Carole Keeton Rylander
Comptroller of Public Accounts
Lyndon B. Johnson Building
111 E. 17th Street
Austin, Texas 78701

Opinion No. JC-0081

Re: Whether a local government must collect sales taxes on beach user fees charged pursuant to chapter 61 of the Natural Resources Code and General Land Office rules (RQ-0003)

Dear Comptroller Rylander:

Chapter 61 of the Natural Resources Code authorizes local governments to charge fees for beach parking and the use of other beach facilities and services, *see* TEX. NAT. RES. CODE ANN. § 61.011(b) (Vernon Supp. 1999), § 61.070 (Vernon 1978), and authorizes the General Land Office to adopt rules governing these fees, *see id.* §§ 61.001(1), 61.011(d)(4), 61.022(b) (Vernon Supp. 1999). Your predecessor in office asked whether local governments that charge beach parking and other fees pursuant to chapter 61 and General Land Office rules must collect and remit sales taxes on the fees. We conclude that because the legislature has specified in chapter 61 that local governments may charge these fees only to cover the costs of discharging their beach-related responsibilities, that the fees may not exceed the costs of public beach facilities and services, and that these fees may not unfairly limit public access to and use of public beaches, *see id.* § 61.011(b), the legislature did not intend for persons paying these fees to pay sales taxes on the fees. Accordingly, we conclude that these fees are not subject to sales tax under chapter 151 of the Tax Code.

Chapter 61 of the Natural Resources Code affirms and protects the public's "free and unrestricted right of ingress and egress to" beaches on the Gulf of Mexico. *See id.* § 61.011(a).[1] Since 1969, chapter 61 has recognized that local governments may assess "a reasonable fee for off-beach parking or for the use of facilities provided for the use and convenience of the public." *Id.* § 61.070 (Vernon 1978);[2] *see also* Tex. Att'y Gen. Op. No. JM-345 (1985) (concluding that inclusion of authority to impose reasonable fee for off-beach parking in chapter 61 excluded authority to

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[1]For a discussion of the nature of the public's right of access to and use of Gulf of Mexico beaches, *see, e.g.*, *Feinman v. State*, 717 S.W.2d 106, 109, 111-12 (Tex. App.–Houston [1st Dist.] 1986, writ ref'd n.r.e.).

[2]Natural Resources Code section 61.070 derives from a 1969 amendment to the statutory predecessor to chapter 61. *See* Act of Sept. 9, 1969, 61st Leg., 2d C.S., ch. 17, § 3, 1969 Tex. Gen. Laws 128, 129.

impose fee for on-beach parking). Furthermore, in 1991, in recognition that "in order to provide and maintain public facilities and public services to enhance access to and safe and healthy use of the public beaches by the public, adequate funds are required to provide public facilities and public services," TEX. NAT. RES. CODE ANN. § 61.011(b) (Vernon Supp. 1999), section 61.011 was amended to authorize local governments that are responsible for the regulation, maintenance, and use of public beaches to charge reasonable fees "to cover the cost of discharging its responsibilities with respect to such beaches, provided such fees do not exceed the cost of such public facilities and services, and do not unfairly limit public access to and use of such beaches," *id.*[3] The Commissioner of the General Land Office is required to promulgate rules on "imposition of beach access, user, or parking fees." *Id.* § 61.011(d)(4). A local government may not impose or increase public beach access, parking, or use fees "in any manner inconsistent with the policies of Section 61.011 . . . or the rules promulgated thereunder." *Id.* § 61.022(b).

Pursuant to its rule-making authority under chapter 61, the General Land Office has promulgated rules authorizing local governments that have obtained state approval of a dune protection and beach access plan to charge beach user fees. *See* 31 TEX. ADMIN. CODE § 15.8(a) (1998). The rules define the term "beach user fee" as "[a] fee collected by a local government in order to establish and maintain beach-related services and facilities for the preservation and enhancement of access to and from and safe and healthy use of public beaches by the public." *Id.* § 15.2. For purposes of the rules, the term "beach-related services" means:

> Reasonable and necessary services and facilities directly related to the public beach which are provided to the public to ensure safe use of and access to and from the public beach, such as vehicular controls, management, and parking (including acquisition and maintenance of off-beach parking and access ways); sanitation and litter control; lifeguarding and lifesaving; beach maintenance; law enforcement; beach nourishment projects; beach/dune system education; beach/dune protection and restoration projects; providing public facilities such as restrooms, showers, lockers, equipment rentals, and picnic areas; recreational and refreshment facilities; liability insurance; and staff and personnel necessary to provide beach-related services. Beach-related services and facilities shall serve only those areas on or immediately adjacent to the public beach.

Id.

The General Land Office rules preclude a local government from imposing a fee "for the exercise of the public right of access to and from public beaches." *Id.* § 15.8(c)(1). Rather, fees may be charged only in exchange for services and must be reasonable: "A reasonable fee is one that

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[3]Subsections (b) through (e) were added to section 61.011 in 1991. *See* Act of May 21, 1991, 72d Leg., R.S., ch. 295, § 5, 1991 Tex. Gen. Laws 1220, 1222.

recovers the cost of providing and maintaining beach-related services." *Id.* Local governments must deposit beach user fees in a separate bank account and may use revenues only for expenditures for beach-related services. *See id.* § 15.8(f)-(g). These rules include off-beach parking "to provide access to and from the public beach" as a beach user fee. *Id.* § 15.8(c)(1).

Your predecessor in office, noting that chapter 151 of the Tax Code, the Limited Sales, Excise, and Use Tax Act, applies to the State of Texas and its political subdivisions when they make sales that are subject to taxation, *see* Tex. Att'y Gen. Op. No. JM-987 (1988) at 4, specifically concluded that beach parking fees charged by local governments pursuant to chapter 61 of the Natural Resources Code are fees for a taxable service under chapter 151 of the Tax Code. As explained below, we conclude, based on the legislative purpose of chapter 61 of the Natural Resources Code, that beach user fees charged pursuant to chapter 61 are not subject to sales tax.

As a court has noted in a recent case regarding taxation of services under chapter 151 of the Tax Code, our main focus is the language of the relevant statutory provisions: "The primary rule of statutory construction is that a court must look to the intent of the legislature and must construe the statute so as to give effect to that intent." *Rylander v. Associated Technics Co.*, 987 S.W.2d 947, 949 (Tex. App.–Austin 1999, no. pet.). Here, we believe, the proper focus of analysis is not chapter 151 of the Tax Code, the provision governing sales tax generally, but rather chapter 61 of the Natural Resources Code, the statute specific to beach access and fees. *See* TEX. GOV'T CODE ANN. § 311.026(b) (Vernon 1998) (special provision prevails as exception over general). Based on the limitations on the amount and use of beach user fees in chapter 61, we conclude that the legislature did not intend these fees to be subject to sales tax. *See id.* § 311.023(1), (5) (in construing statute, court may consider, among other things, object sought to be obtained and consequences of a particular construction); *see also Feinman v. State*, 717 S.W.2d 106, 109 (Tex. App.–Houston [1st Dist.] 1986, writ ref'd n.r.e.) (relying on section 311.023 of the Government Code in construing nature of public beach easement under chapter 61 of the Natural Resources Code).

Chapter 61 charges local governments with the regulation and maintenance of public beaches. *See* TEX. NAT. RES. CODE ANN. §§ 61.011(b), 61.015 (Vernon Supp. 1999) (local governments charged with adopting beach access and use plans); *id.* ch. 61, subchap. C (Vernon 1978 & Supp. 1999) (beach maintenance); *id.* ch. 61, subchap. D (county regulation of traffic, litter and swimming); *see also id.* ch. 63 (dune protection). In recognition of the monetary costs associated with these responsibilities, chapter 61 authorizes a local government to charge fees "to enhance access to and safe and healthy use of the public beaches." *Id.* § 61.011(b) (Vernon Supp. 1999). Significantly, the legislature has strictly limited the amount and use of these fees. As noted above, local governments may charge these fees only to cover the costs of discharging their beach-related responsibilities. *See id.* The fees may not exceed the costs of public beach facilities and services. *See id.* Furthermore, these fees may not unfairly limit public access to and use of public beaches. *See id.* The General Land Office rules, which are consistent with chapter 61, limit a local government to charging beach user fees to finance beach-related services – services that ensure beach users' health and safety. *See* 31 TEX. ADMIN. CODE §§ 15.2, 15.8 (1998).

Under the Tax Code, the purchaser of a taxable item or service is liable to the seller for the tax as part of the sales price. *See* TEX. TAX CODE ANN. § 151.052(a)(1), (2) (Vernon 1992) (sales tax "becomes a part of the sales price" and "is a debt of the purchaser to the seller until paid"). Thus, if beach user fees were subject to sales tax, members of the public paying the fees would ultimately bear the burden of the tax. If required to collect sales taxes on beach user fees, a local government would face two choices, neither of which is consistent with the purposes of chapter 61. On the one hand, a local government could decide to increase amounts charged to the public, collecting more money than necessary to cover its beach facilities and services costs, and further burdening beach access. On the other hand, a local government could decide to maintain charges at current levels and remit a portion of its revenues to the state, thus collecting less than an amount adequate to cover its costs. Given that the legislature has specified in chapter 61 that local governments may charge these fees only to cover the costs of discharging their beach-related responsibilities, that the fees may not exceed the costs of public beach facilities and services, and that these fees may not unfairly limit public access to and use of public beaches, *see* TEX. NAT. RES. CODE ANN. § 61.011(b) (Vernon Supp. 1999), we believe that the legislature did not intend for persons paying these fees to pay sales taxes on the fees. Nor do we believe that the legislature intended to decrease the amount of monies collected by local governments, given that it expressly authorized local governments to charge these fees in recognition that adequate funds are required "in order to provide and maintain public facilities and public services to enhance access to and safe and healthy use of the public beaches by the public," *id.*

In sum, taxation of chapter 61 beach user fees under chapter 151 of the Tax Code is inconsistent with the purposes for which the legislature has authorized local governments to charge these fees. Accordingly, we conclude that beach user fees charged by local governments under chapter 61 and the General Land Office rules are not subject to sales tax.

Finally, we note that your predecessor took the position that beach parking fees charged by local governments pursuant to chapter 61 of the Natural Resources Code are subject to sales tax under section 151.0101 of the Tax Code, which specifically lists "motor vehicle parking and storage services" as a taxable service. *See* TEX. TAX CODE ANN. § 151.0101(a)(4) (Vernon 1992); *see also id.* §§ 151.010 (term "taxable item" means "tangible personal property and taxable services"), 151.051(a) (chapter 151 imposes a sales tax on each sale of a "taxable item" in this state). Noting that the General Land Office rules provide that a local government may not impose a fee "for the exercise of the public right of access to and from public beaches," 31 TEX. ADMIN. CODE § 15.8(c)(1) (1998), your predecessor concluded that beach parking fees are fees for "motor vehicle parking and storage services" under the terms of section 151.0101(a)(4).

Subsection (b) of section 151.0101 of the Tax Code provides that the Comptroller "shall have exclusive jurisdiction to interpret Subsection (a) of this section." TEX. TAX CODE ANN. § 151.0101(b) (Vernon 1992). As one court recently noted, however, "[t]he Comptroller has exclusive jurisdiction to interpret the scope of taxable services, *subject to a reasonableness standard of review. See Hammerman & Gainer*, [*Inc. v. Bullock*,] 791 S.W.2d [330,] 333 [(Tex. App.–Austin 1990, no writ)] (court is bound to accept Comptroller's interpretation of scope of taxable services if that interpretation is reasonable)." *Rylander v. Associated Technics Co.*, 987 S.W.2d at 949-50 (emphasis added). "[A] court may accept the statutory construction of the Comptroller as long as the construction is reasonable and does not contradict the plain language of the statute." *Id.* For the reasons explained above, we believe that a construction of section 151.0101(a)(4) of the Tax Code that includes beach parking fees charged under chapter 61 of the Natural Resources Code within the meaning of "motor vehicle parking and storage parking services" is contrary to the intent of chapter 61 and is therefore unreasonable.

We also note that the General Land Office takes the position that beach parking fees are not fees for "motor vehicle parking and storage services," citing the "essence of the transaction" test developed by the courts to determine whether an item is subject to sales tax, as formulated in *Sharp v. Direct Resources for Print, Inc.*, 910 S.W.2d 535, 538 (Tex. App.–Austin 1995, writ denied). The "essence of the transaction" test was developed by the courts in the 1970's to distinguish between sales of intangible property, such as services, which were not taxable,[4] and sales of tangible personal property, which were taxable. *See, e.g., Bullock v. Statistical Tabulating Corp.*, 549 S.W.2d 166, 168 (Tex. 1977) (applying test to distinguish between tangible personal property and intangible property); *Williams & Lee Scouting Serv., Inc. v. Calvert*, 452 S.W.2d 789, 792 (Tex. Civ. App.–Austin 1970, writ ref'd) (applying test to distinguish between tangible personal property and a service). Although the "essence of the transaction" test has been applied more recently to transactions that mix the sale of taxable tangible personal property and nontaxable services,[5] we are not aware of any cases applying this test to distinguish between sales of nontaxable and taxable services, such as those listed in section 151.0101. We do not need to resolve whether the "essence of the transaction" test is an appropriate method to distinguish between sales of nontaxable and taxable services, however, given that we conclude that beach user fees are not subject to sales tax on the basis of chapter 61 of the Natural Resources Code.

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[4]Services were not subject to sales tax until 1984. *See* Act of July 3, 1984, 68th Leg., 2d C.S., ch. 31, art. 7, 1984 Tex. Gen. Laws 193, 222.

[5]*See, e.g., Sharp v. Direct Resources for Print, Inc.*, 910 S.W.2d 535, 538-39 n.3 (Tex. App.–Austin 1995, writ denied); *Comptroller of Pub. Accounts v. Austin Multiple Listing Serv., Inc.*, 723 S.W.2d 163, 165 (Tex. App.–Austin 1986, no writ).

SUMMARY

Beach user fees charged by a local government under chapter 61 of the Natural Resources Code and General Land Office rules, *see* 31 TEX. ADMIN. CODE §§ 15.2, 15.8 (1998), are not subject to sales tax under chapter 151 of the Tax Code.

Yours very truly,

JOHN CORNYN
Attorney General of Texas

ANDY TAYLOR
First Assistant Attorney General

CLARK KENT ERVIN
Deputy Attorney General - General Counsel

ELIZABETH ROBINSON
Chair, Opinion Committee

Prepared by Mary R. Crouter
Assistant Attorney General

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City of Galveston

FINANCE DEPARTMENT

PO Box 779| Galveston, TX 77553-0779
mloftin@galvestontx.gov |409-797-3562

June 24, 2021

To: City Manager Brian Maxwell
Honorable Mayor and City Council

From: Michael W. Loftin, Assistant City Manager – Finance

RE: Consider approving a Voluntary Disclosure Agreement of Texas Limited Sales, Excise, and Use Tax between the State Comptroller and the City and authorize the payment of sales tax not collected between May 1, 2017 and May 31, 2021 which amount will be finalized after audit by the State Comptroller's office; and authorize the City Manager to approve final payment due based on the audit from the Parking Management Fund balance.

Prior Council Action

On April 23, 2021, City Council adopted Ordinance 21-015 amending Sections 34-118 and 34-120 of the Code of Ordinances to further define parking regulations.

Background

1. The Finance Department realized in mid-May 2021 that the City should be collecting sales tax on its own parking fees and paying it monthly to the State Comptroller's office as required by State law. We immediately contacted sales tax officials in the State Comptroller's Office and self-reported this information. In turn, the Comptroller's Office assigned an examiner to work with the City to correct the oversight.
2. Approving the attached agreement, provided by the Comptroller's office and approved by the City Attorney's Office, is the second step to compliance. The agreement provides that:
   a. The City will be audited by the Comptroller's Office, providing all requested information in the form specified by the Comptroller's staff,
   b. The City will begin reporting and paying current sales tax for taxable parking services and charges based on the State's 6.25 percent rate, as of June 1, 2021, and
   c. The City will make final payment to the State within sixty days after the agreement is approved for the sales tax that should have been paid for a four-year period beginning May 1, 2017 and ending May 31, 2021.

COUNCIL APPROVED
DATE 6/24/21
SIG. J. Williams

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3. The estimated amount of State sales tax that should have been collected and reported in the four-year capture period is approximately $198,000. The additional local sales tax not reported is estimated at $63,000 that needs to be recorded in the City's books. The total pre-audit estimate is $261,000 but the final amount due will be determined through the State's audit process. The current Parking Management Fund balance is $685,000, and it is projected to end FY 2021 at $697,000 (see page 14 in the Second Quarter Budget Status Report as of March 31, 2021). The final amount due will be paid out of this balance.
4. The City already charges and collects sales tax on its garbage collection fee, reporting all 8.25 percent, but paying only the 6.25 percent State portion to the State by virtue of previous State approval. The City retains the amount from its 2 percent local sales tax, depositing the amount produced by 1.5 percent or three fourths of that amount in its General Fund and the remaining 0.5 percent or one fourth in the Industrial Development Corporation's four "silos." The State has specified that it expects this process to be used with tax receipts collected for parking services going forward. The City began reporting its parking services sales tax as a part of its May sales tax report.
5. The Finance Department will make a final accounting adjustment when the State's audit is finished to apply the City's 2 percent tax rate, and transfer the result to the General Fund and the IDC from the Parking Management Fund as required. This step is also dependent on the final audit outcome.
6. The City is being excused from potential liability for not collecting and reporting sales taxes on parking services previously. Penalty and interest is being waived because:
   a. The City is entering into this process voluntarily, self-reporting the oversight immediately,
   b. The City has never been audited by the State and then failed to correct deficiencies identified in such audit, and
   c. The City did not advertise that it was collecting sales tax as a part of its parking fees.
7. In the near term, the City will pay the sales tax from its fees already in place. In the meantime, the City will investigate the process of adding the 8.25 percent for sales taxes to the existing fees going forward.
8. This issue does not include Seawall Parking fees because they are Beach User Fees under the regulation of the General Land Office, and are not subject to sales tax. Attorney General Opinion No. JC-0081 from 1999 specifically considered this issue and addressed it directly.
9. The State Comptroller's examiner indicated that the VCA needed to be executed and returned by July 1, 2021. The City then has sixty days from the date the VCA is signed to pay the outstanding amount of unpaid state sales tax as agreed.

Fiscal Impact Report

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- Totals estimated sales tax liability of $261,000 to be paid from the Parking Management Fund balance.