

Dana Goolsby, Mayor  
Larissa R. Loveless, Council District #1  
Ava Harmon, Council District #2  
Vickey L. Chivers, Council District #3  
Dustin Frazier, Council District #4  
Kristin Clark, Council District #5  
Justin Florence, Council District #6



Teresa Herrera, City Manager  
Gary Landers, City Attorney

**NOTICE OF MEETING  
CITY COUNCIL AGENDA  
August 25, 2021  
Special Meeting at 1:30 p.m.  
City Council Chambers  
504 N. Queen Street  
Palestine, Texas**

**Zoom Link:**

<https://us02web.zoom.us/j/88124881074?pwd=T1N1SnJnMU00bC9DUlhReUF1b0c0QT09>

Meeting ID: 881 2488 1074

Passcode: 928874

One tap mobile

+13462487799,,88124881074#,,, \*928874# US

Note: when you are joining a Zoom meeting by phone, you can use your phone's dial pad to enter the commands \*6 for toggling mute/unmute and \*9 to "raise your hand." [Learn more here.](#)

Follow us live at: [facebook.com/palestinetc/](https://www.facebook.com/palestinetc/)

**SPECIAL MEETING**

**A. CALL TO ORDER**

**B. PROPOSED CHANGES OF AGENDA ITEMS**

**C. PUBLIC RECOGNITION, PUBLIC COMMENTS, AND ANNOUNCEMENTS**

Any citizen wishing to speak during public comments regarding an item on or off the agenda may do so after completing the required Request to Speak form. All comments must be no more than five minutes in length. Any comments regarding items not on the posted agenda may not be discussed or responded to by the City Council. Members of the public may join via Zoom or in person.

*It is not the intention of the City of Palestine to provide a public forum for the embarrassment or demeaning of an individual or group. Neither is it the intention of the Council to allow a member of the public to slur the performance, honesty, and/or integrity of any person or threaten any person. Accordingly, profane, insulting, or threatening language will not be read aloud at the meeting.*

**D. CONFLICT OF INTEREST DISCLOSURES**

**E. REGULAR AGENDA**

1. Discussion and possible action regarding an ordinance providing for the issuance of City of Palestine, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2022 (forward delivery), in the aggregate principal amount not to exceed \$ 42,000,000; awarding the sale thereof; levying a tax in payment thereof; prescribing the form of said certificates; approving a paying agent/registrar agreement and forward delivery purchase contract; approving the Official Statement; and enacting other provisions relating thereto.
2. Discussion and possible action regarding the allocation of cost savings on Health Benefits. Lisa Cariker, HR Director
3. Discussion regarding proposed budget for Fiscal Year 2021-2022. Teresa Herrera, City Manager

F. **ADJOURNMENT**

I certify that the above Notice of Meeting was posted on the outdoor bulletin board at the main entrance to City Hall, 504 N. Queen Street, Palestine, Texas, in compliance with Chapter 551 of the Texas Government Code on **Friday, August 20, 2021, at 3:00 p.m.**



April Jackson, Asst. City Secretary

IN ACCORDANCE WITH THE PROVISIONS OF THE AMERICANS WITH DISABILITIES ACT (ADA) PERSONS IN NEED OF SPECIAL ACCOMMODATION TO PARTICIPATE IN THIS PROCEEDING SHALL, CONTACT THE CITY SECRETARY'S OFFICE VIA EMAIL AT [therrera@palestine-tx.org](mailto:therrera@palestine-tx.org) or 903-731-8414.





Agenda Date: August 25, 2021  
To: City Council  
From: Roxanna Briley, Finance Director  
Agenda Item: Issuance of Certificates of Obligation, Series 2022  
Date Submitted: 08/20/2021

---

**SUMMARY:**

ORDINANCE PROVIDING FOR THE ISSUANCE OF CITY OF PALESTINE, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022 (FORWARD DELIVERY), IN THE AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$42,000,000; AWARDED THE SALE THEREOF; LEVYING A TAX IN PAYMENT THEREOF; PRESCRIBING THE FORM OF SAID CERTIFICATES; APPROVING A PAYING AGENT/REGISTRAR AGREEMENT AND FORWARD DELIVERY PURCHASE CONTRACT; APPROVING THE OFFICIAL STATEMENT; AND ENACTING OTHER PROVISIONS RELATING THERETO

**RECOMMENDED ACTION:**

APPROVE AN ORDINANCE PROVIDING FOR THE ISSUANCE OF CITY OF PALESTINE, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022 (FORWARD DELIVERY), IN THE AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$42,000,000; AWARDED THE SALE THEREOF; LEVYING A TAX IN PAYMENT THEREOF; PRESCRIBING THE FORM OF SAID CERTIFICATES; APPROVING A PAYING AGENT/REGISTRAR AGREEMENT AND FORWARD DELIVERY PURCHASE CONTRACT; APPROVING THE OFFICIAL STATEMENT; AND ENACTING OTHER PROVISIONS RELATING THERETO

**CITY MANAGER APPROVAL:**

Staff recommends approval.

---

**Attachments**

Preliminary Official Statement  
Draft ordinance



PRELIMINARY OFFICIAL STATEMENT  
Dated August 19, 2021

Ratings:  
S&P: "AA" (AGM Insured) / "A+" Underlying  
(See "OTHER INFORMATION – Ratings"  
and "BOND INSURANCE" herein)

**NEW ISSUE - Book-Entry-Only**

*In the opinion of Bracewell LLP, Dallas, Texas, Bond Counsel, under existing statutes, regulations, rulings and court decisions existing on the date hereof, subject to the matters described in "TAX MATTERS" herein, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, and subject to the satisfaction of certain conditions and to the occurrence of certain events described herein under the heading "THE CERTIFICATES – Certain Considerations Regarding Forward Delivery of the Certificates," interest on the Certificates is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income for the owners thereof for federal income tax purposes and is not included in computing the federal alternative minimum taxable income of the owners thereof.*

**\$34,590,000\***  
**CITY OF PALESTINE, TEXAS**  
**(Anderson County)**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022**  
**(Forward Delivery)**

**Dated Date: August 15, 2021**

**Due: August 15, 2022 and February 15, as shown on page 2**

**Interest accrues from the Forward Delivery Date (defined herein)**

**PAYMENT TERMS.** . . Interest on the \$34,590,000\* City of Palestine, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2022 (Forward Delivery) (the "Certificates") will accrue from the date of initial delivery to the underwriters of the Certificates (the "Forward Delivery Date", anticipated to be on or about January 4, 2022), and will be payable February 15 and August 15 of each year commencing August 15, 2022, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is Regions Bank, Houston, Texas (see "THE CERTIFICATES - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE.** . . The Certificates are issued on a forward delivery basis pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council"), and are direct obligations of the City of Palestine, Texas (the "City"), payable from a combination of (i) the proceeds of a direct and continuing annual ad valorem tax levied upon all taxable property within the City, within the limits prescribed by law, and (ii) the Surplus Revenues of the City's waterworks and sewer system (the "System") remaining after payment of all operating and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all of any part of the net revenues of the System, as provided in the Ordinance) (see "THE CERTIFICATES - Authority for Issuance of the Certificates").

**PURPOSE.** . . Proceeds from the sale of the Certificates will be used to for the following purposes, to wit: (i) designing, improving, constructing, renovating and equipping library facilities, including a new library and the purchase of land therefor; (ii) designing, developing, constructing, improving and renovating City parks, trails and recreation facilities, (iii) designing, developing, constructing, improving, extending, and expanding streets, thoroughfares, sidewalks, bridges, and other public ways of the City, including streetscaping, signage, streetlighting, right-of-way protection, utility relocation, and related storm drainage improvements; and acquiring rights-of-way in connection therewith; (iv) acquiring equipment and vehicles for police, public works, fire, emergency services, building services, planning and development and park and recreation purposes; (v) acquiring and installation of City information technology infrastructure and equipment; (vi) designing, developing, constructing, improving and renovating City buildings and facilities, including City Hall, equipment services facilities, public works facilities, the bathrooms in City buildings and facilities, including the purchase of land therefor; (vii) designing, improving, constructing, renovating and equipping fire facilities, including a new fire station and the purchase of land therefor; (viii) designing, improving, constructing, renovating and equipping police facilities, including a new police station; (ix) designing, constructing, acquiring and equipping of a public safety training facility; (x) improving and extending the City's waterworks and sewer system, including infrastructure replacement (items (i) through (x), collectively, the "Project"); (xi) professional services incurred in connection with the Project; and (xii) paying the costs incurred in connection with the issuance of the Certificates.

**CUSIP PREFIX: 696327**  
**MATURITY SCHEDULE & 9 DIGIT CUSIP**  
**See Schedule on Page 2**

**INSURANCE.** . . The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by ASSURED GUARANTY MUNICIPAL CORP. ("AGM") (see "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS").



**LEGALITY.** . . The Certificates are offered for delivery when, as and if issued and received by the underwriters of the Certificates (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Dallas, Texas, as Bond Counsel (see Appendix D, "Form of Bond Counsel's Opinion"). Certain legal matters with respect to the Certificates will be passed upon by McCall, Parkhurst & Horton L.L.P., Counsel to the Underwriters.

**DELIVERY.** . . It is expected that the Certificates in definitive form will be available for delivery to the Raymond James & Associates, Inc. (the "Representative"), on behalf of the Underwriters, on the Forward Delivery Date. The Representative reserves the right to obligate investors purchasing the Certificates to execute and deliver to the Representative a Delayed Delivery Contract, the form of which is included herein as APPENDIX C.

**BAIRD**

**RAYMOND JAMES**

**HUNTINGTON CAPITAL MARKETS**

\* Preliminary, subject to change.

**MATURITY SCHEDULE\*****CUSIP Prefix: 696327 <sup>(1)</sup>**

**CITY OF PALESTINE, TEXAS  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022  
(Forward Delivery)**

<u>Amount</u>	<u>Maturity Date</u>	<u>Initial Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>
\$ 370,000	8/15/2022			
310,000	2/15/2023			
320,000	2/15/2024			
325,000	2/15/2025			
420,000	2/15/2026			
500,000	2/15/2027			
595,000	2/15/2028			
610,000	2/15/2029			
635,000	2/15/2030			
810,000	2/15/2031			
855,000	2/15/2032			
885,000	2/15/2033			
920,000	2/15/2034			
960,000	2/15/2035			
1,000,000	2/15/2036			
1,035,000	2/15/2037			
1,080,000	2/15/2038			
1,125,000	2/15/2039			
1,165,000	2/15/2040			
1,215,000	2/15/2041			
1,615,000	2/15/2042			
1,680,000	2/15/2043			
1,750,000	2/15/2044			
1,820,000	2/15/2045			
1,895,000	2/15/2046			
1,975,000	2/15/2047			
2,050,000	2/15/2048			
2,135,000	2/15/2049			
2,220,000	2/15/2050			
2,315,000	2/15/2051			

**(Interest to accrue from the Delivery Date.)**

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data set forth herein is provided by CUSIP Global Services managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP services. None of the City, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

**OPTIONAL REDEMPTION.** . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES - Optional Redemption of the Certificates”).

\* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule") and in effect on the date of this Preliminary Official Statement, this document constitutes an "Official Statement" of the City that has been "deemed final" by the City as of its date except for the omission of no more than the information permitted by the Rule.

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

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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

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

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

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE, AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

#### TABLE OF CONTENTS

<b>PRELIMINARY OFFICIAL STATEMENT SUMMARY .....</b>	<b>4</b>	<b>TABLE 14 - CURRENT INVESTMENTS .....</b>	<b>35</b>
<b>CITY OFFICIALS, STAFF AND CONSULTANTS.....</b>	<b>7</b>	<b>TAX MATTERS .....</b>	<b>35</b>
ELECTED OFFICIALS .....	7	<b>CONTINUING DISCLOSURE OF INFORMATION.....</b>	<b>37</b>
SELECTED ADMINISTRATIVE STAFF .....	7	<b>OTHER INFORMATION .....</b>	<b>39</b>
CONSULTANTS AND ADVISORS .....	7	RATING .....	39
<b>INTRODUCTION.....</b>	<b>8</b>	LITIGATION .....	39
<b>PLAN OF FINANCING .....</b>	<b>9</b>	REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE .....	39
<b>THE CERTIFICATES.....</b>	<b>10</b>	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS.....	39
<b>BOND INSURANCE.....</b>	<b>17</b>	LEGAL OPINIONS.....	40
<b>BOND INSURANCE RISKS.....</b>	<b>19</b>	AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION .....	40
<b>TAX INFORMATION.....</b>	<b>19</b>	FINANCIAL ADVISOR .....	40
TABLE 1 - ASSESSED VALUATION AND EXEMPTION.....	24	UNDERWRITERS FOR THE CERTIFICATES.....	40
TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY .....	25	FORWARD-LOOKING STATEMENTS DISCLAIMER .....	41
TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY .....	26	MISCELLANEOUS.....	39
TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY .....	26		
TABLE 5 - TEN LARGEST TAXPAYERS .....	26	<b>APPENDICES</b>	
TABLE 6 - TAX ADEQUACY <sup>(1)</sup> .....	27	GENERAL INFORMATION REGARDING THE CITY .....	A
TABLE 7 - ESTIMATED OVERLAPPING DEBT .....	27	EXCERPTS FROM THE ANNUAL FINANCIAL REPORT .....	B
<b>DEBT INFORMATION .....</b>	<b>28</b>	FORM OF DELAYED DELIVERY CONTRACT.....	C
TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS.....	28	FORM OF BOND COUNSEL'S OPINION .....	D
TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION.....	29	SPECIMEN MUNICIPAL BOND INSURANCE POLICY.....	E
TABLE 11 - OTHER OBLIGATIONS.....	30		
<b>FINANCIAL INFORMATION.....</b>	<b>31</b>		
TABLE 12 - GENERAL FUND REVENUE AND EXPENDITURE HISTORY .....	31		
TABLE 13 - MUNICIPAL SALES TAX HISTORY .....	32		
<b>INVESTMENTS.....</b>	<b>33</b>		

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

## PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

**THE CITY**..... The City of Palestine, Texas is a political subdivision and municipal corporation of the State of Texas (the "State"), located in Anderson County, Texas. The City covers approximately 18 square miles (see "INTRODUCTION - Description of the City").

**THE CERTIFICATES**..... The Certificates are issued as \$34,590,000\* Combination Tax and Revenue Certificates of Obligation, Series 2022 (Forward Delivery) (the "Certificates"). The Certificates are issued on a forward delivery basis as serial certificates maturing on August 15, 2022 and February 15 in each of the years 2023 through 2051, inclusive, unless the Underwriters designates one or more consecutive serial maturities as Term Certificates (see "THE CERTIFICATES - Description of the Certificates").

### PAYMENT OF INTEREST

**ON THE CERTIFICATES**..... Interest on the Certificates accrues from the date of initial delivery (the "Forward Delivery Date") (anticipated to be January 4, 2022), and is payable February 15 and August 15 of each year, commencing August 15, 2022, until maturity or prior redemption (see "THE CERTIFICATES - Description of the Certificates").

### AUTHORITY FOR ISSUANCE

**FOR THE CERTIFICATES**..... The Certificates are issued on a forward delivery basis pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, as amended, and the ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council") on August 25, 2021 (see "THE CERTIFICATES - Authority for Issuance of the Certificates").

### SECURITY FOR THE

**CERTIFICATES**..... The Certificates constitute direct obligations of the City, payable from a combination of (i) the proceeds of a direct and continuing annual ad valorem tax levied upon all taxable property within the City, within the limits prescribed by law, and (ii) the Surplus Revenues of the City's waterworks and sewer system (the "System") remaining after payment of all operating and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all of any part of the net revenues of the System, as provided in the Ordinance (see "THE CERTIFICATES - Security and Source of Payment of the Certificates").

### OPTIONAL REDEMPTION OF

**THE CERTIFICATES**..... The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2031 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - Optional Redemption of the Certificates").

**TAX EXEMPTION**..... In the opinion of Bond Counsel, under existing law, interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

### USE OF PROCEEDS FOR THE

**CERTIFICATES**..... Proceeds from the sale of the Certificates will be used to for the following purposes, to wit: (i) designing, improving, constructing, renovating and equipping library facilities, including a new library and the purchase of land therefor; (ii) designing, developing, constructing, improving and renovating City parks, trails and recreation facilities, (iii) designing, developing, constructing, improving, extending, and expanding streets, thoroughfares, sidewalks, bridges, and other public ways of the City, including streetscaping, signage, streetlighting, right-of-way protection, utility relocation, and related storm drainage improvements; and acquiring rights-of-way in connection therewith; (iv) acquiring equipment and vehicles for police, public works, fire, emergency services, building services, planning and development and park and recreation purposes; (v) acquiring and installation of City information technology infrastructure and equipment; (vi) designing, developing, constructing, improving and renovating City buildings and facilities, including City Hall, equipment services facilities, public works facilities, the

\* Preliminary, subject to change.

bathrooms in City buildings and facilities, including the purchase of land therefor; (vii) designing, improving, constructing, renovating and equipping fire facilities, including a new fire station and the purchase of land therefor; (viii) designing, improving, constructing, renovating and equipping police facilities, including a new police station; (ix) designing, constructing, acquiring and equipping of a public safety training facility; (x) improving and extending the City's waterworks and sewer system, including infrastructure replacement (items (i) through (x), collectively, the "Project"); (xi) professional services incurred in connection with the Project; and (xii) paying the costs incurred in connection with the issuance of the Certificates.

**RATINGS FOR THE**

**CERTIFICATES** ..... The Certificates have been rated "AA" (stable outlook) by S&P Global Ratings ("S&P") by virtue of a municipal bond insurance policy to be issued by AGM, the Insurer, upon delivery of the Certificates to the Initial Purchaser. In addition, the underlying, unenhanced rating on the Certificates is "A+" (stable outlook) by S&P (see "Other Information – Ratings", "BOND INSURANCE" and "BOND INSURANCE RISKS").

**MUNICIPAL BOND**

**INSURANCE** ..... The scheduled payment of principal and interest on the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by Assured Guaranty Municipal Corp. ("AGM") (see "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS").

**BOOK-ENTRY-ONLY**

**SYSTEM** ..... The definitive Certificates will be initially registered and delivered on the Forward Delivery Date, only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity of each series. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System").

**PAYMENT RECORD** ..... The City has never defaulted in payment of its general obligation tax debt.

**PAYING AGENT/REGISTRAR** ..... The initial Paying Agent/Registrar for the Certificates is Regions Bank, Houston, Texas.

*[The remainder of this page left blank intentionally]*

# SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population <sup>(1)</sup>	Net Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year <sup>(3)(4)</sup>	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2017	18,393	\$ 974,895,657	\$ 53,004	\$11,862,420	1.22%	\$ 645
2018	18,393	964,173,636	52,421	10,752,668	1.12%	585
2019	18,306	1,014,904,663	55,441	10,022,383	0.99%	547
2020	18,136	1,034,112,065	57,020	8,569,816	0.83%	473
2021	18,289	1,034,042,975	56,539	49,427,789 <sup>(5)</sup>	4.78% <sup>(5)</sup>	2,703 <sup>(5)</sup>

(1) Source: City Staff.

(2) As reported by the Anderson County Appraisal District on the City's annual Certified Rolls; subject to change during the ensuing year.

(3) Includes self-supporting debt. See Table 1 – "Assessed Valuation and Exemptions" and Table 10 – "Self-Supporting Debt" for additional information on self-supporting debt.

(4) Includes Capital Leases. See Table 1 – "Assessed Valuation and Exemptions" for additional information on Capital Leases.

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

For additional information regarding the City, please contact:

Ms. Roxanna Briley  
Finance Director  
City of Palestine  
504 N. Queen Street  
Palestine, TX 75801  
(903) 731-8439  
[financedir@palestine-tx.org](mailto:financedir@palestine-tx.org)

Jim S. Sabonis  
Managing Director  
Hilltop Securities Inc.  
717 N. Harwood Street, Suite 3400  
Dallas, Texas 75201  
(214) 953-4000  
[jim.sabonis@hilltopsecurities.com](mailto:jim.sabonis@hilltopsecurities.com)

Andre Ayala  
Director  
Hilltop Securities Inc.  
717 N. Harwood Street, Suite 3400  
Dallas, Texas 75201  
(214) 953-4000  
[andre.ayala@hilltopsecurities.com](mailto:andre.ayala@hilltopsecurities.com)

*[The remainder of this page left blank intentionally]*



## CITY OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Dana Goolsby Mayor	2 Years	May 2023	Tourism Entrepreneur
Larissa Loveless Councilmember	2 Years	May 2022	Public Relations, Entrepreneur
Ava Harmon Councilmember	< 1 Year	May 2023	Marketing, Entrepreneur
Vickey L. Chivers Councilmember	18 Years	May 2022	Retired
Dustin Frazier Councilmember	< 1 Year	May 2023	Sr. Measurement and Automation Tech.
Kristin Clark Councilmember	< 1 Year	May 2022	Retired
Justin Florence Councilmember	< 1 Year	May 2023	School Teacher

### SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service	Total Governmental Service
Teresa Herrera	City Manager	14 Years	14 Years
Roxanna Briley	Finance Director	4 Months	14 Years
Andy Sibai	Senior Accountant	2 Years	7 Years
Vacant	City Secretary		

### CONSULTANTS AND ADVISORS

Auditors .....	Frank Campos & Associates, PLLC Palestine, Texas
Bond Counsel .....	Bracewell LLP Dallas, Texas
Financial Advisor.....	Hilltop Securities Inc. Dallas, Texas

*[The remainder of this page left blank intentionally]*



PRELIMINARY OFFICIAL STATEMENT  
RELATING TO  
\$34,590,000\*  
CITY OF PALESTINE, TEXAS  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022  
(FORWARD DELIVERY)

INTRODUCTION

It is anticipated that the Certificates will be authenticated and delivered on or about January 4, 2022\* in accordance with the Forward Delivery Bond Purchase Agreement. See “— Certain Considerations Regarding Forward Delivery of the Certificates” below. The Representative reserves the right to obligate investors purchasing the Certificates to execute and deliver to the Representative a Delayed Delivery Contract, the form of which is included herein as Appendix C.

This Official Statement, which includes the Schedules and Appendices hereto, provides certain information regarding the issuance of the \$34,590,000\* City of Palestine, Texas Combination Tax and Revenue Certificates of Obligation, Series 2022 (Forward Delivery) (the “Certificates”) being offered herein on a forward delivery basis. Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the “Ordinance”) to be adopted on the date of sale of the Certificates which will authorize the issuance of the Certificates.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City of Palestine, Texas (the “City”) and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such documents. Copies of such documents may be obtained from the City’s Financial Advisor, Hilltop Securities Inc., Dallas, Texas, electronically or upon payment of reasonable copying, handling, and delivery charges.

**INFECTIOUS DISEASE OUTBREAK – COVID-19...** The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President’s Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation, which restricted or halted business activity, restricted the number of people that can congregate in a public setting, and limited the movement of many citizens to only essential activities. In addition to the actions by the state and federal officials, certain local officials, including Anderson County (which the City is within), have declared a local state of disaster and issued “shelter-in-place” orders, consistent with the Governor’s executive orders. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders were focused on limiting instances where the public could congregate or interact with each other, which affected the operation of businesses and directly impacted the economy.

The State began incrementally reopening businesses in mid-May 2020. On March 2, 2021, the Governor issued Executive Order GA-34, which, among other things, removed any COVID-19-related operating limits for any business or other establishment and ended the State-wide mask mandate, effective March 10, 2021. However, on July 29, 2021, the Governor issued Executive Order GA38, which supersedes all pre-existing executive orders related to COVID-19 and rescinds them in their entirety, except for Executive Order GA-13 (relating to detention in county and municipal jails) and Executive Order GA-37 (related to migrant transport). Executive Order GA-38 combines several previous executive orders into one order and continues the prohibition against governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance. It also prohibits governmental entities from: (i) compelling any individual to receive a COVID-19 vaccine administered under emergency use authorization, and (ii) enforcing any requirements to show proof of vaccination before receiving a service or entering any place (other than nursing homes, hospitals, and similar facilities) if the public or private entity that has adopted such requirement receives public funds through any means. Executive Order GA-38 remains in effect until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the City. These negative impacts may reduce or otherwise negatively affect future property values and/or the collection of sales and other excise taxes, charges, and fees within the City as well as the assets of City pension funds. See "TAX INFORMATION." The Certificates are secured by an ad valorem tax (within the limits prescribed by law), upon all taxable property within the City and a pledge of surplus net revenues of the City's Waterworks and Sewer System (the "System") and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Certificates and the City's operations and maintenance expenses.

The City also collects a sales and use tax on all taxable transactions within the City's boundaries, and other excise taxes and fees that depend on business activity. Actions taken to slow the Pandemic could reduce economic activity within the City on which the City collects taxes, charges, and fees. A reduction in the collection of sales or other excise taxes, utility system revenue, and utility franchise and other fees and charges may negatively impact the City's operating budget and overall financial condition. In addition, the Pandemic has resulted in volatility of the value of investments in pension funds. Any prolonged continuation of the Pandemic could further weaken asset values or slow or prevent their recovery, which could require increased City contributions to fund or pay retirement and other post-employment benefits in the future.

The City will continue to monitor the financial impacts from the Pandemic and adjust its operational and capital outlooks as necessary to mitigate these impacts. The financial and operating data contained herein are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the City. The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition, and the effect could be material.

**DESCRIPTION OF THE CITY.** . . The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1871, and first adopted its Home Rule Charter in 1909 and is currently operating under a Home Rule Charter adopted in 1983. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is two years with the terms of the Mayor and three of the Councilmembers' terms expiring in odd-numbered years and the other terms of the other three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 18,712; the 2020 population is 18,289. The City encompasses approximately 18 square miles.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in financial position or other affairs of the City. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

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

## **PLAN OF FINANCING**

**PURPOSE.** . . The Certificates are being issued on a forward delivery basis for the purpose of the following purposes, to wit: (i) designing, improving, constructing, renovating and equipping library facilities, including a new library and the purchase of land therefor; (ii) designing, developing, constructing, improving and renovating City parks, trails and recreation facilities, (iii) designing, developing, constructing, improving, extending, and expanding streets, thoroughfares, sidewalks, bridges, and other public ways of the City, including streetscaping, signage, streetlighting, right-of-way protection, utility relocation, and related storm drainage improvements; and acquiring rights-of-way in connection therewith; (iv) acquiring equipment and vehicles for police, public works, fire, emergency services, building services, planning and development and park and recreation purposes; (v) acquiring and installation of City information technology infrastructure and equipment; (vi) designing, developing, constructing, improving and renovating City buildings and facilities, including City Hall, equipment services facilities, public works facilities, the bathrooms in City buildings and facilities, including the purchase of land therefor; (vii) designing, improving, constructing, renovating and equipping fire facilities, including a new fire station and the purchase of land therefor; (viii) designing, improving, constructing, renovating and equipping police facilities, including a new police station; (ix) designing, constructing, acquiring and equipping of a public safety training facility; (x) improving and extending the City's waterworks and sewer system, including infrastructure replacement (items (i) through (x), collectively, the "Project"); (xi) professional services incurred in connection with the Project; and (xii) paying the costs incurred in connection with the issuance of the Certificates.

**SOURCES AND USES OF PROCEEDS.** . . Proceeds from the sale of the Certificates are expected to be expended as follows:

<b>Sources:</b>	
Par Amount of the Certificates	\$ -
<b>Total Sources</b>	<u><u>\$ -</u></u>
<b>Uses:</b>	
Deposit to Project Fund	\$ -
Underwriters' Discount	-
Cost of Issuance	-
<b>Total Uses</b>	<u><u>\$ -</u></u>

#### **THE CERTIFICATES**

**DESCRIPTION OF THE CERTIFICATES.** . . The Certificates are dated August 15, 2021 (the "Dated Date"), and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the date of initial delivery (the "Forward Delivery Date" anticipated to be January 4, 2022), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year commencing August 15, 2022, until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity of each series and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System").

**AUTHORITY FOR ISSUANCE OF THE CERTIFICATES.** . . The Certificates are being authorized and issued on a forward delivery basis pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and the Ordinance to be adopted by the City Council on August 25, 2021.

**SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES.** . . The Certificates are payable from payable from a combination of (i) the proceeds of a direct and continuing annual ad valorem tax levied upon all taxable property within the City, within the limits prescribed by law, and (ii) the Surplus Revenues of the System remaining after payment of all operating and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all of any part of the net revenues of the System, as provided in the Ordinance.

#### **CERTAIN CONSIDERATIONS REGARDING FORWARD DELIVERY OF THE CERTIFICATES**

*Forward Delivery.* The City anticipates that the Certificates will be issued and delivered by the City to the Underwriters and purchased by the Underwriters on or about January 4, 2022\* (the "Forward Delivery Date"). The following is a description of certain provisions of the Forward Delivery Bond Purchase Agreement, to be dated on or about August 25, 2021\* (the "Forward Delivery Bond Purchase Agreement"), by between the City and the Underwriters with respect to the Certificates. This description is not to be considered a full statement of the terms of the Forward Delivery Bond Purchase Agreement and accordingly is qualified by reference thereto and is subject to the full text thereof.

Until such time as the Certificates are issued and delivered by the City and purchased by the Underwriters on the Forward Delivery Date, certain information contained in this Official Statement may change in a material respect. The City agrees in the Forward Delivery Bond Purchase Agreement to update the Official Statement (each update an "Updated Official Statement"), if necessary in the judgment of the Representative or the City, so that the Official Statement as amended or supplemented does not contain any untrue statement of a material fact or omit to state a material fact that is necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Additionally, the City agrees in the Forward Delivery Bond Purchase Agreement to prepare an Updated Official Statement, dated a date not more than 25 days nor less than 10 days prior to the Forward Delivery Date, which, as of such date, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. References under "THE CERTIFICATES - Certain Considerations Regarding Forward Delivery of the Certificates" to the Official Statement as of a specific date shall mean (i) this Official Statement, at any point in time during the period from the date of this Official Statement to but not including the date of delivery of the Updated Official Statement to the Underwriters, and (ii) the Updated Official Statement, from and after the date of delivery of the Updated Official Statement, in each case as amended or supplemented.

*Conditions of Settlement.* The issuance and purchase of the Certificates on the Forward Delivery Date are subject to the satisfaction of certain conditions set forth in the Forward Delivery Bond Purchase Agreement, including, among other things, the delivery to

\* Preliminary, subject to change.

the Representative of certain documents and legal opinions on and as of the initial closing date, which is expected to be on or about September 28, 2021 (the "Closing Date") and certain additional documents and legal opinions, and the satisfaction of other conditions, on and as of the Forward Delivery Date, including the delivery to the Representative on the Forward Delivery Date of: (i) the opinion of Bond Counsel, substantially in the form and to the effect set forth in APPENDIX D relating to the Certificates, (ii) the Updated Official Statement, and (iii) evidence that, as of the Forward Delivery Date, S&P Global Ratings ("S&P") has rated the Certificates and that such Certificates are rated investment grade. Changes or proposed changes in federal or state laws, court decisions, regulations or proposed regulations or rulings of administrative agencies occurring or in effect prior to the Forward Delivery Date or the failure by the City to provide closing documents of the type customarily required in connection with the issuance of state and local government tax-exempt bonds could prevent those conditions from being satisfied. None of the Certificates will be issued unless all of the Certificates are issued and delivered on the Forward Delivery Date.

*Termination of Forward Delivery Bond Purchase Agreement.* Certain events individually provide the Underwriters with the right to terminate their obligations to purchase the Certificates without liability therefor by written notification to the City if, in the reasonable judgment of the Representative, at any time on or after Closing and on or prior to the Forward Delivery Date:

- There shall have been a Change in Law. A "Change in Law" means (i) any change in or addition to applicable federal or state law, whether statutory or as interpreted by the courts or by federal or state agencies, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or state agencies, (ii) any legislation enacted by the Congress of the United States (if such enacted legislation has an effective date that is on or before the Forward Delivery Date), (iii) any law, rule or regulation enacted by any governmental body, department or agency (if such enacted law, rule or regulation has an effective date that is on or before the Forward Delivery Date) or (iv) any judgment, ruling or order issued by any court or administrative body, which in any such case would, (A) as to the Representative, prohibit the Representative from completing the underwriting of the Certificates or selling the Certificates or the beneficial ownership interests therein to the public, or (B) as to the City, would make the completion of the issuance, sale or delivery of the Certificates illegal.
- As a result of any legislation, regulation, rule, order, release, court decision or judgment or action by the U.S. Department of the Treasury, the Internal Revenue Service, or any agency of the State either enacted, issued, effective, adopted or proposed (but only with respect to any such proposed legislation, regulation, ruling, order, release, court decision or judgment or action that continues to be proposed as of the Forward Delivery Date), or for any other reason, Bond Counsel cannot issue an opinion to the effect that the interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the United States Internal Revenue Code of 1986 (the "Code"), as stated in the form of opinion of Bond Counsel set forth in APPENDIX D hereto.
- Legislation shall be enacted, or a decision by a court of the United States shall be rendered, or any action shall be taken by, or on behalf of, the Securities Exchange Commission which, in the reasonable opinion of the Representative, following consultation with the City, has the effect of requiring the Certificates to be registered under the Securities Act of 1933, as amended, or requires the qualification of the Ordinance under the Trust Indenture Act of 1939, as amended, or an event shall occur which would cause the sale of the Certificates to be in violation of any provision of the federal or State of Texas securities laws
- The Official Statement as of the Closing Date, or the Updated Official Statement as of the Forward Delivery Date, contained or contains an untrue statement or misstatement of material fact or omitted or omits to state a material fact necessary in order to make the statements and information contained therein not misleading in any material respect.
- As of the Forward Delivery Date, the Certificates are no longer rated investment grade by S&P.
- As of the Forward Delivery Date, there exists a declaration of a general banking moratorium by federal, New York, or Texas authorities, or the general suspension of trading on any national securities exchange.

*Delayed Delivery Contract.* The Representative reserves the right to obligate investors purchasing the Certificates to execute a Delayed Delivery Contract (the "Delayed Delivery Contract") in substantially the form set forth in APPENDIX C. The Delayed Delivery Contract provides that the purchaser will remain obligated to purchase the Certificates, even if the purchaser decides to sell the Certificates following the date of the Delayed Delivery Contract. The City will not be a party to any Delayed Delivery Contract, and the City is not in any way responsible for the performance thereof or for any representations or warranties contained therein. The rights and obligations under the Forward Delivery Bond Purchase Agreement are not conditioned or dependent upon the performance of any Delayed Delivery Contract.

*Additional Risks Relating to Forward Delivery Period.* Between the date of the Forward Delivery Bond Purchase Agreement and the Forward Delivery Date (the "Forward Delivery Period"), certain information contained in this Official Statement may change in material respects. Any changes in such information will not permit the Underwriters to terminate the Forward Delivery Bond



Purchase Agreement or release the purchasers of their obligation to purchase the Certificates, unless the change reflects any of the first five events (exclusive of the sixth event) described under “ - Termination of Forward Delivery Bond Purchase Agreement” above. In addition to the risks set forth above, purchasers of the Certificates are subject to certain addition risks, some of which are described below.

*Ratings Risk.* No assurances can be given that the rating assigned to the Certificates on the Forward Delivery Date will not be different from those currently assigned to the Certificates. Issuance of the Certificates and the Underwriters’ obligations under the Forward Delivery Bond Purchase Agreement are not conditioned upon the assignment of any particular ratings for the Certificates or the maintenance of the initial ratings of the Certificates, unless the Certificates are no longer rated investment grade by S&P on the Forward Delivery Date, as described under “ - Termination of Forward Delivery Bond Purchase Agreement” above.

*Secondary Market Risk.* The Underwriters are not obligated to make a secondary market for the Certificates, and no assurance can be given that a secondary market will exist for the Certificates during the Forward Delivery Period or at any time thereafter. Prospective purchasers of the Certificates should assume that there will be no secondary market for the Certificates during the Forward Delivery Period.

*Market Value Risk.* The market value of the Certificates as of the Forward Delivery Date may be affected by a variety of factors, including, without limitation, general market conditions, the financial condition of the City and the State, and federal and state tax, securities and other laws. The market value of the Certificates as of the Forward Delivery Date could therefore be higher or lower than the price to be paid by the initial purchasers of the Certificates, and that difference could be substantial. Neither the City nor the Underwriters make any representations as to the expected market value of the Certificates as of the Forward Delivery Date.

*Tax Law Risk.* Subject to the other conditions of Settlement and the Underwriters’ rights of termination described above, the Forward Delivery Bond Purchase Agreement obligates the City to deliver, and the Underwriters to accept, the Certificates if the City delivers an opinion of Bond Counsel substantially in the form and to the effect set forth in APPENDIX D relating to the Certificates. Notwithstanding that the enactment of new legislation, new court decisions or the promulgation of new regulations or rulings might only diminish (but not completely eliminate) the value of, or otherwise affect, the exclusion from gross income of interest payable on “state or local bonds” (such as the Certificates) for federal income tax purposes, the City might be able to satisfy the requirements for the delivery of the Certificates. In such event, the purchasers would be required to accept delivery of the Certificates. Prospective purchasers are encouraged to consult their tax advisors regarding the likelihood of any such changes in tax law and the consequences of such changes to the purchasers. See “TAX MATTERS” herein.

**TAX RATE LIMITATION.** . . All taxable property within the City is subject to the assessment, levy and collection by the City of a direct and continuing annual ad valorem tax to provide for the operations of the City, including the payment of principal of and interest on all ad valorem tax debt, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance based on a 90% collection rate.

**OPTIONAL REDEMPTION OF THE CERTIFICATES.** . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of the Certificates to be redeemed. If less than all of the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**NOTICE OF REDEMPTION.** . . Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of each registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

With respect to any optional redemption of the Certificates, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Certificates and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE CITY IN THE NOTICE, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

**DEFEASANCE.** . . . The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Certificates to pay principal and interest thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Paying Agent/Registrar or any other lawfully authorized entity a sum of money equal to the principal of and all interest to accrue on the Certificates to maturity or prior redemption or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investments earnings thereon, to provide for the payment and/or redemption of such Certificates; provided, that under current law, such deposits may be invested and reinvested only in (a) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Certificates are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Certificates. If any of Certificates are to be redeemed prior to their dates of maturity, provision must have been made for the payment to the registered owners of such Certificates of the full amount to which such owner would be entitled and for giving notice of redemption as provided in the Ordinance.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for such securities will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible Securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other securities, notwithstanding the fact that such Securities may not be of the same investment quality as those currently identified under State law as permissible securities.

Upon making such deposit in the manner described, such defeased Certificates shall no longer be deemed outstanding Certificates secured by the Ordinance, but will be payable only from the funds and securities deposited into escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt for any other purpose.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption, or take any other action amending the terms of the Certificates, are extinguished; provided, however, that the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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

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

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

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

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

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date (hereinafter defined). The Omnibus Proxy assigns Cede & Co.'s consenting or

voting rights to those Direct Participants to whose accounts the Certificates are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

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

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

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

So long as Cede & Co. is the registered owner of the Certificates, the City will have no obligation or responsibility to the Direct Participants or Indirect Participants, or the persons for which they act as nominees, with respect to the payment to or providing of notice to such Direct Participants, Indirect Participants or the persons for which they act as nominees.

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

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

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

Principal of the Certificates will be payable to the registered owner at maturity or prior redemption upon presentation and surrender at the principal office of the Paying Agent/Registrar. Interest on the Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (see "THE CERTIFICATES - Record Date for Interest Payment" herein), and such interest shall be paid (i) by check sent by United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar, or (ii) by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday or day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. is the registered owner of the Certificates, payments of principal and interest on the Certificates will be made as described in "THE CERTIFICATES - Book-Entry-Only System" herein.

**TRANSFER, EXCHANGE AND REGISTRATION.** . . In the event the Book-Entry-Only System should be discontinued, printed Certificate certificates will be delivered to the registered owners of the Certificates and thereafter the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail,



first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be of the same series, in denominations of \$5,000 or integral multiples thereof for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES - Book-Entry-Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Certificate.

**RECORD DATE FOR INTEREST PAYMENT.** . . The record date (the "Record Date") for determining the party to whom interest is payable on the Certificates on any interest payment date means the close of business on the last business day of the month next preceding each interest payment date for the Certificates.

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

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

**CERTIFICATEHOLDERS' REMEDIES.** . . If the City defaults in the payment of principal, premium, if any, and interest or redemption price, as applicable, on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke"), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas Legislature has effectively waived the City's sovereign immunity from a suit for money damages, registered owners may not be able to bring such a suit against the City for breach of the Certificates or the Ordinance. Furthermore, Tooke, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of the municipality.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("Wasson"), the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people' and protecting such municipalities 'via the State's immunity is not an efficient way to ensure efficient allocation of State resources.'" While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed Wasson for a second time and issued an opinion on October 5, 2018, clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper

inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship. Notwithstanding the foregoing, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

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

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

## **BOND INSURANCE**

### **BOND INSURANCE POLICY**

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

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

### **ASSURED GUARANTY MUNICIPAL CORP.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such

amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On July 8, 2021, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On October 29, 2020, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

#### *Capitalization of AGM*

At June 30, 2021:

- The policyholders' surplus of AGM was approximately \$2,943 million.
- The contingency reserve of AGM was approximately \$947 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,137 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE").

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

#### *Merger of MAC into AGM*

On April 1, 2021, MAC was merged into AGM, with AGM as the surviving company. Prior to that merger transaction, MAC was an indirect subsidiary of AGM (which indirectly owned 60.7% of MAC) and AGM's affiliate, Assured Guaranty Corp., a Maryland-domiciled insurance company ("AGC") (which indirectly owned 39.3% of MAC). In connection with the merger transaction, AGM and AGC each reassumed the remaining outstanding par they ceded to MAC in 2013, and AGC sold its indirect share of MAC to AGM. All of MAC's direct insured par exposures have become insured obligations of AGM.

#### *Incorporation of Certain Documents by Reference*

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (filed by AGL with the SEC on February 26, 2021);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021 (filed by AGL with the SEC on May 7, 2021); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 (filed by AGL with the SEC on August 6, 2021).

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Certificates shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-

0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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

#### *Miscellaneous Matters*

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

### **BOND INSURANCE RISKS**

**BOND INSURANCE RISK FACTORS.** . . In the event of default of the scheduled payment of principal or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the City (unless the Insurer chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Certificates will not be subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE CERTIFICATES – Certificateholders' Remedies"). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Certificateholders.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from the security pledged pursuant to the Ordinance and, as further described in "THE CERTIFICATES – Security and Source of Payment of the Certificates". In the event the Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Certificates.

If a Policy is acquired, the long-term ratings on the Certificates will be dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer's financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the ratings on the Certificates, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) of the Certificates (see "OTHER INFORMATION – Rating").

The obligations of the Insurer under a Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. Neither of the City or the City's Financial Advisor has made independent investigation into the claims-paying ability of any potential insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential insurer is given.

**CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS** . . . Moody's Investor Services, Inc., S&P and Fitch Ratings (collectively, the "Rating Agencies") have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, certain events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims-paying ability of any such bond insurer, particularly over the life of the Certificates.

### **TAX INFORMATION**

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if*



*claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

**VALUATION OF TAXABLE PROPERTY . . .** The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Anderson County Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

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

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

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

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

**FREEPORT AND GOODS-IN-TRANSIT EXEMPTIONS . . .** Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action after conducting a public hearing, before

January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

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

**TAX INCREMENT FINANCING ZONES . . .** A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing zones ("TIRZ") within its boundaries, and other overlapping taxing units may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, general located within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

**TAX ABATEMENT AGREEMENTS . . .** Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

For a discussion of how the various exemptions described above are applied by the City, See "TAX INFORMATION – City Application of Property Tax Code" and "Table 1 – Assessed Valuation and Exemption" herein.

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see "TAX INFORMATION – Public Hearing and Maintenance and Operations Tax Rate Limitations"). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

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

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

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

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

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

**TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER . .** The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no historical judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP- 0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**CITY APPLICATION OF TAX CODE . . .** The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$11,000; the disabled are also granted an exemption of \$5,000-\$12,000 depending on the percentage of disability.

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

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

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

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

The City does not tax nonbusiness personal property; and Anderson County collects taxes for the City.

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

The City does not tax freeport property.

The City does not tax goods-in-transit.

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

The City has not adopted a tax abatement policy. The City enters into tax abatement agreements with entities at the discretion of the City Council. The City currently has multiple outstanding tax abatement agreements.

**TAX INCREMENT FINANCING REINVESTMENT ZONES . . .** The City does not currently have any tax increment financing reinvestment zones.



**TABLE 1 – ASSESSED VALUATION AND EXEMPTION**

2021/22 Market Valuation Established by Anderson County Appraisal District (excluding totally exempt property)		\$1,256,717,907
Less Exemptions/Reductions at 100% Market Value:		
Over 65 Residence and Disabled Homestead Exemptions	\$ 15,568,489	
Abatements	99,220,821	
Pollution Control	33,720	
Productivity Loss	4,716,198	
Freeport	13,674,866	
House Bill 366	24,549,500	
Disabled Veterans Exemptions	13,217,848	
Misc.	114,089	
Homestead Cap Loss	7,126,958	\$ 178,222,489
2021/22 Taxable Assessed Valuation		<u>\$1,078,495,418</u>
General Obligation Bonds & Certificates of Obligation Funded from Ad Valorem Taxes as of 8/31/2021	\$ 13,180,000	
Capital Leases funded from Ad Valorem Taxes as of 8/31/2021	1,414,254	
The Certificates <sup>(1)</sup>	34,590,000	
Total General Obligation Debt Funded from Ad Valorem Taxes as of 8/31/2021		\$ 49,184,254
Less: Self-Supporting Debt as of 8/31/2021 <sup>(2)</sup>		
General Obligation Refunding Bonds, Series 2012 (Water & Sewer)	\$ 115,000	
Combination Tax & Revenue Certificates of Obligation, Series 2013 (Water & Sewer)	1,595,000	
Combination Tax & Revenue Refunding Bonds, Series 2020 (Water & Sewer)	4,885,000	
Combination Tax & Revenue Certificates of Obligation, Series 2021 (Water & Sewer)	4,585,000	
The Certificates (Water & Sewer) <sup>(1)</sup>	13,065,000	
Total Self-Supporting Debt as of 8/31/2021 <sup>(2)</sup>		\$ 24,245,000
Net General Obligation Debt Funded Debt Payable from Ad Valorem Taxes		<u>\$ 24,939,254</u>
Interest and Sinking Fund (as of 8/1/2021)		\$ 269,427
Ratio Funded Tax Debt to Taxable Assessed Valuation		4.56%

2021 Estimated Population - 18,289  
Per Capita Taxable Assessed Valuation - \$58,970  
Per Capita Funded Debt Payable from Ad Valorem Tax - \$2,689

(1) Preliminary, subject to change.

(2) The amount shown is anticipated to be self-supported from the Water & Sewer System Fund Net Revenues. If such revenues are insufficient, the City will be required to assess an ad valorem tax to pay the difference. See Table 10 – “Self-Supporting Debt.”

*[The remainder of this page left blank intentionally]*

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2022		2021		2020	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 521,445,089	41.49%	\$ 466,551,786	39.22%	\$ 462,246,023	39.43%
Real, Residential Multi-Family	31,851,863	2.53%	30,812,495	2.59%	30,823,205	2.63%
Real, Vacant Platted Lots/Tracts	9,805,809	0.78%	9,649,328	0.81%	9,653,544	0.82%
Real Acreage (Land Only )	4,855,613	0.39%	4,535,580	0.38%	4,609,177	0.39%
Real, Farm and Ranch Improvements	15,141,402	1.20%	14,204,956	1.19%	14,095,569	1.20%
Real, Commercial and Industrial	416,515,941	33.14%	408,085,902	34.31%	396,551,207	33.82%
Real and Intangible Personal, Utilities	42,424,185	3.38%	37,118,667	3.12%	34,074,379	2.91%
Tangible Personal, Business & Other	203,086,572	16.16%	206,437,976	17.36%	211,120,607	18.01%
Tangible Personal Mobile Homes	2,408,618	0.19%	2,214,723	0.19%	2,032,053	0.17%
Real, Inventory	98,047	0.01%	113,428	0.01%	109,775	0.01%
Special Inventory	9,084,768	0.72%	9,741,951	0.82%	7,130,916	0.61%
Total Appraised Value Before Exemptions	\$ 1,256,717,907	100.00%	\$ 1,189,466,792	100.00%	\$ 1,172,446,455	100.00%
Less: Total Exemptions/Reductions	178,222,489		155,423,817		138,334,390	
Taxable Assessed Value	<u>\$ 1,078,495,418</u>		<u>\$ 1,034,042,975</u>		<u>\$ 1,034,112,065</u>	

Category	2019		2018	
	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 449,797,854	35.79%	\$ 437,709,171	38.05%
Real, Residential Multi-Family	30,657,985	2.44%	30,161,547	2.62%
Real, Vacant Platted Lots/Tracts	10,788,053	0.86%	10,664,085	0.93%
Real Acreage (Land Only )	4,676,886	0.37%	4,513,600	0.39%
Real, Farm and Ranch Improvements	16,524,867	1.31%	16,505,350	1.43%
Real, Commercial and Industrial	397,110,943	31.60%	370,155,978	32.18%
Real and Intangible Personal, Utilities	33,712,123	2.68%	33,678,930	2.93%
Tangible Personal, Business & Other	239,794,524	19.08%	237,103,324	20.61%
Tangible Personal Mobile Homes	1,978,011	0.16%	2,324,566	0.20%
Real, Inventory	109,775	0.01%	138,198	0.01%
Special Inventory	7,341,685	0.58%	7,428,820	0.65%
Total Appraised Value Before Exemptions	\$ 1,192,492,706	94.89%	\$ 1,150,383,569	100.00%
Less: Total Exemptions/Reductions	177,588,043		186,209,933	
Taxable Assessed Value	<u>\$ 1,014,904,663</u>		<u>\$ 964,173,636</u>	

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

*[The remainder of this page left blank intentionally]*

**TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

Fiscal Year Ended 9/30	Estimated Population <sup>(1)</sup>	Net Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year <sup>(3)(4)</sup>	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2017	18,393	\$ 974,895,657	\$ 53,004	\$11,862,420	1.22%	\$ 645
2018	18,393	964,173,636	52,421	10,752,668	1.12%	585
2019	18,306	1,014,904,663	55,441	10,022,383	0.99%	547
2020	18,136	1,034,112,065	57,020	8,569,816	0.83%	473
2021	18,289	1,034,042,975	56,539	49,427,789 <sup>(5)</sup>	4.78% <sup>(5)</sup>	2,703 <sup>(5)</sup>

(1) Source: City Staff.

(2) As reported by the Anderson County Appraisal District on the City's annual Certified Rolls; subject to change during the ensuing year.

(3) Includes self-supporting debt. See Table 1 – "Assessed Valuation and Exemptions" and Table 10 – "Self-Supporting Debt" for additional information on self-supporting debt.

(4) Includes Capital Leases. See Table 1 – "Assessed Valuation and Exemptions" for additional information on Capital Leases.

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

**TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2017	\$ 0.6489	\$ 0.5431	\$ 0.1058	\$ 6,334,034	94.84%	96.20%
2018	0.7187	0.5678	0.1509	6,934,427	98.09%	99.41%
2019	0.6926	0.5730	0.1196	6,877,795	99.48%	101.12%
2020	0.6813	0.6045	0.0768	7,050,720	98.20%	100.30%
2021	0.6838	0.5557	0.1281	7,074,380	96.17% <sup>(1)</sup>	98.30% <sup>(1)</sup>

(1) Collections as of June 2021.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2021/22 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Wal-Mart Stores Division	Retail	\$ 29,830,461	2.77%
Sanderson Farms Inc	Processing Plant	23,785,268	2.21%
MPT of Palestine-Lima LLC	Retail	22,299,970	2.07%
Oncor Electric Delivery Co	Utilities	16,167,970	1.50%
Union Pacific Railroad Co	Railroad	13,007,021	1.21%
Lowes of Palestine #1892	Retail	11,352,954	1.05%
Wal-Mart Stores East	Retail	10,980,799	1.02%
Atmos Energy/Mit-Tex Distribution	Utilities	9,942,676	0.92%
Wal-Mart Real Estate Business Trust	Real Estate	8,891,111	0.82%
Wal-Mart Super Center	Retail	7,815,315	0.72%
		<u>\$ 154,073,545</u>	<u>14.29%</u>

Source: Anderson County Appraisal District

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

**TABLE 6 – TAX ADEQUACY <sup>(1)</sup>**

Net Principal and Interest Requirements, 2022	\$ 1,401,934 <sup>(1)(2)</sup>
\$0.1341 Tax Rate at 97% Collection Produces	1,402,874
Average Net Principal and Interest Requirements, 2022-2051	\$ 1,403,000 <sup>(1)(2)</sup>
\$0.1342 Tax Rate at 97% Collection Produces	1,403,921
Maximum Net Principal and Interest Requirements, 2047	\$ 1,405,900 <sup>(1)(2)</sup>
\$0.1344 Tax Rate at 97% Collection Produces	1,406,013

(1) Excludes self-supporting debt. See Table 1 – "Assessed Valuation and Exemptions" and Table 10 – "Self-Supporting Debt." Includes the Certificates. Preliminary, subject to change.

(2) Includes Capital Leases. See Table 1 – "Assessed Valuation and Exemptions" for additional information on Capital Leases.

**TABLE 7 – ESTIMATED OVERLAPPING DEBT**

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

Taxing Jurisdiction	2021/22 Taxable Assessed Value	2020/21 Tax Rate	Total G.O. Tax Debt 8/31/2021	Estimated % Applicable	City's Overlapping G.O. Tax Debt 8/31/2021
City of Palestine	\$ 1,078,495,418	\$ 0.6838	\$ 49,184,254 <sup>(1)(2)</sup>	100.00%	\$ 49,184,254 <sup>(1)(2)</sup>
Anderson County	2,939,830,193	0.5895	20,325,000	33.25%	6,758,063
Palestine Independent School District	125,499,147	1.4047	54,885,000	62.66%	34,390,941
Westwood Independent School District	568,149,555	1.0527	-	36.60%	-
Total Direct and Overlapping Tax-supported Debt <sup>(1)(2)</sup>					\$ 90,333,258
Ratio of Direct and Overlapping Tax-supported Debt to Taxable Assessed Valuation <sup>(1)(2)</sup>					8.38%
Per Capita Overlapping Tax-supported Debt <sup>(1)(2)</sup>					\$ 4,939

(1) Includes self-supporting debt. See Table 1 – "Assessed Valuation and Exemptions" and Table 10 – "Self-Supporting Debt." Includes the Certificates. Preliminary, subject to change.

(2) Includes Capital Leases. See Table 1 – "Assessed Valuation and Exemptions" for additional information on Capital Leases.

*[The remainder of this page left blank intentionally]*

# DEBT INFORMATION

TABLE 8 – PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Outstanding Debt Service <sup>(1)</sup>			The Certificates <sup>(2)</sup>			Less Self- Supporting Debt <sup>(3)</sup>	Total Net Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total			
2021	\$ 2,077,001	\$ 226,768	\$ 2,303,769	\$ -	\$ -	\$ -	\$ 1,037,856	\$ 1,265,913	
2022	1,361,908	369,603	1,731,511	370,000	871,293	1,241,293	1,570,870	1,401,934	
2023	1,434,014	297,782	1,731,796	310,000	1,398,300	1,708,300	2,039,026	1,401,070	
2024	1,466,308	265,561	1,731,869	320,000	1,385,700	1,705,700	2,032,649	1,404,920	
2025	1,495,423	234,572	1,729,995	325,000	1,372,800	1,697,800	2,026,101	1,401,694	17.78%
2026	1,375,190	204,569	1,579,759	420,000	1,355,800	1,775,800	1,952,269	1,403,290	
2027	1,340,805	172,363	1,513,169	500,000	1,332,800	1,832,800	1,944,828	1,401,141	
2028	1,298,139	138,062	1,436,201	595,000	1,305,425	1,900,425	1,930,873	1,405,754	
2029	860,533	110,038	970,571	610,000	1,275,300	1,885,300	1,451,113	1,404,759	34.32%
2030	880,469	86,766	967,235	635,000	1,244,175	1,879,175	1,441,238	1,405,173	
2031	270,000	69,563	339,563	810,000	1,208,050	2,018,050	954,638	1,402,975	
2032	275,000	61,388	336,388	855,000	1,170,700	2,025,700	957,388	1,404,700	
2033	285,000	54,413	339,413	885,000	1,135,900	2,020,900	956,913	1,403,400	
2034	290,000	48,663	338,663	920,000	1,099,800	2,019,800	957,363	1,401,100	
2035	295,000	42,813	337,813	960,000	1,062,200	2,022,200	957,313	1,402,700	45.67%
2036	300,000	36,863	336,863	1,000,000	1,023,000	2,023,000	956,763	1,403,100	
2037	310,000	30,763	340,763	1,035,000	982,300	2,017,300	955,763	1,402,300	
2038	315,000	24,513	339,513	1,080,000	940,000	2,020,000	954,313	1,405,200	
2039	320,000	18,163	338,163	1,125,000	895,900	2,020,900	957,263	1,401,800	
2040	330,000	11,250	341,250	1,165,000	850,100	2,015,100	954,250	1,402,100	59.22%
2041	335,000	3,769	338,769	1,215,000	802,500	2,017,500	955,269	1,401,000	
2042	-	-	-	1,615,000	745,900	2,360,900	957,500	1,403,400	
2043	-	-	-	1,680,000	680,000	2,360,000	955,800	1,404,200	
2044	-	-	-	1,750,000	611,400	2,361,400	958,000	1,403,400	
2045	-	-	-	1,820,000	540,000	2,360,000	959,000	1,401,000	75.56%
2046	-	-	-	1,895,000	465,700	2,360,700	958,800	1,401,900	
2047	-	-	-	1,975,000	388,300	2,363,300	957,400	1,405,900	
2048	-	-	-	2,050,000	307,800	2,357,800	954,800	1,403,000	
2049	-	-	-	2,135,000	224,100	2,359,100	955,900	1,403,200	
2050	-	-	-	2,220,000	137,000	2,357,000	955,600	1,401,400	95.51%
2051	-	-	-	2,315,000	46,300	2,361,300	958,800	1,402,500	100.00%
	<u>\$ 16,914,790</u>	<u>\$ 2,508,242</u>	<u>\$ 19,423,031</u>	<u>\$ 34,590,000</u>	<u>\$ 26,858,543</u>	<u>\$ 61,448,543</u>	<u>\$ 37,515,652</u>	<u>\$ 43,355,922</u>	

(1) Includes the Capital Leases which the City currently pays for with revenue generated from ad valorem taxes. Capital Leases consists of 3 equipment leases that the City has entered into in 2016, 2017 and 2020. See Table 1 - "Assessed Valuation and Exemptions" for additional information on Capital Leases. Does not include the Fiscal Year 2021 and upcoming Fiscal Year 2022 Enterprise Fleet Lease payments. The City budgeted repayment for such lease out of I&S debt service funds but expects to repay the Enterprise Fleet payments out of other lawfully available funds. The annual future payment is unknown until terms and vehicle leases are negotiated on an annual basis. See Table 11 - "Other Obligations"

(2) Preliminary. Subject to Change.

(3) The amount shown is anticipated to be self-supported from the Water & Sewer System Fund Net Revenues. If such revenues are insufficient, the City will be obligated to assess an ad valorem tax to pay the difference. See Table 10 - Self-Supporting Debt" for additional information on self-supporting debt. Includes the Certificates. Preliminary. Subject to Change.

**TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION**

Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/22 <sup>(1)</sup>		\$ 1,401,934
Interest and Sinking Fund, Fiscal Year Ending 9/30/2020	\$ 333,047	
Budgeted Interest and Sinking Fund Tax Collections	1,099,226	<u>\$ 1,432,273</u>
Estimated Fund Balance, Fiscal Year Ending 9/30/22		\$ 30,339

(1) Excludes Self-Supporting Debt. See Table 10 – “Self-Supporting Debt”, but includes Capital Leases. See Table 1 – “Assessed Valuations and Exemptions” for additional information on Capital Leases. Includes a portion of the Certificates. Preliminary, subject to change.

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS...** The City has no authorized but unissued general obligation bonds.

**ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT...** The City expects to issue approximately \$942,000 combination tax and revenue certificates of obligation to the Texas Water Development Board for flood control improvements within the next 6 months.

**TABLE 10 – SELF-SUPPORTING DEBT**

<b>Water &amp; Wastewater General Obligation Debt</b>		
	FY 2022 Outstanding Principal <sup>(1)(2)</sup>	FY 2022 Debt Service (P+I)
General Obligation Refunding Bonds, Series 2012	\$ 115,000	\$ 56,817
Combination Tax & Revenue Certificates of Obligation, Series 2013	1,595,000	212,358
Combination Tax & Revenue Refunding Bonds, Series 2020	4,885,000	703,275
Combination Tax & Revenue Certificates of Obligation, Series 2021	4,585,000	201,178
The Certificates <sup>(3)</sup>	13,065,000	332,329
TOTAL	<u>\$ 24,245,000</u>	<u>\$ 1,505,956</u>
Water & Wastewater Revenue Available for Debt Service (FY 2020)		\$ 4,376,402
Less: Water and Wastewater Revenue Bonds Debt Service (FY 2022)		<u>-</u>
Net Revenue Available for Water & Wastewater System GO Bonds		<u>\$ 4,376,402</u>

(1) Principal outstanding at the beginning of the Fiscal Year.

(2) The amount shown is anticipated to be self-supported from the Water & Sewer System Fund Net Revenues. If such revenues are insufficient, the City will be required to assess an ad valorem tax to pay the difference.

(3) Includes a portion of the Certificates. Preliminary; Subject to Change.

*[The remainder of this page left blank intentionally]*

**TABLE 11 – OTHER OBLIGATIONS**

In December of 2018, the City (lessee) entered into a master equity lease agreement with Enterprise FM Trust (lessor) for the leasing of various vehicles. As of September 30, 2019, the City leased 40 vehicles from Enterprise FM Trust. The term of the lease for each vehicle is 60 months and begins on the date each vehicle is delivered to the City. Payments are made monthly and range from \$298 to \$849 with interest rates ranging from 0.88% to 6.33%. The total outstanding balance of these capital leases as of September 30, 2020 was \$962,439.

At the end of the lease term for each vehicle, the City has agreed to pay Enterprise FM Trust the excess, if any, of the book value of the vehicle over the wholesale value of the vehicle as determined by the lessor in good faith. If the book value of the vehicle is less than the wholesale value of the vehicle as determined by the lessor in good faith, the lessor agrees to pay the City the deficiency as a terminal rental adjustment within thirty days after the end of the term. The City is responsible for repairing and maintaining the vehicles in good condition. The City has a separate maintenance agreement with Enterprise Fleet Management for vehicles leased from Enterprise FM Trust. Any alternations, additions, and replacement parts or improvements to the vehicles will become and remain the property of Enterprise FM Trust. As long as no event of default has occurred, the City has the right to remove any additional equipment installed prior to returning the vehicles to Enterprise FM Trust. The City is also obligated to have commercial automobile liability insurance and physical damage insurance for each vehicle under this lease.

Total vehicles acquired through these capital leases and recorded in capital assets in the equipment replacement fund is as follows:

Machinery and equipment	\$ 1,155,487
Less: Accumulated Depreciation	<u>(174,965)</u>
Total	<u><u>\$ 980,522</u></u>

Future minimum lease obligation as of September 30, 2020 are as follows:

	Year Ended September 30	Payments
	2021	\$ 250,978
	2022	250,978
	2023	250,977
	2024	230,393
	2025	<u>52,256</u>
Total Minimum Lease Payments		\$ 1,035,582
Less: Amount Representing Interest		<u>(73,143)</u>
Present Value of New Minimum Lease Payments		<u><u>\$ 962,439</u></u>

**PENSION FUND . . .** All qualified employees of the City are members of the Texas Municipal Retirement System. For additional information see the City's financial statements for the fiscal year ended September 30, 2020, which are attached hereto as Appendix B, including Note J – "Defined Benefit Pension Plans – Texas Municipal Retirement System" under Section III – Detailed Notes on All Funds.

**OTHER POST-EMPLOYMENT BENEFITS . . .** See the City's financial statements for the fiscal year ended September 30, 2020, which are attached hereto as Appendix B, including Note K – "Other Post-Employment Benefit Plans" under Section III – Detailed Notes on All Funds for a description of the City's Other Post-Employment Benefits.

*[The remainder of this page left blank intentionally]*

# FINANCIAL INFORMATION

**TABLE 12 – GENERAL FUND REVENUE AND EXPENDITURE HISTORY**

	Fiscal Years Ended September 30,				
	2020	2019	2018	2017	2016
Revenues:					
Taxes	\$ 12,108,464	\$ 11,429,569	\$ 11,007,682	\$ 11,131,918	\$ 11,565,539
Permits, Licenses and Fees	143,109	95,902	122,050	100,586	116,308
Intergovernmental	1,473,620	616,228	686,929	768,352	567,822
Charges for Services	118,631	173,785	194,920	171,459	157,943
Fines and Forfeitures	399,599	364,832	330,313	292,782	567,885
Contributions	23	-	-	-	-
Investment Earnings	73,235	115,279	28,316	63,701	35,172
Miscellaneous	47,868	4,749	122,854	149,750	83,027
Total Revenues	<u>\$ 14,364,549</u>	<u>\$ 12,800,344</u>	<u>\$ 12,493,064</u>	<u>\$ 12,678,548</u>	<u>\$ 13,093,696</u>
Expenditures:					
General Government	\$ 1,867,167	\$ 1,641,563	\$ 2,008,490	\$ 1,872,423	\$ 1,637,433
Public Safety	7,688,699	7,346,388	7,663,722	7,553,068	8,501,995
Community Services	3,115,353	2,898,922	3,622,143	3,918,928	3,525,390
Community Development	738,082	808,640	982,276	960,646	962,369
Total Expenditures	<u>\$ 13,409,301</u>	<u>\$ 12,695,513</u>	<u>\$ 14,276,631</u>	<u>\$ 14,305,065</u>	<u>\$ 14,627,187</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 955,248	\$ 104,831	\$ (1,783,567)	\$ (1,626,517)	\$ (1,533,491)
Other Financing Sources (Uses):					
Transfers In	\$ 1,893,263	\$ 1,231,667	\$ 1,720,853	\$ 1,033,129	\$ 1,063,490
Transfers Out	(47,022)	(312,972)	(158,380)	(570,057)	(151,200)
Proceeds from sale of Capital Assets	23,170	7,250	990,984	-	-
Insurance Proceeds	57,173	58,229	-	-	-
Total Other Financing Sources (Uses)	<u>1,926,584</u>	<u>984,174</u>	<u>2,553,457</u>	<u>463,072</u>	<u>912,290</u>
Beginning Fund Balance	2,854,954	1,765,949	996,059	2,159,504	2,780,705
Ending Fund Balance <sup>(1)</sup>	<u>\$ 5,736,786</u>	<u>\$ 2,854,954</u>	<u>\$ 1,765,949</u>	<u>\$ 996,059</u>	<u>\$ 2,159,504</u>

Source: The City's audited financial statements.

- (1) The City has a policy of maintaining a General Fund balance equal to 25% of total expenditures for a given year, or approximately \$3,352,325 for the fiscal year ending on September 30, 2020. Amounts on deposit in the General Fund that exceed such 25% threshold may be utilized by the City for any lawful purpose, including capital expenditures.

*[The remainder of this page left blank intentionally]*



**TABLE 13 - MUNICIPAL SALES TAX HISTORY**

The State of Texas levies a six and one-quarter percent (6 and ¼%) sales and use tax ("sales tax"). Anderson County (the "County") also levies a one-half of one percent (½%) sales and use tax for County purposes. The State tax, in addition to the County tax, the City's general sales and use taxes and those levied for (i) the City's Type B economic development corporation (the "4B Corp"), (ii) street and road maintenance, and (iii) reduction of ad valorem taxes, result in a total sales tax within the City of eight and one-quarter percent (8 and ¼%), which under current law is the maximum rate that may be collected within a governmental entity.

The City has adopted the provisions of Chapter 321 of the Texas Tax Code, which provides for the maximum levy of a one percent (1%) general sales and use tax which may be used by the City for any lawful purpose except that the City may not pledge any of the anticipated sales tax revenue to secure the payment of notes, bonds, certificates or other indebtedness. Furthermore, the voters of the City have previously approved a one-quarter of one percent (¼%) sales and use tax for the benefit of the 4B Corp, a separate one-eighth of one percent (1/8%) sales and use tax for street maintenance and repair, and a separate one-eighth of one percent (1/8%) sales and use tax to reduce ad valorem property taxes, resulting in a total local sales and use tax imposed by the City of one and one-half percent (1-½%).

Collections and enforcements of the City's sales tax are effected through the offices of the Texas Comptroller of Public Accounts, who remits the proceeds of the sales tax, after deduction of a 2% service fee, to the City monthly. The City then remits 16.66% of such payment to its 4B Corp.

The total gross collections of the City's one percent (1%) general use sales tax, one-quarter of one percent (¼of 1%) 4B Corp sales tax, and one-eighth of one percent (1/8%) sales tax for street maintenance and repair, and one-eighth of one percent (1/8%) sales tax for property tax relief are shown in the table below. **Sales tax proceeds are not pledged for the payment of the Bonds.**

Fiscal Year Ended	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita <sup>(1)</sup>
9/30				
2017	\$5,714,115	90.21%	\$ 0.5861	\$ 310.67
2018	5,848,741	84.34%	0.6066	317.99
2019	5,929,215	86.21%	0.5842	323.89
2020	6,315,949	90.59%	0.6108	348.25
2021	6,418,271 <sup>(2)</sup>	90.78%	0.6207	350.94

(1) Source: Texas Comptroller Website. Excludes the portion collected for the Type 4B Corporation.

(2) Collections as of August 2021.

#### **FINANCIAL MANAGEMENT POLICIES**

**Basis of Accounting** . . . Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental fund types and fiduciary fund types are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available to finance the operations of the current year. Sale tax receipts are considered measurable and available when directly deposited by the State and notification is received by the City. Interest on investments is recorded on the accrual basis in all funds at year end with licenses and fees, permits, fines and forfeitures, rentals and leases, charges for service and miscellaneous revenue recorded as revenue when received in cash since they are generally not measurable until actually received. Inter-governmental revenues received as reimbursements for specific purposes or projects are recognized based upon the expenditures recorded. Inter-governmental revenues received but not earned are recorded as deferred revenues.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Interest on general long-term debt is not accrued but is recorded as an expenditure when due.

All proprietary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

**General Fund Balance** . . . It is the City's objective to maintain an unencumbered fund balance equal to 20% (55 days) of expenditures. If the fund balance is drawn down in any one year, the fund balance will be restored in the following year.

Use of Bond Proceeds . . . It is the City's policy that debt will only be issued to finance long-term capital projects, that debt will not be issued to fund current expenditures, and that debt will not be issued with a maturity longer than the estimated life of the project.

Budgetary Procedures . . . Formal budgetary accounting is employed as a management control for the funds of the City. Budgets are adopted on a basis consistent with generally-accepted accounting principles for General, Special Revenue, Debt Service, and Capital Projects Funds. For monitoring and management purposes, the City also adopts a non-GAAP basis budget for each Enterprise Fund and the Internal Service Funds. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required.

Budget amendments require the approval of the City Council.

## INVESTMENTS

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

**LEGAL INVESTMENTS** . . . Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not

less than “A” or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City’s name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers’ acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

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

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

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

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

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

Under State law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted

investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

**TABLE 14 - CURRENT INVESTMENTS**

As of June 30, 2021 the City's investable funds were invested in the following categories:

Description	Book Value	% of Investments	Market Value	% of Investments
Properity Bank - Cash	\$20,169,949	89.72%	\$20,169,949	89.71%
BNY Mellon - Cash Reserve	219,011	0.97%	219,011	0.97%
TexSTAR - Local Government Investment Pool	454,291	2.02%	454,291	2.02%
FNC - Cash, Money Funds & Bank Deposits	13,711	0.06%	13,711	0.06%
Certificates of Deposit	1,622,953	7.22%	1,627,325	7.24%
Totals	<u>\$22,479,915</u>	<u>100.00%</u>	<u>\$22,484,287</u>	<u>100.00%</u>

## TAX MATTERS

**THE FOLLOWING DISCUSSION OF CERTAIN FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. EACH PROSPECTIVE PURCHASER OF THE CERTIFICATES SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE CERTIFICATES.**

### TAX EXEMPTION

In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not a specific preference item for purposes of the alternative minimum tax.

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

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

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

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



and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates, regardless of the ultimate outcome of the audit.

## **ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS**

### **Collateral Tax Consequences**

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Certificates. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Certificates should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Certificates, received or accrued during the year.

### **Tax Accounting Treatment of Original Issue Premium**

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

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

### **Tax Accounting Treatment of Original Issue Discount**

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

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

The foregoing discussion assumes that (i) the Underwriters has purchased the Certificates for contemporaneous sale to the public and (ii) all of the Original Issue Discount Certificates have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not

more than the initial offering prices thereof stated on the inside cover pages of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Certificates will be offered and sold in accordance with such assumptions.

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

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

#### **Tax Legislative Changes**

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

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system to make such continuing disclosure available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the Tables numbered 1 through 6 and 8 through 14 and in Appendix B. The City will update and provide this information in the numbered Tables within six months after the end of each fiscal year ending in or after 2021 and, if then available, audited financial statements of the City. If audited financial statements are not available when the information is provided, the City will provide audited financial statements within 12 months of the end of the fiscal year, when and if they become available. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, updated unaudited information included in the above-referenced Tables must be provided by March 31 in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

**NOTICES OF CERTAIN EVENTS . . .** The City will file with the MSRB notice of any of the following events with respect to the Certificates in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release,



substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the MSRB.

For these purposes, (A) any event described in the immediately preceding clause (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets of business of the City, and (B) the City intends the words used in clauses (15) and (16) in the immediately preceding paragraph and in the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. The Ordinance defines "Financial Obligation" as (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

**AVAILABILITY OF INFORMATION FROM MSRB . . .** All information and documentation filings required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided by the MSRB, without charge to the general public, at [www.emma.msrb.org](http://www.emma.msrb.org).

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

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

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** Except as described below, during the last five years, the City believes it has complied in all material respects with its prior continuing disclosure agreements made in accordance with the Rule.

In connection with the City's outstanding debt obligations, the City has entered into undertakings to provide certain updated financial information and operating data within six months of the end of the City's fiscal year along with notices of specified material events at required times. In addition, the City has agreed to provide audited financial statements within six months of the end of the fiscal year if the audited financial statements are available by such time. If audited financial statements are not available

by the required time, in connection with certain of those outstanding obligations, the City has agreed to provide unaudited financial statements, and audited financial statements when and if such audited financial statements become available. During the last five years, the City filed certain updated quantitative financial and operating data in the form of certain tables identified for each of the respective debt issuances within six months after the end of each fiscal year (March 31). The respective tables included certain unaudited financial statements and financial information, but such tables were not complete unaudited financial statements. The audited financial statements for the fiscal years ended September 30, 2017 and September 30, 2019 were filed on June 11, 2018 and May 29, 2020, respectively, each more than six months after the end of the respective fiscal years. The City did not file unaudited financial statements for either fiscal year ended September 30, 2017 or September 30, 2019.

Upon issuance of the Certificates, the City will only be required to file audited financial statements within 12 months of the fiscal year end.

## **OTHER INFORMATION**

### **RATING**

The Certificates have been rated "AA" by S&P Global Ratings ("S&P") by virtue of a municipal bond insurance policy to be issued by AGM upon delivery of the Certificates to the Underwriter. See "BOND INSURANCE" herein. The Certificates have been rated "A+" with a stable outlook by S&P without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the views of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by rating company, if in the judgment of company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price of the Certificates.

### **LITIGATION**

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

At the time of the initial delivery of the Certificates, the City will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Certificates or that affects the payment and security of the Certificates or in any other manner questioning the issuance, sale or delivery of said Certificates.

### **REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE**

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

It is the obligation of the Underwriters to register or qualify the sale of the Certificates under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Underwriters' written request and sole expense, in registering or qualifying the Certificates or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the City shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments and investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency (see "OTHER INFORMATION - Ratings" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

No representation is made that the Certificates will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Certificates for such purposes.

#### **LEGAL OPINIONS**

The City will furnish the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State approving the Initial Certificate and to the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bracewell LLP, Bond Counsel, to like effect and to the effect that interest on the Certificates will be excludable from gross income for federal income tax purposes under section 103 of the Code, subject to the matters described under "TAX MATTERS" herein, in substantially the form attached hereto as Appendix D.

Though it represents the Financial Advisor and investment banking firms such as the Underwriters from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in the issuance of the Certificates. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Preliminary Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions and subcaptions "PLAN OF FINANCING" (excluding the information under the subcaption "SOURCES AND USES OF PROCEEDS"), "THE CERTIFICATES" (excluding the information under the subcaptions "CERTAIN CONSIDERATIONS REGARDING FORWARD DELIVERY OF THE CERTIFICATES", "BOOK-ENTRY-ONLY SYSTEM", and "CERTIFICATEHOLDERS' REMEDIES"), "TAX INFORMATION - PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "COMPLIANCE WITH PRIOR UNDERTAKINGS"), "OTHER INFORMATION - REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE", "OTHER INFORMATION - LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", and "OTHER INFORMATION - LEGAL OPINIONS" (excluding the last two sentences of the second paragraph thereof), and such firm is of the opinion that the statements and information relating to the Certificates and the legal issues contained under such captions and subcaptions are an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Certificates, such information conforms to the provisions of the Ordinance. Certain matters relating to the Certificates will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Counsel to the Underwriters, whose fee is contingent upon the sale and delivery of the Certificates.

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

#### **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

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

#### **FINANCIAL ADVISOR**

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

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

#### **UNDERWRITERS FOR THE CERTIFICATES**

The Underwriters have agreed, subject to certain conditions, to purchase the Certificates from the City, at a price of \$ \_\_\_\_\_, representing the par amount thereof, plus a [net] premium of \$ \_\_\_\_\_, less an underwriting discount of \$ \_\_\_\_\_. The Forward Delivery Bond Purchase Agreement for the Certificates provides that the Underwriters will be obligated to purchase all of the Certificates if any Certificates are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions. See also "THE CERTIFICATES – Certain Considerations Regarding Forward Delivery of the Certificates" herein. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates and such public offering prices may be changed, from time to time, by the Underwriters.

Huntington Capital Markets is a trade name under which securities and investment banking products and services of Huntington Bancshares Incorporated and its subsidiaries, including Huntington Securities, Inc. ("HSI"), are marketed. Municipal sales, trading and underwriting services are provided through HSI, which is a broker-dealer registered with the Securities and Exchange Commission.

#### **FORWARD-LOOKING STATEMENTS DISCLAIMER**

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

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

#### **MISCELLANEOUS**

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

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

---

Mayor  
City of Palestine, Texas

ATTEST:

---

City Secretary  
City of Palestine, Texas

**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

## THE CITY

**LOCATION AND SIZE...**The City of Palestine was incorporated in 1871 and is one of the oldest and most historical cities in Texas. It is the county seat of Anderson County and, as the largest city in the county, serves as the retail and medical service hub for the County and surrounding areas. The City has a land area of 17 square miles and is located 50 miles south of Tyler, 110 miles southeast of Dallas, 150 miles northwest from Houston. U.S. Highways 84, 79 and 287 and Texas 155 intersect in the City and provide ready access to Interstate Highways 20 and 45 and links to the major metropolitan areas.

**MAJOR AREA EMPLOYERS...**The Texas Department of Corrections, which houses over 12,000 inmates in the County, provides 21% of the County work force. The Wal-Mart SuperCenter and distribution center and the medical center are also significant employers. Major area employers are:

Name	Nature of Business
Wal-Mart Distribution	Retail Distribution
Palestine Regional Medical & Rehabilitation Center	Medical
Wal-Mart Retail	Retail
Palestine Independent School District	School
Anderson County	County/Government
Union Pacific Railroad	Railroad
City of Palestine	City/Government
Cap Gemini Energy	Call Center
Westwood Independent School District	School
Columbia Scientific Balloon Facility	Aeronautics
Palestine Concrete	Construction
Ben E. Keith	Distributor
Aerospace Fasteners	Aeronautics
Terry Manufacturing	Manufacturing

**TRANSPORTATION...**The City is served by Union-Pacific Railroad, six truck lines, and Greyhound bus line. The City has a Class III Municipal Airport with a 5,000 foot paved and lighted runway, hangars and an Administration Building.

**EDUCATION . . .**Palestine is presently served by two public school districts, Palestine Independent School District and Westwood Independent School District. There are 5,204 students enrolled in seven elementary schools, two middle schools and two high schools. Higher education opportunities include the University of Texas at Palestine and Trinity Valley Community College.

**MEDICAL FACILITIES...**Palestine Regional Medical Center serves the City. The hospital has 244 beds with 90 medical doctors on staff and provides medical, surgical, psychiatric and rehabilitation services.

**RECREATION FACILITIES . . .**The City has an extensive park system which includes four public lakes, a community forest, , tennis courts, walking and bike trails, and an athletic complex with baseball, football and soccer fields. In 1998, a new 21 acre park and adjacent state of the art YMCA facility were completed which added wetland trails, athletic fields, picnic areas and a modern outdoor swimming center.

Gus Engeling Wildlife Management Area, a 11,000 acre game refuge, and Texas State Railroad, a 25 mile rail line with steam powered railroad and park area, both are located in Anderson County. Two large recreational lakes, Lake Palestine and Richland-Chambers Reservoir, are within an hour drive of the City.

**FINANCIAL INSTITUTIONS . . .**Six banks are located in the City: The East Texas National Bank, established 1971; Regions Bank, a successor to First National Bank, established 1887; Capital One Bank, Prosperity Bank, Austin Bank and First Convenience Bank.

**LABOR FORCE STATISTICS . . .**Employment statistics for Anderson County are as follows:

	Average Annual				
	2021 <sup>(1)</sup>	2020	2019	2018	2017
Civilian Labor Force	23,130	23,325	23,913	23,397	23,259
Total Employment	21,758	22,013	23,220	22,675	22,413
Total Unemployment	1,372	1,312	693	722	846
Percent Unemployment	5.9%	5.6%	2.9%	3.1%	3.6%

(1) Averages through June 2021.



**APPENDIX B**

EXCERPTS FROM THE  
CITY OF PALESTINE, TEXAS  
ANNUAL FINANCIAL REPORT  
For the Year Ended September 30, 2020

The information contained in this Appendix consists of excerpts from the City of Palestine, Texas, Annual Financial Report for the Year Ended September 30, 2020, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.



**FRANK CAMPOS & ASSOCIATES, PLLC**  
*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and City Council Members  
City of Palestine, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Palestine, Texas' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas, as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules, and other post-employment benefit schedules on pages 3-9, 55-56, 57-58, and 59-60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Palestine, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2021, on our consideration of the City of Palestine, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Palestine, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Palestine, Texas' internal control over financial reporting and compliance.

*Frank Campos & Associates PLLC*

Frank Campos & Associates, PLLC  
Palestine, Texas  
July 15, 2021

# **CITY OF PALESTINE, TEXAS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **SEPTEMBER 30, 2020**

As management of the City of Palestine, we offer readers of the city's financial statements this narrative overview and analysis of the financial activities of the city for the fiscal year ended September 30, 2020. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

#### **FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the City of Palestine exceeded its liabilities and deferred inflows of resources as of September 30, 2020 by \$36,674,539 (net position). The total net position increased by \$4,457,527 during the year. Of the total net position, \$3,190,516 (unrestricted net position) may be used to meet the governments' ongoing obligations to citizens and creditors. Unrestricted net position increased by \$3,268,144 during the fiscal year.
- As of September 30, 2020, the City of Palestine's Governmental Funds reported combined ending fund balances of \$8,351,008, an increase of \$2,972,432 in comparison with the prior fiscal year.
- Fund Balance for the General Fund increased from \$2,854,954, at September 30, 2019, to \$5,736,786, at September 30, 2020. An increase of \$2,881,832 for the fiscal year ended September 30, 2020.
- The city's total long-term liabilities decreased by \$(3,323,831) during the current fiscal year, which is primarily due to redemption of certificates of obligations and revenue bonds during the year. The city's total bonded debt payable totaled \$13,377,808 as of September 30, 2020.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis serve as an introduction to the City of Palestine's basic financial statements. The City of Palestine's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

#### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the city's finances, in a manner like a private-sector business. The Statement of Net Position presents information on all the city's assets, liabilities, and deferred outflows/inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating. The Statement of Net Position combines and consolidates government funds; current financial resources (short-term expendable resources) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the city's property tax base and the condition of the city's infrastructure (e.g., roads, drainage improvements, storm, and sewer lines, etc.), to assess the overall health or financial condition of the city. The Statement of Activities presents information showing how the city's net position changed during the most recent fiscal year. All the current year's revenues and expenses are considered regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for items that will only result in cash flows in future fiscal periods (for example, levied but uncollected taxes and earned but unused vacation leave). Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting.

In the Statement of Net Position and the Statement of Activities, the city is divided into two kinds of activities:

- **Governmental Activities** – Most of the city's basic services are reported here including general government, community development, fire and rescue, leisure services, maintenance, municipal court, police, and streets and drainage. Interest payments on the city's debt are also reported here. Sales tax, property tax, franchise tax, municipal court fines, and permit fees finance most of these activities.
- **Business-Type Activities** – The city charges a fee to customers to help it cover all or most of the cost of certain services it provides. These services include the city's water distribution, wastewater collection/treatment, sanitation, and retail.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2020**

The government-wide financial statements include not only the city itself (known as the primary government), but also a legally separate entity, Palestine Economic Development Corporation (PEDC), for which the city is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found immediately following this management's discussion and analysis.

**Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds – not the city as a whole. Some funds are required to be established by state law and by bond covenants. However, the city establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The city's two kinds of funds are governmental and proprietary, and they utilize different accounting approaches.

Governmental funds – The majority of the city's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures near-term inflows and outflows of spendable resources. The governmental fund statements provide a detailed short-term view of the city's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources than can be spent in the near future to finance the city's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term impact of the government's near-term financing decisions. The differences between governmental activities reported in the Statement of Net Position and the Statement of Activities and those reported in the governmental fund statement are detailed in the reconciliation following the fund financial statements.

The City of Palestine maintains twenty-two individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the general fund and debt service fund, both of which are considered to be major funds. Data from the other twenty governmental funds are combined into a single, aggregated nonmajor fund presentation.

The City adopts an annual appropriated budget for its general fund and selected special revenue funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

The governmental funds financial statements can be found in the basic financial statements of this report.

Proprietary funds – The city charges customers for the services it provides, whether to outside customers or to other units within the city. These services are generally reported in the proprietary funds. The city maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and wastewater collection/treatment (water and wastewater), solid waste (sanitation), and retail operations (retail). The proprietary fund financial statements provide separate information for the water and wastewater, sanitation, and retail funds.

The city also uses internal service funds to account for its equipment replacement services, health insurance, and unemployment. These internal service funds have been included within governmental activities in the government-wide financial statements.

The proprietary funds financial statements can be found in the basic financial statements of this report.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2020**

**Other Information**

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB requires includes budgetary comparison schedules for the general fund and debt service fund, schedule of changes in pension liability and related ratios, schedule of pension contributions, and schedules of changes in Other Post-Employment Benefits (OPEB) liabilities and related ratios. RSI can be found after the basic financial statements.

**Government-wide Overall Financial Analysis**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the city, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$36,674,539, at the close of the most recent fiscal year.

*Summary of Statement of Net Position*

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 10,172,571	\$ 7,153,663	\$ 9,310,282	\$ 8,509,973	\$ 19,482,853	\$ 15,663,636
Capital assets	18,207,105	17,234,452	26,864,885	27,001,126	45,071,990	44,235,578
Total assets	28,379,676	24,388,115	36,175,167	35,511,099	64,554,843	59,899,214
 Total deferred outflows of resources	 1,618,378	 3,200,541	 361,825	 752,344	 1,980,203	 3,952,885
 Current and other liabilities	 1,063,307	 963,027	 1,171,687	 1,028,359	 2,234,994	 1,991,386
Long-term liabilities	18,312,755	19,977,179	6,755,419	8,414,826	25,068,174	28,392,005
Total liabilities	19,376,062	20,940,206	7,927,106	9,443,185	27,303,168	30,383,391
 Total deferred inflows of resources	 2,101,666	 1,010,510	 455,673	 241,186	 2,557,339	 1,251,696
 Net Position:						
Net investment in capital assets	9,066,858	8,786,115	21,664,885	20,763,626	30,731,743	29,549,741
Restricted	1,536,340	1,538,169	1,215,940	1,206,730	2,752,280	2,744,899
Unrestricted	(2,082,872)	(4,686,344)	5,273,388	4,608,716	3,190,516	(77,628)
Total net position	<u>\$ 8,520,326</u>	<u>\$ 5,637,940</u>	<u>\$ 28,154,213</u>	<u>\$ 26,579,072</u>	<u>\$ 36,674,539</u>	<u>\$ 32,217,012</u>

By far, the largest portion of the city's net position (83.8%) reflects its net investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. The city uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the city's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the city's net position (7.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,190,516 is unrestricted and may be used to meet the city's ongoing obligations to its citizens and creditors.

At the end of the fiscal year, the city is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities, except for unrestricted net position for governmental activities. This category is negative for the third time (it was also negative at the end of last FY) as a result of including the city's total OPEB liability in both the prior and current year.

The city's overall net position increased \$4,457,527 over the prior year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.



**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2020**

*Summary of Statement of Activities*

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 853,614	\$ 825,140	\$ 13,374,427	\$ 11,839,027	\$ 14,228,041	\$ 12,664,167
Operating grants and contributions	1,582,343	608,039	-	47,750	1,582,343	655,789
Capital grants and contributions	103,984	281,282	200,000	-	303,984	281,282
General revenues:						
Property taxes	7,047,072	7,072,216	-	-	7,047,072	7,072,216
Sales taxes	5,842,057	5,602,207	-	-	5,842,057	5,602,207
Franchise taxes	989,298	1,042,241	-	-	989,298	1,042,241
Investment earnings	86,482	151,108	82,446	100,650	168,928	251,758
Gain (loss) on sale of assets	193,505	6,321	(1,399)	-	192,106	6,321
Gain (loss) on impairment of assets	-	47,567	-	(3,648)	-	43,919
Miscellaneous other income	59,667	8,629	-	-	59,667	8,629
Total revenues	<u>16,758,022</u>	<u>15,644,750</u>	<u>13,655,474</u>	<u>11,983,779</u>	<u>30,413,496</u>	<u>27,628,529</u>
Expenses:						
General government	1,979,943	1,838,526	-	-	1,979,943	1,838,526
Public safety	8,252,405	8,466,414	-	-	8,252,405	8,466,414
Community services	4,004,246	3,748,112	-	-	4,004,246	3,748,112
Community development	1,479,321	2,155,926	-	-	1,479,321	2,155,926
Interest on long-term debt	331,368	314,411	-	-	331,368	314,411
Water and wastewater	-	-	6,683,034	6,714,535	6,683,034	6,714,535
Sanitation	-	-	2,838,445	3,033,192	2,838,445	3,033,192
Retail	-	-	387,207	417,092	387,207	417,092
Total expenses	<u>16,047,283</u>	<u>16,523,389</u>	<u>9,908,686</u>	<u>10,164,819</u>	<u>25,955,969</u>	<u>26,688,208</u>
Increase (decrease) in net assets before transfers	710,739	(878,639)	3,746,788	1,818,960	4,457,527	940,321
Transfers	2,171,647	1,094,479	(2,171,647)	(1,094,479)	-	-
Change in net position	2,882,386	215,840	1,575,141	724,481	4,457,527	940,321
Net position - beginning of year	5,637,940	5,128,464	26,579,072	25,827,429	32,217,012	30,955,893
Prior period adjustment	-	293,636	-	27,162	-	320,798
Net position - end of year	<u>\$ 8,520,326</u>	<u>\$ 5,637,940</u>	<u>\$ 28,154,213</u>	<u>\$ 26,579,072</u>	<u>\$ 36,674,539</u>	<u>\$ 32,217,012</u>

**Governmental Activities.** During the current fiscal year, net position for governmental activities increased \$2,882,386 over the prior fiscal year for an ending balance of \$8,520,326. The increase in net position is primarily caused by the increase in operating contributions and transfers from business-type activities.

**Business-type Activities.** For the city's business-type activities, the results for the current fiscal year increased net position to an ending balance of \$28,154,213. The total increase in net position for business-type activities was \$1,575,141 or 5.9% over the prior fiscal year. The increase is primarily caused by various water rate increases and lowered expenses.

**Financial Analysis of Governmental Funds**

As noted earlier, the city uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2020**

**Governmental Funds.** The focus of the city's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the city's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the city itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the city council.

As of year-end, the city's governmental funds reported combined fund balances of \$8,351,008, an increase of \$2,972,432 in comparison with the prior year. Approximately, 66.0% of this amount, or \$5,509,918, constitutes unassigned fund balance, which is available for spending at the city's discretion. The remainder of the fund balance is either nonspendable, restricted, or committed to indicate that it is 1) not in spendable form (\$236,757), 2) restricted for a particular purpose (\$1,536,340), or 3) committed to a particular purpose (\$1,067,993).

The general fund is the chief operating fund of the city. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,509,918, while total fund balance increased to \$5,736,786. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 41.1% of total general fund expenditures, while total fund balance represents approximately 42.8% of the same amount.

The fund balance of the city's general fund increased by \$2,881,832 during the current fiscal year. The increase is due to growth in property and sales tax collections, state and federal grants received, and increased transfers to the general fund from other funds.

The debt service fund, a major fund, had a \$191,078 decrease in fund balance to bring the year end fund balance to \$333,047. The decrease in fund balance was the result of debt service payments exceeding the amount of property taxes restricted for debt service collected in the current year. This was a planned draw down of excess fund balance.

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

Unrestricted net position of the water and wastewater fund at the end of the year was \$4,412,887. The total net position for this fund was \$23,752,017. This is an increase of \$2,017,562, or 9.3%, over prior fiscal year. The increase in net position was the result of higher charges for utility services and decreases in operational expenses.

Unrestricted net position of the sanitation fund at the end of the year was \$265,926. The total net position for this fund was \$726,087. This is a decrease of (\$617,955), or (46.0%), from prior fiscal year. The decrease in net position was the result of a transfer of fund balance from this fund to the general fund.

Unrestricted net position of the retail fund at the end of the year was \$594,575. The total net position for this fund was \$3,676,109. This is an increase of \$175,534, or 5.0%, over prior fiscal year. The increase in net position was the result of higher charges for services and other operating revenues and decreased operating expenses.

**General Fund Budgetary Highlights**

During the year, there was no need for any significant amendments to increase either the original estimated revenues or original budgeted appropriations.

For fiscal year 2020, actual revenues were \$14,364,549, with budgeted revenues being \$13,190,619, a positive variance of \$1,173,930. The primary cause of this variance is receipt of state and federal grant revenue followed by increased sales tax receipts.

For fiscal year 2020, actual expenditures in the general fund were \$13,409,301 compared to the budget amount of \$14,884,217, a positive variance of \$1,474,916. Due to cost reduction strategies, general government expenditures were under budget by \$197,955, public safety expenditures were under budget by \$479,230, community services expenditures were under budget by \$625,552, and community development expenditures were under budget by \$172,179. Furthermore, projects were delayed as a result of the COVID-19 pandemic and then were further hindered by the weather.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2020**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The city's investment in capital assets for its governmental and business-type activities as of September 30, 2020, amounts to \$45,071,990 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, and the water and wastewater system. The total increase in capital assets for the current year was 1.9%.

*Capital Assets*

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 1,838,207	\$ 1,838,407	\$ 1,800,468	\$ 1,800,468	\$ 3,638,675	\$ 3,638,875
Construction in progress	-	18,524	1,399,631	660,033	1,399,631	678,557
Buildings	1,060,798	1,120,907	2,122,901	2,326,518	3,183,699	3,447,425
Improvements	2,130,523	2,325,342	42,999	82,120	2,173,522	2,407,462
Machinery & equipment	4,748,827	3,263,686	1,001,819	994,337	5,750,646	4,258,023
Infrastructure	8,428,750	8,667,586	20,497,067	21,137,650	28,925,817	29,805,236
Total capital assets, net	<u>\$ 18,207,105</u>	<u>\$ 17,234,452</u>	<u>\$ 26,864,885</u>	<u>\$ 27,001,126</u>	<u>\$ 45,071,990</u>	<u>\$ 44,235,578</u>

Major capital assets events during the current fiscal year included the following:

- purchase of equipment,
- infrastructure improvements,
- acquisition of a fire truck, asphalt recycler and paver, and utility equipment through capital leases,
- acquisition of several vehicles through capital leases,
- beginning of the water treatment plant generator project and hospital lift station and sewer force upgrade project,
- sale of several vehicles, and
- sale of the civic center.

More detailed information about the city's capital assets is presented in Note III-E to the financial statements.

**DEBT ADMINISTRATION**

At the end of the current year, the city had total certificates of obligation of \$8,093,000, total revenue bonds of \$3,260,000, and total financing capital leases of \$2,024,808. The city redeemed \$1,293,000 of certificates of obligation and \$827,500 of revenue bonds during the year.

The following table reflects the summary schedule of the city's outstanding debt at yearend:

*Long-term Debt*

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Certificates of obligation	\$ 6,153,000	\$ 7,236,000	\$ 1,940,000	\$ 2,150,000	\$ 8,093,000	\$ 9,386,000
Revenue bonds	-	-	3,260,000	4,087,500	3,260,000	4,087,500
Financing capital leases	2,024,809	636,383	-	-	2,024,809	636,383
Total long-term debt	<u>\$ 8,177,809</u>	<u>\$ 7,872,383</u>	<u>\$ 5,200,000</u>	<u>\$ 6,237,500</u>	<u>\$ 13,377,809</u>	<u>\$ 14,109,883</u>

The city's total debt decreased by (\$732,074) during the current year due to annual principal payments.

The city maintains an "A+" investment grade rating from Standards and Poor's for general obligation debt.

More detailed information about the City's long-term liabilities is presented in Note III-F to the financial statements.

**CITY OF PALESTINE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**  
**SEPTEMBER 30, 2020**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The city's elected and appointed officials considered many factors when setting the fiscal year 2021 budget, tax rates, and fees that will be charged for the business-type activities. Property values decreased approximately (0.01%) for fiscal year 2021; however, total property tax revenue is expected to experience moderate growth in future years. The Texas State Legislature passed Senate Bill 2 in 2019 which imposed a revenue cap on the amount of property tax that can be levied by the city. Since the effective date was January 2020, the fiscal year 2021 budget and tax rate levy were the first to be impacted by the change in law. Due to the passage of Senate Bill 2, there is uncertainty that the city would be able to raise the revenue needed to fund critical operations, however, the city council did not increase the property tax rate, instead the no-new-revenue maintenance and operations rate was passed. Sales tax revenue was up for the fiscal year ended September 30, 2020 and continues to be increased over prior year through the first eight months of fiscal year 2021.
- The general fund's largest single revenue source is property taxes followed by sales taxes. The property tax rate for FY 2020 is \$0.683774 per \$100 valuation, while the rate is increased \$0.002497 over FY 2020's rate, the amount of tax revenue generated is not increased. Of this rate, 81.27% is utilized for general fund activities. The remaining 18.73% is used for paying the city's outstanding debt. The general fund's portion of total property tax revenue for FY 2021 is estimated to be \$5,805,738. Sales tax revenue for FY 2021 is forecasted to be \$4,717,275.
- The largest revenue source for the utility fund is water sales, with projected sales of \$4,087,447 in FY 2021. Water revenue is expected to increase in the future. Fiscal year 2021 will be year three of a five-year water meter replacement project. The new meters capture water usage with a higher degree of accuracy than the old meters. The second largest revenue source for the water and sewer fund is sewer service charges with projected collections of \$2,346,335 in FY 2021.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, at the City of Palestine, 504 N. Queen Street, Palestine, Texas 75801.

***BASIC FINANCIAL STATEMENTS***

# CITY OF PALESTINE, TEXAS

## STATEMENT OF NET POSITION

SEPTEMBER 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	PEDC
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 527,742	\$ 542,509	\$ 1,070,251	\$ 1,337,566
Prepaid items	236,757	6,213	242,970	14,766
Receivables, net of allowance of doubtful accounts	1,994,071	1,361,936	3,356,007	189,941
Investments	4,841,396	5,271,661	10,113,057	-
Due from other governments	884,906	-	884,906	-
Due from primary government	-	-	-	184
Due from component unit	49,577	-	49,577	-
Total current assets	8,534,449	7,182,319	15,716,768	1,542,457
<b>Noncurrent Assets</b>				
Restricted assets:				
Cash and cash equivalents	389,316	464,279	853,595	-
Receivables, net of allowance of doubtful accounts	98,227	-	98,227	-
Investments	1,150,579	995,961	2,146,540	-
Investments	-	667,723	667,723	-
Note receivable, less current portion	-	-	-	100,000
Capital assets:				
Nondepreciable	1,838,207	3,200,100	5,038,307	961,377
Depreciable, net of accumulated depreciation	16,368,898	23,664,785	40,033,683	2,568,663
Total noncurrent assets	19,845,227	28,992,848	48,838,075	3,630,040
Total assets	28,379,676	36,175,167	64,554,843	5,172,497
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pensions	791,848	172,540	964,388	-
Deferred outflows related to OPEBs	826,530	189,285	1,015,815	-
Total deferred outflows of resources	1,618,378	361,825	1,980,203	-
<b>LIABILITIES</b>				
Accounts payable	538,028	851,815	1,389,843	12,855
Accrued liabilities	-	-	-	-
Accrued wages payable	254,612	51,533	306,145	-
Accrued interest payable	74,975	23,054	98,029	6,787
Due to other governments	195,508	-	195,508	-
Due to primary government	-	-	-	49,577
Due to component unit	184	-	184	-
Unearned revenue	-	-	-	1,500
Customer deposits	-	245,285	245,285	-
Noncurrent liabilities:				
Due within one year	2,092,657	1,009,611	3,102,268	285,000
Due in more than one year	16,220,098	5,745,808	21,965,906	1,310,687
Total liabilities	19,376,062	7,927,106	27,303,168	1,666,406
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pensions	1,460,749	308,123	1,768,872	-
Deferred inflows related to OPEBs	640,917	147,550	788,467	-
Total deferred inflows of resources	2,101,666	455,673	2,557,339	-
<b>NET POSITION</b>				
Net investment in capital assets	9,066,858	21,664,885	30,731,743	1,934,353
Restricted for:				
Debt service	333,047	995,961	1,329,008	-
Capital projects	41,845	219,979	261,824	-
Public safety	208,105	-	208,105	-
Economic development	907,085	-	907,085	-
Community services	46,258	-	46,258	-
Unrestricted	(2,082,872)	5,273,388	3,190,516	1,571,738
Total net position	\$ 8,520,326	\$ 28,154,213	\$ 36,674,539	\$ 3,506,091

See the accompanying Notes to the Financial Statements.



**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	\$ 1,979,943	\$ -	\$ 17,228	\$ -
Public Safety	8,252,405	551,356	1,152,593	60,488
Community Services	4,004,246	159,149	156,760	15,441
Community Development	1,479,321	143,109	255,762	28,055
Interest expense on long-term debt	331,368	-	-	-
Total Governmental Activities	16,047,283	853,614	1,582,343	103,984
Business-type Activities				
Water and Wastewater	6,683,034	9,122,286	-	200,000
Sanitation	2,838,445	3,601,184	-	-
Retail	387,207	650,957	-	-
Total Business-type Activities	9,908,686	13,374,427	-	200,000
Total Primary Government	25,955,969	14,228,041	1,582,343	303,984
Component Unit				
Palestine Economic Development Corp	\$ 1,089,176	\$ 190,282	\$ -	\$ -

General Revenues:

Property taxes  
Sales taxes  
Franchise taxes  
Investment earnings  
Gain (loss) on sale of capital assets  
Miscellaneous other revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - beginning of year

Net Position - end of year

See the accompanying Notes to the Financial Statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business- type Activities	Total	PEDC
\$ (1,962,715)	\$ -	\$ (1,962,715)	\$ -
(6,487,968)	-	(6,487,968)	-
(3,672,896)	-	(3,672,896)	-
(1,052,395)	-	(1,052,395)	-
(331,368)	-	(331,368)	-
(13,507,342)	-	(13,507,342)	-
-	2,639,252	2,639,252	-
-	762,739	762,739	-
-	263,750	263,750	-
-	3,665,741	3,665,741	-
(13,507,342)	3,665,741	(9,841,601)	-
-	-	-	(898,894)
7,047,072	-	7,047,072	-
5,842,057	-	5,842,057	1,069,949
989,298	-	989,298	-
86,482	82,446	168,928	16,767
193,505	(1,399)	192,106	-
59,667	-	59,667	1,649
2,171,647	(2,171,647)	-	-
16,389,728	(2,090,600)	14,299,128	1,088,365
2,882,386	1,575,141	4,457,527	189,471
5,637,940	26,579,072	32,217,012	3,316,620
\$ 8,520,326	\$ 28,154,213	\$ 36,674,539	\$ 3,506,091

# CITY OF PALESTINE, TEXAS

## BALANCE SHEET GOVERNMENTAL FUNDS SEPTEMBER 30, 2020

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,350	\$ -	\$ 300,793	\$ 302,143
Restricted cash and cash equivalents	-	70,598	318,718	389,316
Prepaid items	226,868	-	9,889	236,757
Receivables, net of allowance for estimated uncollectible accounts	1,897,342	-	94,971	1,992,313
Restricted receivables, net of allowance for estimated uncollectible accounts	-	48,574	49,653	98,227
Investments	4,091,396	-	750,000	4,841,396
Restricted investments	-	258,144	892,435	1,150,579
Due from other governments	862,441	-	22,465	884,906
Due from component unit	49,577	-	-	49,577
Total assets	<u>\$ 7,128,974</u>	<u>\$ 377,316</u>	<u>\$ 2,438,924</u>	<u>\$ 9,945,214</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 395,430	\$ -	\$ 149,470	\$ 544,900
Accrued wages payable	251,770	-	2,842	254,612
Due to other governments	39,245	-	5,253	44,498
Due to component unit	-	-	184	184
Total liabilities	<u>686,445</u>	<u>-</u>	<u>157,749</u>	<u>844,194</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	252,712	44,269	-	296,981
Unavailable revenue - fines	453,031	-	-	453,031
Total deferred inflows of resources	<u>705,743</u>	<u>44,269</u>	<u>-</u>	<u>750,012</u>
<b>FUND BALANCES</b>				
<b>Nonspendable:</b>				
Prepaid items	226,868	-	9,889	236,757
<b>Restricted for:</b>				
Economic development	-	-	907,085	907,085
Debt service	-	333,047	-	333,047
Capital projects	-	-	41,845	41,845
Public safety	-	-	208,105	208,105
Community services	-	-	46,258	46,258
<b>Committed for:</b>				
Community forest	-	-	212,575	212,575
Cemetery	-	-	209,453	209,453
Community development	-	-	645,965	645,965
<b>Unassigned</b>	<u>5,509,918</u>	<u>-</u>	<u>-</u>	<u>5,509,918</u>
Total fund balances	<u>5,736,786</u>	<u>333,047</u>	<u>2,281,175</u>	<u>8,351,008</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,128,974</u>	<u>\$ 377,316</u>	<u>\$ 2,438,924</u>	<u>\$ 9,945,214</u>

See the accompanying Notes to the Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2020**

Total fund balances - governmental funds balance sheet	\$ 8,351,008
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	
Capital assets, non-depreciable	1,838,207
Capital assets, depreciable	14,034,252
Deferred outflows of resources are not available to pay current period expenditures and, therefore, are deferred in the governmental funds financial statements.	
Deferred outflows related to pensions	791,848
Deferred outflows related to OPEBs	78,189
Some revenues will be collected after year end but are not available soon enough to pay current year's expenditures. Therefore, they are not reported in the governmental funds balance sheet.	
Unavailable revenue - property taxes	296,981
Unavailable revenue - fines	453,031
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reportable in the governmental funds financial statements.	
Deferred inflows related to pensions	(1,460,749)
Deferred inflows related to OPEBs	(23,036)
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds.	
Accounts payable	(118,293)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Accrued interest payable liabilities	(65,267)
Noncurrent liabilities due in one year	(1,708,001)
Noncurrent liabilities due in more than one year	(14,606,825)
Internal service funds are used by management to charge the costs of equipment replacement, health insurance, and workers' compensation to individual funds. Assets and liabilities of the internal service funds are included in governmental activities on the statement of net position.	658,981
Net position of governmental activities - statement of net assets	<u>\$ 8,520,326</u>

See the accompanying Notes to the Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 6,265,026	\$ 802,160	\$ -	\$ 7,067,186
Sales	4,844,468	-	997,589	5,842,057
Franchise	998,970	-	-	998,970
Licenses, permits, and fees	143,109	-	-	143,109
Intergovernmental	1,473,620	-	109,872	1,583,492
Charges for services	118,631	-	40,518	159,149
Fines and forfeitures	399,599	-	60,862	460,461
Contributions and donations	23	-	102,812	102,835
Investment	73,235	-	13,247	86,482
Other revenues	47,868	-	11,799	59,667
Total revenues	<u>14,364,549</u>	<u>802,160</u>	<u>1,336,699</u>	<u>16,503,408</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General government	1,867,167	-	2,300	1,869,467
Public safety	7,688,699	-	125,320	7,814,019
Community services	3,115,353	-	125,908	3,241,261
Community development	738,082	-	1,008,268	1,746,350
<b>Debt service:</b>				
Principal	-	1,083,000	-	1,083,000
Interest and fiscal charges	-	259,715	-	259,715
Total expenditures	<u>13,409,301</u>	<u>1,342,715</u>	<u>1,261,796</u>	<u>16,013,812</u>
Excess (deficiency) of revenues over (under) expenditures	<u>955,248</u>	<u>(540,555)</u>	<u>74,903</u>	<u>489,596</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance proceeds from impairment of capital assets	57,173	-	-	57,173
Proceeds from sale of capital assets	23,170	-	207,876	231,046
Transfers in	1,893,263	527,852	47,762	2,468,877
Transfers out	(47,022)	(178,375)	(48,863)	(274,260)
Total other financing sources (uses)	<u>1,926,584</u>	<u>349,477</u>	<u>206,775</u>	<u>2,482,836</u>
Net change in fund balances	2,881,832	(191,078)	281,678	2,972,432
Fund balances - beginning of year	2,854,954	524,125	1,999,497	5,378,576
Fund balances - end of year	<u>\$ 5,736,786</u>	<u>\$ 333,047</u>	<u>\$ 2,281,175</u>	<u>\$ 8,351,008</u>

See the accompanying Notes to the Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Net change in fund balances - total governmental funds \$ 2,972,432

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	529,770
Depreciation	(1,230,132)

Net effect of various transactions involving capital assets (e.g., sales, trade-ins disposals, impairments, and donations) is to decrease net position.	(100,125)
---	-----------

Some revenues will be collected after year end, but are not available soon enough to pay current year's expenditures and they are not reported in the governmental funds balance sheet.	61,109
---	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	1,787
---	-------

The issuance of long-term debt (e.g., bonds, certificates of obligation, etc.) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal expenditures	1,083,000
Interest expense	(31,485)
Change in compensated absences	(97,903)
Change in claims and judgements	(77,256)

Governmental funds report all payments to pension benefits as expenditures. However, in the government-wide statement of activities the pension expense is actuarially determined.

(Increase) decrease in net pension liability	2,662,105
(Increase) decrease in deferred inflows related to pensions	(1,197,935)
Increase (decrease) in deferred outflows related to pensions	(1,524,144)

Governmental funds report all payments to OPEB benefits as expenditures. However, in the government-wide statement of activities the OPEB expense is actuarially determined.

(Increase) decrease in total OPEB liability	(91,088)
(Increase) decrease in deferred inflows related to OPEBs	(18,959)
Increase (decrease) in deferred outflows related to OPEBs	56,142

Internal service funds are used by management to charge the costs of certain capital assets to individual funds. The net revenue is reported with governmental activities.	(114,932)
--	-----------

Change in net position of governmental activities - statement of activities	\$ 2,882,386
---	--------------

See the accompanying Notes to the Financial Statements.



# CITY OF PALESTINE, TEXAS

## STATEMENT OF FUND NET POSITION

### PROPRIETARY FUNDS

SEPTEMBER 30, 2020

	Enterprise Funds			
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds
				Internal Service Funds
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 286,923	\$ -	\$ 255,586	\$ 542,509
Prepaid items	6,213	-	-	6,213
Receivables, net of allowance for estimated uncollectible accounts	966,587	365,639	29,710	1,361,936
Investments	4,724,791	231,047	315,823	5,271,661
Due from other funds	-	26	-	26
Total current assets	5,984,514	596,712	601,119	7,182,345
<b>Noncurrent Assets:</b>				
Restricted cash and cash equivalents	464,279	-	-	464,279
Restricted investments	995,961	-	-	995,961
Investments	498,443	169,280	-	667,723
Capital assets:				
Nondepreciable	1,446,473	20,281	1,733,346	3,200,100
Depreciable, net of accumulated depreciation	21,876,717	439,880	1,348,188	23,664,785
Total capital assets, net of accumulated depreciation	23,323,190	460,161	3,081,534	26,864,885
Total noncurrent assets	25,281,873	629,441	3,081,534	28,992,848
Total assets	31,266,387	1,226,153	3,682,653	36,175,193
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows related to pension	166,596	5,944	-	172,540
Deferred outflows related to OPEBs	169,534	19,751	-	189,285
Total deferred outflows of resources	336,130	25,695	-	361,825
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable	431,171	414,147	6,497	851,815
Accrued wages payable	48,508	2,978	47	51,533
Accrued interest payable	23,054	-	-	23,054
Due to other funds	26	-	-	26
Customer deposits	245,285	-	-	245,285
Long-term debt - due within one year	1,009,611	-	-	1,009,611
Total current liabilities	1,757,655	417,125	6,544	2,181,324
<b>Noncurrent Liabilities:</b>				
Long-term debt - due in more than one year	5,664,136	81,672	-	5,745,808
Total noncurrent liabilities	5,664,136	81,672	-	5,745,808
Total liabilities	7,421,791	498,797	6,544	7,927,132
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows related to pension	297,221	10,902	-	308,123
Deferred inflows related to OPEBs	131,488	16,062	-	147,550
Total deferred inflows of resources	428,709	26,964	-	455,673
<b>NET POSITION</b>				
Net investment in capital assets	18,123,190	460,161	3,081,534	21,664,885
Restricted for debt service	995,961	-	-	995,961
Restricted for capital projects	219,979	-	-	219,979
Unrestricted	4,412,887	265,926	594,575	5,273,388
Total Net Position	\$ 23,752,017	\$ 726,087	\$ 3,676,109	\$ 28,154,213

See the accompanying Notes to the Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Enterprise Funds				Internal Service Funds
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds	
<b>OPERATING REVENUES</b>					
Charges for services	\$ 9,121,518	\$ 3,601,184	\$ 471,171	\$ 13,193,873	\$ 414,520
Other operating revenue	768	-	179,786	180,554	41,010
Total operating revenues	9,122,286	3,601,184	650,957	13,374,427	455,530
<b>OPERATING EXPENSES</b>					
Cost of sales and services	2,709,529	2,728,036	275,416	5,712,981	271,442
Personnel	2,091,946	76,516	-	2,168,462	-
Depreciation	1,720,629	45,265	111,593	1,877,487	387,402
Total operating expenses	6,522,104	2,849,817	387,009	9,758,930	658,844
Operating income (loss)	2,600,182	751,367	263,948	3,615,497	(203,314)
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Investment earnings	55,591	24,800	2,055	82,446	-
Interest expense and fiscal charges	(160,930)	-	(2,698)	(163,628)	(40,168)
Loss on sale of capital assets	(1,399)	-	-	(1,399)	35,660
Gain on impairment of capital assets	-	11,372	2,500	13,872	45,383
Other non-operating revenues	200,000	-	-	200,000	-
Total non-operating revenues (expenses)	93,262	36,172	1,857	131,291	40,875
Income (loss) before contributions and transfers	2,693,444	787,539	265,805	3,746,788	(162,439)
Transfers in	-	-	75,200	75,200	178,375
Transfers (out)	(675,882)	(1,405,494)	(165,471)	(2,246,847)	(130,868)
Change in net position	2,017,562	(617,955)	175,534	1,575,141	(114,932)
Net position - beginning of year	21,734,455	1,344,042	3,500,575	26,579,072	773,913
Net position - end of year	\$ 23,752,017	\$ 726,087	\$ 3,676,109	\$ 28,154,213	\$ 658,981

See the accompanying Notes to the Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (Page 1 of 2)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Enterprise Funds			
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds
				Internal Service Funds
<b>Cash Flows from Operating Activities:</b>				
Receipts from customers	\$ 8,849,505	\$ 3,686,302	\$ 620,602	\$ 13,156,409
Receipts from interfund charges	-	-	-	412,762
Other receipts	-	-	-	41,010
Payments to suppliers and service providers	(2,431,157)	(2,715,009)	(278,527)	(5,424,693)
Payments to employees for salaries and benefits	(2,021,203)	(74,801)	(76,248)	(2,172,252)
Payments to other funds for services provided	(67,873)	(78,862)	-	(146,735)
Internal activity - payments from other funds	26	-	-	26
Internal activity - payments to other funds	-	(26)	-	(40,821)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>4,329,298</b>	<b>817,604</b>	<b>265,827</b>	<b>5,412,729</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfer from other funds	-	-	75,200	75,200
Transfer to other funds	(675,882)	(1,405,494)	(165,471)	(2,246,847)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>(675,882)</b>	<b>(1,405,494)</b>	<b>(90,271)</b>	<b>(2,171,647)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Principal paid on capital debt	(920,001)	-	(117,498)	(1,037,499)
Interest and fiscal charges paid on capital debt	(164,125)	-	(2,822)	(166,947)
Proceeds from capital debt	-	-	-	-
Acquisition and construction of capital assets	(1,734,913)	-	(6,333)	(1,741,246)
Proceeds from sale of capital assets	(1,399)	-	-	(1,399)
Insurance proceeds	-	11,372	2,500	13,872
Capital grant contribution	200,000	-	-	200,000
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(2,620,438)</b>	<b>11,372</b>	<b>(124,153)</b>	<b>(2,733,219)</b>
<b>Cash Flows from Investing Activities:</b>				
Interest on investments	55,591	24,800	2,055	82,446
Proceeds from sales and maturities of investments	1,711,056	551,718	202,128	2,464,902
Purchase of investments	(2,270,202)	-	-	(2,270,202)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(503,555)</b>	<b>576,518</b>	<b>204,183</b>	<b>277,146</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>529,423</b>	<b>-</b>	<b>255,586</b>	<b>785,009</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>221,779</b>	<b>-</b>	<b>-</b>	<b>221,779</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 751,202</b>	<b>\$ -</b>	<b>\$ 255,586</b>	<b>\$ 1,006,788</b>
<b>Ending Cash and Cash Equivalents:</b>				
Unrestricted cash and cash equivalents	\$ 286,923	\$ -	\$ 255,586	\$ 542,509
Restricted cash and cash equivalents	464,279	-	-	464,279
	<b>\$ 751,202</b>	<b>\$ -</b>	<b>\$ 255,586</b>	<b>\$ 1,006,788</b>

See the accompanying Notes to the Financial Statements.

# CITY OF PALESTINE, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS (Page 2 of 2)

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Enterprise Funds				Internal
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds	Service Funds
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>					
Operating income (loss)	\$ 2,600,182	\$ 751,367	\$ 263,948	\$ 3,615,497	\$ (203,314)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,720,629	45,265	111,593	1,877,487	387,402
(Increase) Decrease in Operating Assets and Deferred Outflows of Resources:					
Accounts receivable	(266,914)	85,118	(28,630)	(210,426)	(1,758)
Prepaid items	426	-	-	426	9,112
Due from other funds	-	(26)	-	(26)	-
Deferred outflows of resources	317,170	38,594	34,755	390,519	-
Increase (Decrease) in Current Liabilities and Deferred Inflows of Resources:					
Accounts payable and accrued liabilities	(259,987)	(78,815)	(102,257)	(441,059)	144,032
Customer deposits	(5,867)	-	-	(5,867)	-
Due to other governments	-	(28,335)	-	(28,335)	-
Due to other funds	26	-	-	26	(40,821)
Deferred inflows of resources	223,633	4,436	(13,582)	214,487	(110,806)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 4,329,298</u>	<u>\$ 817,604</u>	<u>\$ 265,827</u>	<u>\$ 5,412,729</u>	<u>\$ 183,847</u>
<b>NONCASH FINANCING, CAPITAL, AND INVESTING ACTIVITIES:</b>					
Noncash acquisition of capital assets under leases	\$ -	\$ -	\$ -	\$ -	\$ 592,496
Total noncash financing, capital, and investing activities:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 592,496</u>

See the accompanying Notes to the Financial Statements.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Palestine, Texas (the City) was incorporated in 1871. The City has operated under a "Home Rule Charter" which provides for a Council-Manager form of government.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is also responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: general government, community development, fire and rescue, airport, code enforcement, library, maintenance, municipal court, police, streets and drainage, water distribution, wastewater collection/treatment, sanitation, and retail.

The City is an independent political subdivision of the State of Texas, governed by an elected council and a mayor, and considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Palestine Economic Development Corporation (PEDC), although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are: it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Discretely Presented Component Unit**

The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based upon the aforementioned criteria, the City has one component unit.

The Palestine Economic Development Corporation, Inc. (PEDC) has been included in the reporting entity as a discretely presented component unit. PEDC is a governmental entity that promotes the creation of new and expanded industry and manufacturing activity within the City. PEDC's board of directors is appointed by and serves at the discretion of the City Council. City Council approval is required for the annual budget and the issuance of any debt. In the event of dissolution, any assets of PEDC will be transferred to the City. PEDC makes monthly payments to the City for payroll and other administrative costs. In addition, during the year ended September 30, 2020, PEDC also paid \$133,674 on behalf of the City for various project costs including appraisals, engineering fees, and park improvements. Separate financial statements of the PEDC may be obtained from the Finance Department of the City.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**B. Financial Statement Presentation**

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain requirements of the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components: net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- **Net Investment in Capital Assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**C. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The following is a description of the various funds:



**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**C. Government-Wide and Fund Financial Statements, Continued**

**Governmental Funds**

Governmental funds are those funds through which most governmental functions are typically financed. The proprietary funds used by the City include the following:

**General Fund**

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, community services, and community development.

**Special Revenue Funds**

The special revenue funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

**Debt Service Fund**

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

**Capital Projects Funds**

The capital projects funds are used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The capital projects funds are considered nonmajor funds for reporting purposes.

**Proprietary Funds**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary funds follow GAAP prescribed by the Governmental Accounting Standards Board and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB.

The proprietary funds used by the City include the following:

**Enterprise Funds**

The enterprise funds are used to account for the operations that provide water and wastewater collection, wastewater treatment operations, solid waste collection and disposal, and retail mall operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and wastewater fund, sanitation fund, and retail fund are considered major funds for reporting purposes.

Additionally, the government reports the following fund types:

**Internal Service Funds**

Internal service funds account for services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. These funds account for equipment replacement programs, unemployment insurance, and employee health insurance.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**C. Government-Wide and Fund Financial Statements, Continued**

Neither, fiduciary funds nor component units that are fiduciary in nature, are included in government-wide financial statements.

**D. Measurement Focus and Basis of Accounting**

The government-wide statement of net position and statement of activities, component units, and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Under this basis of accounting, equity consists of net position, and operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental funds. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by provider have been met.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period, are all considered to be susceptible to accrual and, thus, have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The statements of net position, statements of activities, and financial statements of proprietary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation.

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Balance**

**1. Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City maintains a pooled cash and investments account. Each fund whose monies are deposited in the pooled cash and investment account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Balance, Continued**

**1. Deposits and Investments, Continued**

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, investments are recorded at fair value. Consistent with GASB Statement 72, the City categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. A detail of the fair value hierarchy of investments held by the City is disclosed in Note III to the financial statements.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the City is authorized to invest in the following:

- |  |                                     |
|--|-------------------------------------|
| - Direct obligations of the U.S. Government            | - Certificates of Deposit (CDs)     |
| - Money market mutual funds that meet certain criteria | - Collateralized bank accounts      |
| - Statewide investment pools                           | - Obligations of the State of Texas |
| - U.S. and State guaranteed debt                       |                                     |

**2. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government."

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The city provides for an allowance for doubtful accounts based upon the anticipated collectability of each specific account, as determined by experience. All trade receivables are shown net of an allowance for uncollectibles.

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year. Revenue from taxes assessed is recorded as deferred inflows of resources on October 1. The deferred inflows of resources from taxes are then recognized as revenue during the year as the taxes are actually received. All delinquent property taxes receivable are assets of the general and debt service funds.

**3. Inventories and Prepaid Items**

The costs of governmental fund-type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflecting costs applicable to future accounting periods (i.e., prepaid expenditures) are recognized as expenditures when utilized. Prepaid items are accounted for using the consumption method. In governmental funds, reported inventories and prepaid items do not represent available spendable resources and are, therefore, equally offset by a nonspendable fund balance account.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Balance, Continued**

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art, and similar items, as well as capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. Major outlays for capital assets and improvements are capitalized as projects are constructed. Amortization from assets acquired with capital leases is reported as depreciation in proprietary funds.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

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

<u>Asset Description</u>	<u>Estimated Useful Life (in years)</u>
Buildings	20-45
Improvements	15-30
Machinery & equipment	4-35
Water & sewer system	15-30
Infrastructure	30-50

**5. Restricted Assets**

Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

The balances of restricted assets at September 30, 2020 are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Customer deposits	\$ -	\$ 245,285	\$ 245,285
Debt service	377,316	995,961	1,373,277
Special revenue purposes	1,218,961	-	1,218,961
Capital projects	41,845	218,994	260,839
Total restricted assets	<u>\$ 1,638,122</u>	<u>\$ 1,460,240</u>	<u>\$ 3,098,362</u>

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Balance, Continued**

**6. Compensated Employee Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment, retirement, or death. The estimated amount of compensation for vested or accumulated vacation, sick, and compensatory time that are not expected to be liquidated with expendable available financial resources are reported as long-term liabilities on the government-wide and proprietary fund financial statements. The estimated amount of compensation is calculated using the pay rates in effect at September 30, 2020 and includes additional amounts for the City's share of social security and Medicare taxes.

**7. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, capital leases payable, pension liability, OPEB liability, and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payments of principal and interest are reported as expenditures. In the governmental funds, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds. For proprietary funds, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Issuance costs are expensed as incurred.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund. Though a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the lesser of the present value of net minimum lease payments or fair value at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

**8. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has two items that qualify for reporting in this category. They are the deferred outflows related to pension and deferred outflows related to OPEBs reported in the government-wide statement of net position and the proprietary funds statement of net position. These deferred outflows are the difference between expected and actual economic experience, the difference in actuarial assumptions, the difference between projected and actual investment earnings, and contributions subsequent to the measurement date. These amounts are deferred and amortized over the actuarial determined recognition period.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Balance, Continued**

**8. Deferred Outflows/Inflows of Resources, Continued**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of deferred inflows. Unavailable revenue, which only arises on a modified accrual basis of accounting, is comprised of property taxes and municipal court revenue and is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows related to pension and OPEBs represent the difference between expected and actual economic experience, difference in actuarial assumptions, and difference between projected and actual investment earnings. These amounts are deferred and amortized over the actuarial determined recognition period.

**9. Fund Balance**

In the fund financial statements, governmental funds report fund balance categorized as nonspendable, restricted, committed, assigned, or unassigned.

- **Nonspendable fund balance** - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).
- **Restricted fund balance** - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.
- **Committed fund balance** - represents amounts that can only be used for specific purposes imposed by an ordinance of the City's highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use by the same type of action previously used to commit those amounts.
- **Assigned fund balance** - represents amounts the City intends to use for specific purposes as expressed by the City Council. The City Council may also assign fund balance when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. This is the residual classification for all governmental funds other than the general fund.
- **Unassigned fund balance** - represents the residual classification for the general fund or deficit balances in other funds.

The City's minimum fund balance policy targets that fund balance shall be maintained at a level of 25 percent of general fund expenditures for the general fund.

When an expenditure is incurred for a purpose for which more than one fund balance classification could be used, the City considers the expenditure to be made from the most restrictive classification first, then the next-most restricted category.

**10. Net Position**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.



**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**E. Assets, Liabilities, Deferred Outflows/Inflows and Net Position or Fund Balance, Continued**

**11. Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**12. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. However, encumbrances in the governmental funds lapse at the end of each year and are re-budgeted during the next fiscal year.

**13. Pensions**

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

**14. Other Post-Employment Benefits**

The City participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel, Roeder, Smith & Company (GRS), in compliance with GASB Statement No. 75. In addition, the City administers a single-employer defined benefit plan, known as the City Retiree Health Care Plan, that allows retirees to pay their premium for continuation of the medical and dental insurance coverage. Information regarding the City's total OPEB liability for this plan is obtained directly from GRS, which is also the City's consulting actuary. The City reports the liabilities for these plans on the government-wide and proprietary fund financial statements.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgets**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt a project length budget. The following special revenue funds have legally adopted budgets: tourism & civic center, municipal court security, municipal court technology, municipal court child safety, police confiscated money, sales tax repairs and maintenance, and special events. In addition, the debt service fund has a legally adopted budget. The special revenue funds are not considered departments for budgetary purposes. The original budget is adopted by the City Council prior to the beginning of the year. Budgetary control is established at the fund level. The City Manager is authorized to transfer appropriations within a department without seeking the approval of City Council provided the transfer does not result in a net increase in total appropriations. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended.

**B. Deficit Fund Balance/Net Position**

For the year ended September 30, 2020, deficit net position of \$273,736 was reported in the health insurance fund.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

At September 30, 2020, the City had the following cash and investments:

Primary Government	
Cash and cash equivalents	\$ 1,070,251
Restricted cash and cash equivalents	853,595
Investments	10,780,780
Restricted investments	<u>2,146,540</u>
Total primary government	14,851,166
Component Unit	
Cash and cash equivalents	<u>1,337,566</u>
Total primary government	1,337,566
Total Cash and Investments	<u><u>\$ 16,188,732</u></u>

**Custodial credit risk.** In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. In compliance with state statutes, the City's investment policy requires funds on deposit at the depository bank to be fully collateralized by securities. As of September 30, 2020, the City and its component unit's deposits were covered by Federal Depository Insurance and by collateral held by a third-party custodian.

In the case of investments, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments include the Texas Short-Term Asset Reserve Investment Pool ("TexSTAR"), U.S. government securities, and certificates of deposit.

**Credit risk.** This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. As of September 30, 2020, the City's investments in TexSTAR were rated AAAM by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency.

**Interest rate risk.** This is the risk that changes in interest rates will adversely affect the fair value of investments. The City has investments in certificates of deposit with staggered maturity dates and has invested in TexSTAR. This strategy protects the City's investments from changes in market valuation and from unanticipated rate movements.

**Foreign currency risk.** This is the risk that exchange rates will adversely affect the fair value of an investment. The City is not exposed to foreign currency risk.

**Concentration of credit risk.** This is the risk of loss attributed to the magnitude of the City's investment in a single issuer (i.e., lack of diversification). The City attempts to avoid over-investment in local government pools and matches a portion of its investments with anticipated cash flow requirements.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**A. Deposits and Investments, Continued**

At yearend, the City's investment balances were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)	Credit Risk
Primary government			
TexSTAR	\$ 10,900,520	0.11	AAAm
Certificates of deposit	2,026,800	1.01	N/A
Total primary government	<u>\$ 12,927,320</u>		

**TexSTAR**

The Texas Short Term Asset Reserve Program (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256, of the Texas Government Code. TexSTAR was created in April 2002 through a contract among its participating governmental units, and is governed by a board of directors to provide for the joint investments of participant's public funds and funds under their control. TexSTAR's policy seeks to invest pooled assets in a manner that will provide for preservation and safety of principal and competitive investment returns while meeting the daily liquidity needs of the participants by utilizing economies of scale and professional investment expertise. J.P. Morgan Investment Management Inc. and Hilltop Securities Inc. serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors. Audited financial statements of the investment pool are available by request at [www.texstar.org](http://www.texstar.org).

Although all securities in the investment pool are marked to market daily using the fair value method, amortized cost, which generally approximates the market value, is utilized. If, upon a daily calculation, the investment manager finds that the deviation between the amortized cost and market-determined values or the deviation between market-determined values and \$1.00 per unit of the pool's assets exceeds \$0.0030, it shall promptly notify TexSTAR's board of directors. In the event that the deviation of market-determined values from amortized cost or \$1.00 per unit exceeds \$0.0040, the TexSTAR's board of directors shall direct the investment manager to take such action, if any, as it determines is necessary to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing participants. Notwithstanding the foregoing, absent contrary instructions from TexSTAR's board of directors, the investment manager shall cause the subject investments to be sold promptly to attempt to bring the deviation back within the desired value band. However, the \$1.00 per unit value is not guaranteed or insured by TexSTAR or the co-administrators. There can be no assurance that the Fund will maintain a stable net asset value of \$1.00.

**Certificates of Deposits**

The City holds numerous certificates of deposits with maturities ranging from one month to three years. These certificates are carried at cost. The City management's position is the fair value of the certificates of deposit would not be materially different than cost.

A summary of the City's investments under the requirements of the fair value hierarchy follows:

	Assets at Fair Value as of September 30, 2020			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ -	\$ 2,026,800	\$ -	\$ 2,026,800
Texas Government Investment Pool	-	10,900,520	-	10,900,520
Total Investments	<u>\$ -</u>	<u>\$ 12,927,320</u>	<u>\$ -</u>	<u>\$ 12,927,320</u>

Certificates of deposit categorized as Level 2 are valued by discounting the related cash flows based on current yields similar instruments with comparable durations considering the credit-worthiness of the issuer. U.S. government securities categorized as Level 2 are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Texas government investment pools categorized as Level 2 are based on amortized costs, which generally approximates fair value.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**B. Receivables**

The following comprise receivable balances at yearend:

Taxes and Accounts Receivable	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Water and Wastewater Fund	Sanitation Fund	Retail Fund	Internal Service Funds	Total	Component Unit
Ad valorem tax	\$ 548,014	\$ 86,560	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 634,574	\$ -
Sales tax	860,931	-	94,971	-	-	-	-	955,902	189,941
Franchise tax	280,982	-	-	-	-	-	-	280,982	-
Municipal court	1,448,330	-	-	-	-	-	-	1,448,330	-
Due from other governments	862,441	-	22,465	-	-	-	-	884,906	-
Due from other agencies	-	-	49,263	-	-	-	-	49,263	-
Due from component unit	49,577	-	-	-	-	-	-	49,577	-
Accounts	20,821	-	390	1,081,131	503,980	55,716	1,758	1,663,796	-
Gross receivables	4,071,096	86,560	167,089	1,081,131	503,980	55,716	1,758	5,967,330	189,941
Less: allowance for uncollectibles	(1,261,736)	(37,986)	-	(114,544)	(138,341)	(26,006)	-	(1,578,613)	-
Total taxes and accounts receivable, net	\$ 2,809,360	\$ 48,574	\$ 167,089	\$ 966,587	\$ 365,639	\$ 29,710	\$ 1,758	\$ 4,388,717	\$ 189,941

**C. Operating Leases**

Operating Leases - City is Lessee

The City is obligated under multiple operating leases for copiers, printers, and mail machines. These leases are considered to be operating for accounting purposes. Lease expenditures for this equipment for the year excluding maintenance agreements totaled \$32,448. Monthly rental amounts range from \$74 to \$528. The terms of leases range from 48 months to 60 months. Future minimum lease payments on non-cancelable leases are as follows:

Year	Amount
2021	\$ 29,301
2022	21,554
2023	12,602
2024	2,340
2025	780
Total	<u>\$ 66,577</u>

Operating Leases - City is Lessor

The City has leasing arrangements with 9 tenants in the City-owned mall. The terms of lease arrangements range from month-to-month to 60 months. Monthly rental amounts range from \$250 to \$14,999. Future minimum rentals on non-cancelable leases are as follows:

Year	Amount
2021	\$ 52,412
2022	50,337
2023	51,426
2024	35,443
2025	3,266
Total	<u>\$ 192,884</u>

The cost of the mall, excluding the city library in the mall, is \$4,158,319. The total amount of accumulated depreciation on the mall is \$1,083,118, resulting in a net book value of \$3,081,534 as of September 30, 2020, which is recorded in retail fund capital assets.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**C. Operating Leases, Continued**

Operating Leases – PEDC is Lessor

In March of 2016, the Palestine Economic Development Corporation entered into a lease agreement to rent one of its buildings at the Willow Creek Business Park to a third party (tenant). The term of the lease is five years, but the tenant has the right to terminate the lease prior to expiration of the term but no earlier than the 36<sup>th</sup> month of the lease term by giving a 120 days advance notice and paying an early termination fee of \$206,739. Rent is received in equal monthly installments of \$16,321.50 per month for the first year and \$17,228.25 per month for years two through five. In addition, as an incentive to the tenant, rent for the following months is abated: year one, month 12; year 4, month 1; year 5, month 1. The cost of the building is \$3,454,979, and the total amount of accumulated depreciation is \$1,270,085, resulting in a net book value of \$2,184,894 as of September 30, 2020.

In February of 2019, the Palestine Economic Development Corporation also entered into a lease agreement to rent office space at the Willow Creek Business Park to a third party. The original term of the lease was twelve months, but the tenant exercised its option to extend the lease beyond the expiration date on a month-to-month basis. Rent is received in equal monthly installments of \$1,500 per month. In addition, a security deposit of \$1,500 was received at the inception of the lease. The cost of the building is \$410,586, and the total amount of accumulated depreciation is \$61,588, resulting in a net book value of \$348,998 as of September 30, 2020.

**D. Capital Leases**

In December of 2018, the City (lessee) entered into a master equity lease agreement with Enterprise FM Trust (lessor) for the leasing of various vehicles. As of September 30, 2019, the City leased 40 vehicles from Enterprise FM Trust. The term of the lease for each vehicle is 60 months and begins on the date each vehicle is delivered to the City. Payments are made monthly and range from \$298 to \$849 with interest rates ranging from 0.88% to 6.33%. The total outstanding balance of these capital leases as of September 30, 2020 was \$962,439.

At the end of the lease term for each vehicle, the City has agreed to pay Enterprise FM Trust the excess, if any, of the book value of the vehicle over the wholesale value of the vehicle as determined by the lessor in good faith. If the book value of the vehicle is less than the wholesale value of the vehicle as determined by the lessor in good faith, the lessor agrees to pay the City the deficiency as a terminal rental adjustment within thirty days after the end of the term. The City is responsible for repairing and maintaining the vehicles in good condition. The City has a separate maintenance agreement with Enterprise Fleet Management for vehicles leased from Enterprise FM Trust. Any alternations, additions, and replacement parts or improvements to the vehicles will become and remain the property of Enterprise FM Trust. As long as no event of default has occurred, the City has the right to remove any additional equipment installed prior to returning the vehicles to Enterprise FM Trust. The City is also obligated to have commercial automobile liability insurance and physical damage insurance for each vehicle under this lease.

Total vehicles acquired through these capital leases and recorded in capital assets in the equipment replacement fund is as follows:

Machinery and equipment	\$ 1,155,487
Less: accumulated depreciation	(174,964)
Total	<u>\$ 980,523</u>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**D. Capital Leases, Continued**

Future minimum lease obligations as of September 30, 2020 are as follows:

	Year Ended September 30	Payments
	2021	\$ 250,978
	2022	250,978
	2023	250,977
	2024	230,393
	2025	52,256
Total Minimum Lease Payments		1,035,582
Less: Amount Representing Interest		(73,143)
Present Value of Net Minimum Lease Payments		<u>\$ 962,439</u>

**E. Capital Assets**

A summary of changes in capital assets for the yearend were as follows:

<b>Governmental Activities:</b>	Beginning	Increases	Decreases	Ending
Capital assets not being depreciated:				
Land	\$ 1,838,407	\$ -	\$ (200)	\$ 1,838,207
Construction-in-progress	18,524	394,579	(413,103)	-
Total assets not being depreciated	<u>\$ 1,856,931</u>	<u>\$ 394,579</u>	<u>\$ (413,303)</u>	<u>\$ 1,838,207</u>
Capital assets being depreciated:				
Buildings	\$ 5,568,358	\$ -	\$ (2,297,291)	\$ 3,271,067
Improvements	10,523,497	32,000	(287,390)	10,268,107
Machinery and Equipment	12,799,413	2,274,097	(1,174,526)	13,898,984
Infrastructure	32,877,379	413,103	-	33,290,482
Total assets being depreciated	61,768,647	2,719,200	(3,759,207)	60,728,640
Accumulated depreciation:				
Buildings	(4,447,451)	(47,472)	2,284,654	(2,210,269)
Improvements	(8,198,155)	(175,725)	236,296	(8,137,584)
Machinery and Equipment	(9,535,727)	(742,399)	1,127,968	(9,150,158)
Infrastructure	(24,209,793)	(651,938)	-	(24,861,731)
Total accumulated depreciation	<u>(46,391,126)</u>	<u>(1,617,534)</u>	<u>3,648,918</u>	<u>(44,359,742)</u>
Net capital assets being depreciated	<u>\$ 15,377,521</u>	<u>\$ 1,101,666</u>	<u>\$ (110,289)</u>	<u>\$ 16,368,898</u>



**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**E. Capital Assets, Continued**

Total governmental activities capital assets, net of accumulated depreciation	\$ 18,207,105
Less associated debt	<u>(9,140,247)</u>
Net Investment in Capital Assets	<u>\$ 9,066,858</u>

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 131,583
Public safety	581,304
Community services	866,307
Community development	<u>38,340</u>
Total governmental activities depreciation expense	<u>\$ 1,617,534</u>

<b>Business-type Activities:</b>	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Capital assets not being depreciated:				
Land	\$ 1,800,468	\$ -	\$ -	\$ 1,800,468
Construction-in-progress	660,033	1,547,955	(808,356)	1,399,632
Total assets not being depreciated	<u>\$ 2,460,501</u>	<u>\$ 1,547,955</u>	<u>\$ (808,356)</u>	<u>\$ 3,200,100</u>
Capital assets being depreciated:				
Buildings	\$ 10,520,820	\$ 17,833	\$ -	\$ 10,538,653
Improvements	118,066	-	-	118,066
Machinery and Equipment	1,709,972	200,601	(30,107)	1,880,466
Infrastructure	48,703,649	783,213	-	49,486,862
Total assets being depreciated	<u>61,052,507</u>	<u>1,001,647</u>	<u>(30,107)</u>	<u>62,024,047</u>
Accumulated depreciation:				
Buildings	(8,194,302)	(221,450)	-	(8,415,752)
Improvements	(35,946)	(39,121)	-	(75,067)
Machinery and Equipment	(715,635)	(193,119)	30,107	(878,647)
Infrastructure	(27,565,999)	(1,423,797)	-	(28,989,796)
Total accumulated depreciation	<u>(36,511,882)</u>	<u>(1,877,487)</u>	<u>30,107</u>	<u>(38,359,262)</u>
Net capital assets being depreciated	<u>\$ 24,540,625</u>	<u>\$ (875,840)</u>	<u>\$ -</u>	<u>\$ 23,664,785</u>

Total business-type activities capital assets, net of accumulated depreciation	\$ 26,864,885
Less associated debt	<u>(5,200,000)</u>
Net Investment in Capital Assets	<u>\$ 21,664,885</u>

Depreciation was charged to business-type activities as follows:

Business-type activities:	
Water and wastewater	\$ 1,720,629
Sanitation	45,265
Retail	<u>111,593</u>
Total business-type activities depreciation expense	<u>\$ 1,877,487</u>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**E. Capital Assets, Continued**

**Component Unit**

A summary of changes in capital assets for the yearend were as follows:

<b>Component Unit - PEDC</b>	<b>Beginning</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending</b>
Capital assets not being depreciated:				
Land - developed	\$ 657,189	\$ -	\$ (34,060)	\$ 623,129
Land - undeveloped	338,248	-	-	338,248
Total assets not being depreciated	<u>\$ 995,437</u>	<u>\$ -</u>	<u>\$ (34,060)</u>	<u>\$ 961,377</u>
Capital assets being depreciated:				
Buildings	\$ 4,321,478	\$ -	\$ -	\$ 4,321,478
Improvements	-	-	-	-
Machinery and Equipment	108,646	-	-	108,646
Infrastructure	-	-	-	-
Total assets being depreciated	<u>4,430,124</u>	<u>-</u>	<u>-</u>	<u>4,430,124</u>
Accumulated depreciation:				
Buildings	(1,640,634)	(123,637)	-	(1,764,271)
Improvements	-	-	-	-
Machinery and Equipment	(93,864)	(3,326)	-	(97,190)
Infrastructure	-	-	-	-
Total accumulated depreciation	<u>(1,734,498)</u>	<u>(126,963)</u>	<u>-</u>	<u>(1,861,461)</u>
Net capital assets being depreciated	<u>\$ 2,695,626</u>	<u>\$ (126,963)</u>	<u>\$ -</u>	<u>\$ 2,568,663</u>
Total governmental activities capital assets, net of accumulated depreciation				<u>\$ 3,530,040</u>
Less associated debt				<u>(1,595,687)</u>
Net Investment in Capital Assets				<u>\$ 1,934,353</u>

Depreciation was charged to the component unit as follows:

**Component unit:**

Palestine Economic Development Corporation	<u>\$ 126,963</u>
Total depreciation expense	<u>\$ 126,963</u>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**F. Long-term Debt**

The following is a summary of changes in the City's total governmental long-term liabilities for the year. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

<b>Governmental Activities:</b>	<b>Balance 10/1/2019</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 9/30/2020</b>	<b>Due Within One Year</b>
<b>Debt:</b>					
Certificates of obligation	\$ 4,965,000	\$ -	\$ (935,000)	\$ 4,030,000 *	\$ 960,000
Debt from direct borrowings and direct placements:					
Certificates of obligation	2,271,000	-	(148,000)	2,123,000 *	158,000
Financing capital leases	636,383	1,558,864	(170,439)	2,024,808 *	372,257
Other long-term liabilities:					
Capital leases	575,954	556,277	(169,792)	962,439 *	220,825
Claims and judgements	802,744	77,256	-	880,000	-
Compensated absences	1,204,694	615,089	(517,186)	1,302,597	381,575
Net pension liability	8,465,507	3,711,535	(6,373,640)	5,803,402	-
Total OPEB liabilities	1,055,897	206,392	(75,780)	1,186,509	-
<b>Total long-term liabilities</b>	<b>\$ 19,977,179</b>	<b>\$ 6,725,413</b>	<b>\$ (8,389,837)</b>	<b>\$ 18,312,755</b>	<b>\$ 2,092,657</b>
Long-term liabilities due in more than one year				\$ 16,220,098	
* Long-term liabilities associated with capital assets				\$ 9,140,247	

Governmental long-term debt was comprised of the following at September 30, 2020.

<b>Description</b>	<b>Governmental Activities</b>				
	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Pledged Collateral</b>	<b>Pledged Revenue</b>	<b>Outstanding Balance</b>
<b>Certificates of Obligation:</b>					
Series 2008	2/15/2028	3.874%	Ad valorem tax revenue	\$ 1,168,580	\$ 1,005,000
Series 2010B	2/15/2030	2%-4.125%	Ad valorem tax revenue	2,882,053	2,370,000
Series 2014	2/15/2021	1.750%	Ad valorem tax revenue	660,731	655,000
<b>Certificates of Obligation from Direct Placements:</b>					
Series 2010A Taxable	2/15/2030	4.500%	Ad valorem tax revenue	1,807,694	1,446,000
Series 2010A Non-taxable	2/15/2030	4.500%	Ad valorem tax revenue	842,463	677,000
<b>Financing Capital Leases from Direct Borrowings:</b>					
Southside Bank	3/31/2021	2.370%	Ad valorem tax revenue	109,550	107,014
Southside Bank	4/11/2026	3.247%	Ad valorem tax revenue	412,947	369,802
Leasing 2, Inc.	10/29/2029	2.570%	Fire truck	-	876,461
Leasing 2, Inc.	10/29/2024	2.360%	Asphalt recycler and paver	-	376,577
Leasing 2, Inc.	10/29/2024	2.360%	Utility equipment	-	294,954
<b>Total</b>				<b>\$ 7,884,018</b>	<b>\$ 8,177,808</b>

Certificates of obligation were issued for general infrastructure improvements, water and wastewater system improvements, and various equipment.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**F. Long-term Debt, Continued**

The City is also obligated under two capital leases with Southside Bank and three capital leases with Leasing 2, Inc. that meet the definition of debt from direct borrowings and direct placements as stated in GASB Statement No. 88. The Southside Bank leases are for a fire truck and dispatch communication equipment. The Leasing 2, Inc. leases are for a fire truck, an asphalt recycler and paver, and various utility equipment.

Pledged revenue recognized during the year for governmental debt is equal to principal and interest of \$1,528,462 paid during the fiscal year ended September 30, 2020.

The City incurred and charged to expense \$269,255 in interest expense on governmental activities long-term debt for the fiscal year ended September 30, 2020.

Annual debt service requirements to governmental activities are as follows:

Year Ending September 30	Governmental Activities					
	Certificates of Obligation		Certificates of Obligation from Direct Placements		Financing Capital Leases from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 960,000	\$ 134,128	\$ 158,000	\$ 92,009	\$ 372,257	\$ 52,917
2022	320,000	116,039	168,000	84,676	272,171	43,453
2023	335,000	103,087	179,000	76,871	279,282	36,342
2024	340,000	89,738	190,000	68,746	286,583	29,041
2025	355,000	75,992	202,000	59,752	281,861	21,546
2026-2030	1,720,000	162,380	1,226,000	145,103	532,654	38,700
Total	<u>\$ 4,030,000</u>	<u>\$ 681,364</u>	<u>\$ 2,123,000</u>	<u>\$ 527,157</u>	<u>\$ 2,024,808</u>	<u>\$ 221,999</u>

The following is a summary of changes in the City's total business-type long-term liabilities for the year.

Business-type Activities:	Balance 10/1/2019	Increases	Decreases	Balance 9/30/2020	Due Within One Year
Debt:					
Certificates of obligation	\$ 2,150,000	\$ -	\$ (210,000)	\$ 1,940,000 *	\$ 230,000
Revenue bonds	4,087,500	-	(827,500)	3,260,000 *	730,000
Other long-term liabilities:					
Compensated absences	126,901	64,794	(22,334)	169,361	49,611
Net pension liability	1,797,096	780,922	(1,457,693)	1,120,325	-
Total OPEB liabilities	253,329	41,661	(29,257)	265,733	-
Total long-term liabilities	<u>\$ 8,414,826</u>	<u>\$ 887,377</u>	<u>\$ (2,546,784)</u>	<u>\$ 6,755,419</u>	<u>\$ 1,009,611</u>

Long-term liabilities due in more than one year \$ 5,745,808

\* Long-term liabilities associated with capital assets \$ 5,200,000

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**F. Long-term Debt, Continued**

Business-type long-term debt was comprised of the following at September 30, 2020:

Description	Maturity Date	Business-type Activities		Pledged Revenue	Outstanding Balance
		Interest Rate	Pledged Collateral		
Certificates of Obligation:					
Series 2012	8/15/2023	1.58%	Ad valorem tax revenue	\$ 180,530	\$ 175,000
Series 2013	2/15/2028	2.15%	Ad valorem tax revenue	1,931,142	1,765,000
Revenue Bonds:					
Series 2003	7/15/2022	0.00% - 3.10%	Water and sewer revenue	847,620	810,000
Series 2006	7/15/2025	2.15% - 2.95%	Water and sewer revenue	288,638	265,000
Series 2007	7/15/2027	1.85% - 2.65%	Water and sewer revenue	2,073,250	1,875,000
Series 2009	7/15/2029	0.15% - 4.25%	Water and sewer revenue	376,161	310,000
Total				<u>\$ 5,697,341</u>	<u>\$ 5,200,000</u>

Revenue bonds and certificates of obligation were issued for water and wastewater system improvements and facility improvements.

Pledged revenue recognized during the year for this debt is equal to principal and interest of \$1,195,547 paid during the fiscal year ended September 30, 2020.

The City incurred and charged to expense \$154,728 in interest expense on business-type activities long-term debt for the fiscal year ended September 30, 2020.

Annual debt service requirements to business-type activities are as follows:

Year Ending September 30	Business-type Activities			
	Certificates of Obligation		Revenue Bonds	
	Principal	Interest	Principal	Interest
2021	\$ 230,000	\$ 38,885	\$ 730,000	\$ 92,353
2022	235,000	34,175	745,000	71,733
2023	255,000	29,274	345,000	50,285
2024	210,000	23,973	355,000	41,080
2025	225,000	19,296	365,000	31,388
2026-2030	785,000	26,069	720,000	38,830
Total	<u>\$ 1,940,000</u>	<u>\$ 171,672</u>	<u>\$ 3,260,000</u>	<u>\$ 325,669</u>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**F. Long-term Debt, Continued**

The following is a summary of changes in the Palestine Economic Development Corporation's total long-term liabilities for the year:

Component Unit - PEDC	Balance 10/1/2019	Increases	Decreases	Balance 9/30/2020	Due Within One Year
Debt:					
Revenue bonds	\$ 1,928,690	\$ -	\$ (333,003)	\$ 1,595,687 *	\$ 285,000
Total long-term liabilities	<u>\$ 1,928,690</u>	<u>\$ -</u>	<u>\$ (333,003)</u>	<u>\$ 1,595,687</u>	<u>\$ 285,000</u>
Long-term liabilities due in more than one year				<u>\$ 1,310,687</u>	
* Long-term liabilities associated with capital assets				<u>\$ 1,595,687</u>	

The Palestine Economic Development Corporation's long-term debt was comprised of the following at September 30, 2020.

Component Unit - Palestine Economic Development Corporation					
Description	Maturity Date	Interest Rate	Pledged Collateral	Pledged Revenue	Outstanding Balance
Revenue Bonds:					
Series 2012B	8/15/2026	3.35%	Sales tax revenue	\$ 1,438,536	\$ 1,295,687
Series 2016	8/15/2025	3.63%	Sales tax revenue	332,670	300,000
Total				<u>\$ 1,771,206</u>	<u>\$ 1,595,687</u>

Revenue bonds were issued for the acquisition and development of the business park, construction of a commercial office building, and the purchase of another commercial office building.

Pledged revenue recognized during the year is equal to principal and interest of \$397,569 paid during the fiscal year ended September 30, 2020.

The Palestine Economic Development Corporation incurred and charged to expense \$63,281 in interest expense on long-term debt for the fiscal year ended September 30, 2020.

Annual debt service requirements to the Palestine Economic Development Corporation are as follows:

Component Unit - PEDC		
Year Ending September 30	Revenue Bonds	
	Principal	Interest
2021	\$ 285,000	\$ 54,296
2022	290,000	44,580
2023	300,000	34,697
2024	305,000	24,479
2025	315,000	14,094
2026-2030	100,687	3,373
Total	<u>\$ 1,595,687</u>	<u>\$ 175,519</u>

**Federal Arbitrage**

General obligation bonds, combination tax and revenue bonds, and certificates of obligation are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest income tax regulations under those provisions.



**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**F. Long-term Debt, Continued**

**Special Assessment Debt**

The City is not obligated in any manner for special assessment debt.

**G. Interfund Transactions**

The composition of interfund balances as of September 30, 2020 is as follows:

Due to:	Due from	
	Water and Wastewater Fund	Total
Sanitation Fund	\$ 26	\$ 26
Total	\$ 26	\$ 26

All interfund balances are short-term loans to cover operating expenses.

Transfers between funds during the year were as follows:

	Transfers In					Total
	General Fund *	Debt Service Fund	Nonmajor Governmental Funds	Retail Fund	Internal Service Funds	
Transfers Out:						
General Fund	\$ -	\$ -	\$ 47,022	\$ 70,477	\$ -	\$ 117,499
Debt Service Fund	-	-	-	-	178,375	178,375
Nonmajor Governmental Funds	48,123	-	740	-	-	48,863
Water and Wastewater Fund	148,030	527,852	-	-	-	675,882
Sanitation Fund	1,405,494	-	-	-	-	1,405,494
Retail Fund	165,471	-	-	-	-	165,471
Internal Service Funds	126,145	-	-	4,723	-	130,868
Total	\$ 1,893,263	\$ 527,852	\$ 47,762	\$ 75,200	\$ 178,375	\$ 2,722,452

\* Transfers from the retail fund into the general fund do not agree on the fund-level financial statements. Certain employees from the retail funds were reclassified as general fund employees during the year. Their related total OPEB liability balances, which are considered long-term obligations, were transferred from the enterprise fund-level to the general fund government-wide level.

Transfers to the general fund were subsidies for administrative expenditures. Transfers to the debt service fund from the water and wastewater fund were made to cover debt service payments. Transfers from the debt service fund to the equipment replacement fund (internal service fund) were for payments on capital leases in the equipment replacement fund.

**H. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters, for which the City participates in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the two years prior to this report with the exception of the judgement described in Note III-I.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**H. Risk Management, Continued**

The City established a limited risk management program for health benefit claims in October 2006. A separate fund was established to account for the City's self-insurance activities and the accumulation of resources to satisfy potential claims of subsequent periods. The City's exposure is limited due to stop-loss protection and reinsurance. Changes in the balance of claim liabilities during the year are as follows:

	2020	2019
Beginning claims payable	\$ -	\$ 172,162
Claims incurred	-	-
Claims incurred but not reported	-	-
Claims paid	-	(172,162)
Ending claims payable	<u>\$ -</u>	<u>\$ -</u>

Beginning on October 1, 2018, the City transitioned to a 3<sup>rd</sup> party health insurance plan.

**I. Contingent Liabilities**

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In March of 2019, a judgement was rendered on the L.S. Equipment Company, Inc. d/b/a Lone Star Equipment Company vs. City of Palestine, Texas case resulting in L.S. Equipment Company, the plaintiff, being awarded damages of \$512,559. The City was also ordered to pay the plaintiff interest, attorney fees, and court costs totaling \$290,185. The City filed an appeal. The appeal was unsuccessful and the City and the plaintiff reached a settlement of \$880,000. A liability in governmental activities on the government-wide statement of net position has been recorded for this amount.

As of September 30, 2020, the City is also a defendant in other lawsuits. It is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

**J. Defined Benefit Pension Plans - Texas Municipal Retirement System**

Plan Description

The City of Palestine participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

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

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**J. Defined Benefit Pension Plans - Texas Municipal Retirement System, Continued**

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2020	Plan Year 2019
Employee deposit rate	6%	6%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

*Employees covered by benefit terms*

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	169
Inactive employees entitled to but not yet receiving benefits	161
Active employees	164
Total	494

Contributions

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

Employees of the City of Palestine, Texas, were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Palestine, Texas, were 13.42% and 13.58% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$1,162,861 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**J. Defined Benefit Pension Plans - Texas Municipal Retirement System, Continued**

*Actuarial Assumptions, Continued*

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
Total	<u>100.00%</u>	

*Discount Rate*

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

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**J. Defined Benefit Pension Plans - Texas Municipal Retirement System, Continued**

*Changes in the Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at December 31, 2018	\$46,793,545	\$36,530,942	\$10,262,603
Changes for the year:			
Service Cost	1,163,653	-	1,163,653
Interest	3,107,606	-	3,107,606
Difference between expected and actual experience	(464,313)	-	(464,313)
Changes in assumptions	103,169	-	103,169
Contributions - employer	-	1,132,430	(1,132,430)
Contributions - employee	-	506,303	(506,303)
Net investment income	-	5,643,128	(5,643,128)
Benefit payments	(2,673,526)	(2,673,526)	-
Administrative expense	-	(31,912)	31,912
Other changes	-	(958)	958
Balance at December 31, 2019	<u>\$48,030,134</u>	<u>\$41,106,407</u>	<u>\$ 6,923,727</u>

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

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

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Net pension liability	\$13,765,620	\$ 6,923,727	\$ 1,375,159

*Pension Plan Fiduciary Net Position*

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

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

For the year ended September 30, 2020, the City recognized pension expense of \$1,157,893.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ 499,584
Difference in actuarial assumptions	70,726	-
Difference between projected and actual investment earnings	-	1,269,288
Contributions subsequent to the measurement date	893,662	-
Total	<u>\$ 964,388</u>	<u>\$1,768,872</u>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**J. Defined Benefit Pension Plans - Texas Municipal Retirement System, Continued**

\$893,662 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Net deferred outflows (inflows) of resources
2020	\$ (613,381)
2021	(542,661)
2022	93,354
2023	(635,458)
Total	<u>\$ (1,698,146)</u>

**K. Other Post-Employment Benefit Plans**

**1. City Retiree Health Care Plan**

Plan Description

The City administers a single-employer defined benefit Other Post-Employment Benefits (OPEB) plan that allows retirees to pay their premium for continuation of the medical insurance coverage. The plan is known as the City Retiree Health Care Plan. In order to be eligible for this benefit, the retiree must separate from service as a current recipient of retirement benefits from the TMRS and with at least five years of service with the City at age 60 or at least 20 years of service at any age. The health care benefit of the plan is available to the spouse if they were enrolled in the plan immediately before retirement or disability.

Benefits Provided

City employees and spouses who are enrolled in the City-sponsored health plan immediately before retirement or disability are eligible to continue coverage for the following periods of time.

Participant	Length of Coverage
Retiree	Retirees are eligible to continue medical coverage until age 65. If coverage is voluntarily waived, it cannot be reinstated.
Spouse	Spouses are eligible to continue medical coverage until age 65. If spouse coverage is voluntarily waived, it cannot be reinstated.
Children	Eligible dependent children may continue medical coverage while the retiree is covered. If child coverage is voluntarily waived, it cannot be reinstated.
Surviving Spouse Retiree	Surviving spouses are eligible to continue medical coverage until age 65. If coverage is voluntarily waived, it cannot be reinstated.

Retirees and their dependents are not eligible to remain on the health plan after they become eligible for Medicare.

Employees Covered by Benefit Terms

At the September 30, 2020 measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	3
Active employees	<u>155</u>
Total	<u>158</u>



**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, Continued**

**1. City Retiree Health Care Plan, Continued**

Contributions

Retirees are required to pay the City for their health insurance premiums on the City-sponsored health insurance plan. Retirees paid the City \$38,580 for their health insurance premiums for the year ended September 30, 2020.

The fully-insured premiums the City pays its insurance carrier are blended rates based on the combined experience of active and retired members. Because the average cost of providing the health care benefits to retirees under 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is considered an employer contribution and was valued at \$66,396 in the September 30, 2020 measurement.

Total OPEB Liability

The City's Total OPEB Liability (TOL) is based on an actuarial valuation performed as of September 30, 2019. Updated procedures were used to roll forward the total OPEB liability to the measurement date of September 30, 2020.

Actuarial Assumptions

The Total OPEB Liability in the September 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Individual Entry-Age Normal
Discount Rate	2.41% as of September 30, 2020
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2018 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality	For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables to account for future mortality improvements.
Health Care Trend Rates	Initial rate of 7.20% declining to an ultimate rate of 4.25% after 15 years.
Participation Rates	0% for employees retiring before age 50; 5% for employees retiring at ages 50-54; 15% for employees retiring at ages 55-59; 20% for employees retiring at ages 60-64.

The discount rate changed from 2.75% as of September 30, 2019 to 2.41% as of September 30, 2020.

Discount Rate

For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this valuation, the municipal bond rate is 2.41% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The discount rate was 2.75% as of the prior measurement date.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, Continued**

**1. City Retiree Health Care Plan, Continued**

*Changes in the Total OPEB Liability*

	Increase (Decrease)
	Total OPEB Liability
	(a)
Balance at September 30, 2019	\$ 644,458
Changes for the year:	
Service Cost	31,768
Interest	17,777
Difference between expected and actual experience	(717)
Changes in assumptions	19,408
Benefit payments	(27,816)
Balance at September 30, 2020	<u>\$ 684,878</u>

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.41%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.41%) or 1-percentage-point higher (3.41%) than the current rate:

	1% Decrease in Discount Rate (1.41%)	Current Discount Rate (2.41%)	1% Increase in Discount Rate (3.41%)
Total OPEB liability	\$ 745,993	\$ 684,878	\$ 629,396

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

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

	1% Decrease in Healthcare Cost Trend Rates	Current Healthcare Cost Trend Rates	1% Increase in Healthcare Cost Trend Rates
Total OPEB liability	\$ 610,676	\$ 684,878	\$ 772,946

*OPEB Plan Fiduciary Net Position*

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$74,189 related to the City Retiree Health Care Plan and a total of \$138,575 OPEB expense including the TMRS Supplemental Death Benefits Fund.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, Continued**

**1. City Retiree Health Care Plan, Continued**

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ 760,372
Difference in actuarial assumptions	921,062	-
Total	<u>\$ 921,062</u>	<u>\$ 760,372</u>

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

Year Ended September 30	Net deferred outflows (inflows) of resources
2021	\$ 24,644
2022	24,644
2023	24,644
2024	24,644
2025	27,811
Thereafter	34,303
Total	<u>\$ 160,690</u>

**2. TMRS - Supplemental Death Benefit Fund**

Plan Description

The City also participates in the defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer defined benefit OPEB plan. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit of retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated).

Employees Covered by Benefit Terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	124
Inactive employees entitled to but not yet receiving benefits	30
Active employees	<u>164</u>
Total	<u>318</u>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, Continued**

**2. TMRS - Supplemental Death Benefit Fund, Continued**

Contributions

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

The total SDBF contribution rate for the City was 0.21% and 0.20% in calendar years 2020 and 2019, respectively. The retiree portion of the SDBF contribution rate for the City was 0.08% and 0.07% in calendar years 2020 and 2019. The City's contributions to the SDBF for the years ended September 30, 2020, 2019, and 2018 were \$17,831, \$16,618, and \$16,364, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Total OPEB Liability

The City's Total OPEB Liability (TOL) was measured and determined by an actuarial valuation as December 31, 2019.

Actuarial Assumptions

The Total OPEB Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary increases	3.50% to 11.50% including inflation
Discount rate	2.75%
Retiree's share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid for through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 through December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 2.75%. Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, Continued**

**2. TMRS - Supplemental Death Benefit Fund, Continued**

*Changes in the Total OPEB Liability*

	Increase (Decrease)
	Total OPEB Liability
	(a)
Balance at December 31, 2018	\$ 664,768
Changes for the year:	
Service Cost	19,408
Interest	24,913
Difference between expected and actual experience	(57,660)
Changes in assumptions	121,842
Benefit payments	(5,907)
Balance at December 31, 2019	<u>\$ 767,364</u>

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	1% Decrease in Discount Rate (1.75%)	Current Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
Total OPEB liability	\$ 927,175	\$ 767,364	\$ 644,091

*OPEB Plan Fiduciary Net Position*

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$64,386 related to the TMRS Supplemental Death Benefit Fund and a total of \$138,575 OPEB expense including the City Retiree Health Care Plan.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ -	\$ 28,095
Difference in actuarial assumptions	89,488	-
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	5,265	-
Total	<u>\$ 94,753</u>	<u>\$ 28,095</u>

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**K. Other Post-Employment Benefit Plans, Continued**

**2. TMRS - Supplemental Death Benefit Fund, Continued**

\$5,265 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ended December 31	Net deferred outflows (inflows) of resources
2020	\$ 20,065
2021	20,065
2022	11,835
2023	9,428
Total	<u>\$ 61,393</u>

**L. Tax Abatements**

The City entered into property tax abatement agreements with local businesses under the Texas Tax Code Chapter 312 "State Property Redevelopment and Tax Abatement Act" (the Act). As required by the Act, the City includes its own guidelines and criteria in granting abatements. Under the City's program, projects must do one of the following: 1) increase property valuation, 2) provide additional new full-time equivalent jobs, or 3) increase payroll annually. Abatements are granted for up to 100% over a specified time period not to exceed 10 years and may be extended to either new or expanding businesses. Abatement is given to provide significant, long-term, positive economic impact to the community using local contractors and the resident workforce to the maximum extent feasible and by developing, redeveloping, and improving real estate within the City. Uses available for tax abatement include manufacturing, distribution centers, corporate or regional office parks, research facilities, and small entrepreneurs. If the agreement is terminated, all taxes which otherwise would have been paid to the City without the benefit of abatement will become a debt to the City and shall be due to the City within 60 days after the termination. The following table provides disclosures relevant for the fiscal year ended September 30, 2020. Due to the small volume of current agreements, all current agreements have been disclosed.



**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**L. Tax Abatements, Continued**

Name of Business	Criteria	Terms of Abatement	Anderson County Applied Value	Property Taxes Abated FY2019
Pentecom	Increase in property tax value of \$225,000 and creation of 35 new full-time jobs	100% in 2015, 70% in 2016, 50% in 2017 and 2018, and 25% in 2019	\$ 876,594	\$ 1,493
Rhone Funeral Home	Increase in property tax value of \$1,400,000 and creation of 5 new full-time jobs	80% in 2017, 60% in 2018, 40% in 2019, and 20% in 2020	1,788,353	4,873
Sanderson Farms Processing	Increase in property tax value of \$75,000,000 and creation of 900 new full-time jobs	90% in 2015-2020, 85% in 2021, and 80% in 2022	85,230,490	522,590
Sanderson Farms Hatchery	Increase in property tax value of \$16,000,000 and creation of 90 new full-time jobs	90% in 2015-2020, 85% in 2021, and 80% in 2022	24,307,750	149,043
			<u>\$ 112,203,187</u>	<u>\$ 677,999</u>

**M. Certain Asset Retirement Obligations**

Under the new GASB Statement No. 83, *Certain Asset Retirement Obligations*, (GASBS 83) a government should recognize an asset retirement obligation (ARO) when the liability is incurred and reasonably estimable. A liability is incurred by both an internal and external obligating event.

Per GASBS 83, the City has an ARO for its wastewater treatment plant and water wells due to federal and state regulations that require the City to minimize the future need for further maintenance and minimizes or controls post-closure escape of hazardous waste, hazardous constituents, or hazardous waste decomposition products to the ground water or surface waters.

At this time, the City cannot reasonably estimate the ARO for the wastewater treatment plant because the cost of remediation depends on numerous variables such as the thickness of residual waste and contaminated soil beneath the waste and the actual pollutants that will be present.

In addition, the City cannot reasonably estimate the ARO for the water wells at this time due to unknown variances at the time of closure that determine the cost of retirement such as the remaining amount of water, if any; the condition of the well at the time of abandonment; and the large range of estimated average per-foot cost to plug a well.

Therefore, no liability has been recorded in these financial statements for these AROs as of September 30, 2020.

**N. Notes Receivable**

In December of 2018, Palestine Economic Development Corporation (PEDC), a component unit of the City, entered into an economic development incentive performance agreement with a Minnesota corporation (Company) in which the Company agreed to develop, maintain, and open a facility within the City; continuously employ, staff, and maintain at least 20 full-time employees at the facility by December 31, 2018 and 30 full-time employees at the facility by December 31, 2019 and thereafter for 10 years; and certify to PEDC, every 90 days, that the Company is in compliance with the terms of the performance agreement, beginning with the issuance of a certificate of occupancy for the facility.

**CITY OF PALESTINE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS, CONTINUED**  
**SEPTEMBER 30, 2020**

**III. DETAILED NOTES ON ALL FUNDS, CONTINUED**

**N. Notes Receivable, Continued**

As part of the agreement, PEDC remitted a cash incentive grant in the amount of \$100,000 to the Company in December 2018. PEDC agreed to forgive the Company's obligation to repay the economic incentive for the Company's facility in two equal amounts each occurring on the first two annual anniversary dates of the issuance of the facility's certificate of occupancy, if the Company is not in default under the performance agreement. The Company did not certify to PEDC that it was in compliance with the terms of the performance agreement during the year ended September 30, 2020, so no amount of the note was forgiven. In addition, no repayments were received either. The balance of the note receivable at September 30, 2020 is \$100,000.

**O. Subsequent Events**

In October 2020, the City paid a settlement of \$880,000 to L.S. Equipment Company. More information can be found in Note III-I.

In October 2020, February 2021, March 2021, and May 2021, the City entered into nine additional vehicle leases with Enterprise FM Trust.

In December 2020, the City issued General Obligation Refunding Bonds, Taxable Series 2020, totaling \$2,215,000 to refund the City's utility fund and retail fund debt at a lower interest rate.

In April 2021, the City issued Combination Tax & Revenue Certificates of Obligation, Series 2021, totaling \$4,585,000 to fund the water treatment plant generator, lift station force main upgrade, and pay for the costs of issuing the certificates.

In January 2021, the City entered into a construction contract for the hospital lift station in the amount of \$1,245,000.

In June 2021, the City closed on the sale of the Palestine Mall with a third party for \$1,426,248.

In December 2020, PEDC entered into an economic development incentive performance and revenue sharing agreement with Etex Communications, LLC in which PEDC will grant up to \$1,100,000 to Etex Communications, LLC for capital investment and installation for fiber optic network for high-speed internet and telephone services.

In January 2021, PEDC entered into a loan agreement with Government Capital Corporation for \$1,015,000 with an interest rate of 2.61% and a maturity date of February 15, 2031 to help finance the grant to Etex Communications, LLC. The loan is secured by pledged sales tax revenue. Payments of \$58,238.53 begin on August 15, 2021 and are due every August 15<sup>th</sup> and February 15<sup>th</sup>.

Subsequent events have been evaluated through July 15, 2021, the date the financial statements were available to be issued.

APPENDIX C

FORM OF FORWARD DELIVERY CONTRACT

Raymond James & Associates, Inc.  
5956 Sherry Lane, Suite 1900  
Dallas, Texas 75225

RE: \$ \_\_\_\_\_ City of Palestine, Texas Combination Tax and Revenue Certificates of Obligation, Series 2022 (Forward Delivery) (the "Certificates")

Ladies and Gentlemen:

The undersigned (the "Purchaser") hereby agrees to purchase from Raymond James & Associates, Inc. (the "Representative"), R.W. Baird & Co. Incorporated, and Huntington Securities, Inc. (together with the Representative, the "Underwriters") when, as, and if issued and delivered to the Representative by the City of Palestine, Texas (the "City"), and the Underwriters agrees to sell to the Purchaser:

Series	Par Amount	Maturity Date	Interest Rate	CUSIP Number	Yield	Price
--------	------------	---------------	---------------	--------------	-------	-------

of the above-referenced Certificates (the "Purchased Certificates") offered by the City under the Preliminary Official Statement dated [\_\_\_\_], 2021 (the "Preliminary Official Statement") and the Official Statement relating to the Purchased Certificates dated August 25, 2021 (the "Official Statement"), receipt and review of copies of which is hereby acknowledged, at the purchase price and with the interest rates, principal amounts, and maturity dates shown above, and on the further terms and conditions set forth in this Delayed Delivery Contract. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Official Statement. The Purchased Certificates are being purchased by the Underwriters pursuant to a Forward Delivery Bond Purchase Agreement between the City and the Representative (the "Forward Delivery Bond Purchase Agreement").

The Purchaser hereby confirms that it has received and reviewed the Preliminary Official Statement and the Official Statement (including, without limitation, the section entitled "The Certificates - Certain Considerations Regarding Forward Delivery of the Certificates"), has considered the risks associated with purchasing the Purchased Certificates and is duly authorized to purchase the Purchased Certificates. The Purchaser acknowledges and agrees that the Purchased Certificates are being sold on a "forward" basis, and the Purchaser hereby purchases and agrees to accept delivery of the Purchased Certificates from the Representative on or about January 4, 2022 (the "Forward Delivery Date"), as they may be issued and delivered in accordance with the Forward Delivery Bond Purchase Agreement.

Payment for the Purchased Certificates on the Forward Delivery Date shall be made to the Representative or upon its order on the Forward Delivery Date upon delivery to the Purchaser of the Purchased Certificates through the book-entry system of The Depository Trust Company. The Purchaser agrees that in no event shall the Underwriters be responsible or liable for any claim or loss, whether direct or consequential, which the Purchaser may suffer if the City does not for any reason issue and deliver the above-referenced Bonds.

Upon issuance by the City of the Bonds and purchase thereof by the Underwriters, the obligation of the Purchaser to take delivery of the Purchased Certificates hereunder shall be unconditional except in the event that between the date of this Delayed Delivery Contract and the Forward Delivery Date one of the following events shall have occurred:

- (1) there shall have been a Change in Law (defined below);
- (2) as a result of any legislation, regulation, ruling, order, release, court decision or judgment or action by the U.S. Department of the Treasury, the Internal Revenue Service, or any agency of the State either enacted, issued, effective, adopted or proposed (but only with respect to any such proposed legislation, regulation, ruling, order, release, court decision or judgment or action which continues to be proposed as of the Forward Delivery Date), or for any other reason, Bond Counsel cannot issue an opinion substantially in the form attached to the Official Statement as APPENDIX D to the effect that the interest on the Purchased Certificates is excluded from gross income for federal income tax purposes under Section 103 of the United States Internal Revenue Code of 1986 (or comparable provisions of any successor federal tax laws);
- (3) legislation shall be enacted, or a decision by a court of the United States shall be rendered, or any action shall be taken by, or on behalf of, the Securities Exchange Commission which, in the reasonable opinion of the Representative, following consultation with the City, has the effect of requiring the Purchased Certificates to be registered under the Securities Act of 1933, as amended, or requires the qualification of the Ordinance under the Trust Indenture Act of 1939, as amended, or an event shall occur which would cause the sale of the Purchased Certificates to be in violation of any provision of the federal or State of Texas securities laws;
- (4) the Official Statement as of the date of Closing (as defined in the Forward Delivery Bond Purchase Agreement) (which is expected to occur on or about September 28, 2021), or the Updated Official Statement to be provided by the City pursuant

to the terms of the Forward Delivery Bond Purchase Agreement as of the Forward Delivery Date, contained or contains an untrue statement or misstatement of material fact or omitted or omits to state a material fact necessary in order to make the statements and information contained therein not misleading in any material respect; or

(5) as of the Forward Delivery Date, the Purchased Certificates are no longer rated investment grade by S&P Global Ratings.

The Underwriters shall notify the Purchaser promptly in the event that the Underwriters become aware of the occurrence of any of the events described in clauses (1) through (5) above.

A "Change in Law" means (i) any change in or addition to applicable federal or state law, whether statutory or as interpreted by the courts or by federal or state agencies, including any changes in or new rules, regulations or other pronouncements or interpretations by federal or state agencies; (ii) any legislation enacted by the Congress of the United States (if such enacted legislation has an effective date which is on or before the Forward Delivery Date), (iii) any law, rule or regulation enacted by any governmental body, department or agency (if such enacted law, rule or regulation has an effective date which is on or before the Forward Delivery Date) or (iv) any judgment, ruling or order issued by any court or administrative body, which in any such case would, (A) as to the Representative, prohibit the Representative from completing the underwriting of the Purchased Certificates or selling the Purchased Certificates or the beneficial ownership interests therein to the public, or (B) as to the City, would make the completion of the issuance, sale or delivery of the Purchased Certificates illegal.

If the Change of Law completely eliminates the exclusion from gross income for federal income tax purposes of interest payable on "state or local bonds," the Underwriters would not be obligated to purchase the Purchased Certificates from the City, and the Purchaser would not be required to accept delivery of the Purchased Certificates from the Underwriters.

The Purchaser acknowledges and agrees that the Purchased Certificates are being sold on a "forward" or "delayed delivery" basis for delivery on the Forward Delivery Date and that the Purchaser is obligated to take up and pay for the Purchased Certificates on the Forward Delivery Date unless one of the five events described above shall have occurred.

The Purchaser acknowledges that it will not be able to withdraw its order as described herein, and will not otherwise be excused from performance of its obligations to take up and pay for the Purchased Certificates on the Forward Delivery Date because of market or credit changes, including specifically, but not limited to (a) except for the rating change described in event number 5 above, changes in the ratings assigned to the Purchased Certificates between the date of Closing and the Forward Delivery Date or changes in the credit associated with the Purchased Certificates generally, and (b) changes in the financial condition, operations, performance, properties or prospects of the City from the date hereof to the Forward Delivery Date. The Purchaser acknowledges and agrees that it will remain obligated to purchase the Purchased Certificates in accordance with the terms hereof, even if the Purchaser decides to sell the Purchased Certificates following the date hereof, unless the Purchaser sells the Purchased Certificates to another institution with the prior written consent of the Underwriters and such institution provides a written acknowledgment of confirmation of purchase order and a delayed delivery contract in the same respective forms as that executed by the Purchaser.

The Purchaser represents and warrants that, as of the date of this Delayed Delivery Contract, the Purchaser is not prohibited from purchasing the Purchased Certificates hereby agreed to be purchased by it under the laws of the jurisdiction to which the Purchaser is subject. Each of the undersigned parties represents and warrants that it has the power and authority to enter into this Delayed Delivery Contract and to perform its obligations hereunder.

The Purchaser agrees that it will at all times satisfy the minimum initial and maintenance margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Rule 431 of the New York Governors of the Federal Reserve System, Rule 4210 of the Financial Industry Regulatory Authority, and any other margin regulations applicable to the Underwriters related to the Purchased Certificates as may be communicated by the Representative to the Purchaser.

This Delayed Delivery Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the prior written consent of the other.

The Purchaser acknowledges that the Underwriter is entering into Forward Delivery Bond Purchase Agreement with the City to purchase the Purchased Certificates in reliance in part on the performance by the Purchaser of its obligations hereunder.

This Delayed Delivery Contract may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

It is understood that the acceptance by the Purchaser of any Delayed Delivery Contract (including this one) is in the Purchaser's sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Delayed Delivery Contract is acceptable to the Purchaser, it is requested that the Purchaser sign the form of

acceptance below and mail, email or otherwise deliver one of the counterparts hereof to the Representative at its address set forth below. This will become a binding contract between the Underwriters and the Purchaser when such counterpart is so mailed, emailed or otherwise delivered by the Purchaser. This Delayed Delivery Contract does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

This Delayed Delivery Contract shall be construed and administered under the laws of the State of New York.

[PURCHASER]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address: \_\_\_\_\_  
Telephone: \_\_\_\_\_  
Accepted: \_\_\_\_\_

RAYMOND JAMES & ASSOCIATES, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**APPENDIX D**

FORM OF BOND COUNSEL'S OPINION

January \_\_, 2022

\$ \_\_\_\_\_  
CITY OF PALESTINE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2022  
(Forward Delivery)

WE HAVE represented the City of Palestine, Texas (the "Issuer"), as its bond counsel in connection with an issue of certificates of obligation (the "Certificates") described as follows:

CITY OF PALESTINE, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022 (Forward Delivery), dated August 15, 2022, in the principal amount of \$ \_\_\_\_\_.

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

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

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

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

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the Issuer;
- (B) A continuing ad valorem tax upon all taxable property within the City of Palestine necessary to pay the principal of and interest on the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law, and the total indebtedness of the Issuer, including the Certificates, does not exceed any constitutional, statutory or other limitations. In addition, the Certificates are further secured by a limited pledge of the surplus revenues of the Issuer's combined waterworks and sewer system as provided in the Ordinance; and
- (C) Interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Certificates is not a specific preference item for purposes of the alternative minimum tax.

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

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

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

**APPENDIX E**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100



---

---

ORDINANCE

Relating to

\$ \_\_\_\_\_  
CITY OF PALESTINE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION  
SERIES 2022  
(FORWARD DELIVERY)

Adopted: August 25, 2021

## TABLE OF CONTENTS

Page

### ARTICLE I

#### DEFINITIONS AND OTHER PRELIMINARY MATTERS

Section 1.1.	Definitions .....	2
Section 1.2.	Findings .....	5
Section 1.3.	Table of Contents, Titles, and Headings .....	5
Section 1.4.	Interpretation .....	5

### ARTICLE II

#### SECURITY FOR THE CERTIFICATES; INTEREST AND SINKING FUND

Section 2.1.	Payment of the Certificates .....	5
Section 2.2.	Interest and Sinking Fund .....	7
Section 2.3.	Surplus Revenue Fund .....	7

### ARTICLE III

#### AUTHORIZATION; GENERAL TERMS AND PROVISIONS REGARDING THE CERTIFICATES

Section 3.1.	Authorization .....	7
Section 3.2.	Date, Denomination, Maturities, and Interest .....	8
Section 3.3.	Medium, Method, and Place of Payment .....	9
Section 3.4.	Execution and Registration of Certificates .....	10
Section 3.5.	Ownership .....	11
Section 3.6.	Registration, Transfer, and Exchange .....	11
Section 3.7.	Cancellation .....	12
Section 3.8.	Temporary Certificates .....	12
Section 3.9.	Replacement Certificates .....	13
Section 3.10.	Book-Entry Only System .....	14
Section 3.11.	Successor Securities Depository; Transfer Outside Book-Entry Only System .....	14
Section 3.12.	Payments to Cede & Co .....	15

### ARTICLE IV

#### REDEMPTION OF CERTIFICATES BEFORE MATURITY

Section 4.1.	Limitation on Redemption .....	15
Section 4.2.	Optional Redemption .....	15
Section 4.3.	Notice of Redemption to Owners .....	15
Section 4.4.	Payment Upon Redemption .....	16
Section 4.5.	Effect of Redemption .....	17

Section 4.6.	Conditional Notice of Redemption .....	17
--------------	--	----

## ARTICLE V

### PAYING AGENT/REGISTRAR

Section 5.1.	Appointment of Initial Paying Agent/Registrar .....	18
Section 5.2.	Qualifications .....	18
Section 5.3.	Maintaining Paying Agent/Registrar .....	18
Section 5.4.	Termination.....	18
Section 5.5.	Notice of Change to Owners .....	18
Section 5.6.	Agreement to Perform Duties and Functions .....	18
Section 5.7.	Delivery of Records to Successor .....	19

## ARTICLE VI

### FORM OF THE CERTIFICATES

Section 6.1.	Form Generally .....	19
Section 6.2.	Form of the Certificates .....	19
Section 6.3.	CUSIP Registration.....	25
Section 6.4.	Legal Opinion .....	26
Section 6.5.	Bond Insurance .....	26

## ARTICLE VII

### SALE AND DELIVERY OF CERTIFICATES; DEPOSIT OF PROCEEDS

Section 7.1.	Sale of Certificates; Official Statement .....	26
Section 7.2.	Control and Delivery of Certificates .....	27
Section 7.3.	Deposit of Proceeds .....	27

## ARTICLE VIII

### INVESTMENTS

Section 8.1.	Investments .....	28
Section 8.2.	Investment Income .....	28

## ARTICLE IX

### PARTICULAR REPRESENTATIONS AND COVENANTS

Section 9.1.	Payment of the Certificates .....	28
Section 9.2.	Other Representations and Covenants .....	28
Section 9.3.	Federal Tax Matters .....	29

## ARTICLE X

### DEFAULT AND REMEDIES

Section 10.1. Events of Default .....	30
Section 10.2. Remedies for Default .....	30
Section 10.3. Remedies Not Exclusive .....	31

## ARTICLE XI

### DISCHARGE

Section 11.1. Discharge .....	31
-------------------------------	----

## ARTICLE XII

### CONTINUING DISCLOSURE UNDERTAKING

Section 12.1. Annual Reports .....	31
Section 12.2. Notice of Certain Events .....	32
Section 12.3. Limitations, Disclaimers and Amendments .....	33

## ARTICLE XIII

### AMENDMENTS

Section 13.1. Amendments .....	34
--------------------------------	----

## ARTICLE XIV

### MISCELLANEOUS

Section 14.1. Changes to Ordinance .....	35
Section 14.2. Partial Invalidity.....	35
Section 14.3. No Personal Liability .....	35

## ARTICLE XV

### EFFECTIVE IMMEDIATELY

Section 15.1. Effective Immediately .....	35
---	----

Exhibit A – Description of Annual Disclosure of Financial Information.....	A-1
--	-----

AN ORDINANCE PROVIDING FOR THE ISSUANCE OF CITY OF PALESTINE, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022 (FORWARD DELIVERY), IN THE AGGREGATE PRINCIPAL AMOUNT OF \$\_\_\_\_\_; AWARDING THE SALE THEREOF; LEVYING A TAX IN PAYMENT THEREOF; PRESCRIBING THE FORM OF SAID CERTIFICATES; APPROVING A PAYING AGENT/REGISTRAR AGREEMENT AND FORWARD DELIVERY PURCHASE CONTRACT; APPROVING THE OFFICIAL STATEMENT; AND ENACTING OTHER PROVISIONS RELATING THERETO

WHEREAS, under the provisions of Subchapter C, Chapter 271, Texas Local Government Code, as amended, the City of Palestine, Texas (the "City"), is authorized to issue certificates of obligation for the purposes specified in this Ordinance and for the payment of all or a portion of the contractual obligations for professional services, including that of engineers, attorneys, and financial advisors in connection therewith, and to sell the same for cash as herein provided; and

WHEREAS, the City is authorized to provide that such obligations will be payable from and secured by the levy of a direct and continuing ad valorem tax against all taxable property within the City, in combination with all or a part of certain revenues of the City's combined waterworks and sewer system (the "System") remaining after payment of any obligations of the City payable in whole or in part from a lien or pledge of such revenues that would be superior to the obligations to be authorized herein as authorized by Chapter 1502, Texas Government Code; and

WHEREAS, the City Council has found and determined that it is necessary and in the best interests of the City and its citizens that it issue such certificates of obligation authorized by this Ordinance; and

WHEREAS, pursuant to a resolution heretofore passed by this governing body, notice of intention to issue certificates of obligation of the City payable as provided in this Ordinance was published in a newspaper of general circulation in the City in accordance with the laws of the State of Texas (the "Notice of Intention"), which notice provided that the principal amount of such certificates of obligation would not exceed \$42,000,000 and the proceeds would be used for the purpose of paying contractual obligations to be incurred for the purposes set forth in Section 3.1 hereof; and

WHEREAS, the Notice of Intention stated that the City Council intended to pass an ordinance authorizing the issuance of the certificates of obligation at the August 25, 2021 City Council meeting; and

WHEREAS, the Notice of Intention was also published continuously on the City's website for at least 45 days before August 25, 2021 in accordance the requirements of law; and

WHEREAS, no petition of any kind has been filed with the City Secretary, any member of the City Council or any other official of the City, protesting the issuance of such certificates of obligation; and

WHEREAS, this City Council is now authorized and empowered to proceed with the issuance of said certificates of obligation and to sell the same for cash; and

WHEREAS, the meeting at which this Ordinance is considered is open to the public as required by law, and public notice of the time, place, and purpose of said meeting was given as required by Chapter 551, Texas Government Code, as amended; therefore,

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF PALESTINE, TEXAS THAT:

## ARTICLE I

### DEFINITIONS AND OTHER PRELIMINARY MATTERS

#### Section 1.1. Definitions.

Unless otherwise expressly provided or unless the context clearly requires otherwise in this Ordinance, the following terms shall have the meanings specified below:

“Business Day” means a day that is not a Saturday, Sunday, legal holiday or other day on which banking institutions in the city where the Designated Payment/Transfer Office is located are required or authorized by law or executive order to close.

“Certificate” means any of the Certificates.

“Certificate Date” means the date designated as the initial date of the Certificates by Section 3.2(a) of this Ordinance.

“Certificates” means the certificates of obligation authorized to be issued by Section 3.1 of this Ordinance and designated as “City of Palestine, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2022 (Forward Delivery)” in the aggregate principal amount of \$\_\_\_\_\_.

“City” means the City of Palestine, Texas.

“Closing Date” means the date of the payment for the Certificates.

“Code” means the Internal Revenue Code of 1986, as amended, and, with respect to a specific section thereof, such reference shall be deemed to include (a) the Regulations promulgated under such section, (b) any successor provision of similar import hereafter enacted, (c) any corresponding provision of any subsequent Internal Revenue Code and (d) the regulations promulgated under the provisions described in (b) and (c).

“Delivery Date” means the date of the initial delivery of the Certificates, anticipated to be January 4, 2022.

“Designated Payment/Transfer Office” means (i) with respect to the initial Paying Agent/Registrar named in this Ordinance, the Designated Payment/Transfer Office as designated



in the Paying Agent/Registrar Agreement, or at such other location designated by the Paying Agent/Registrar and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the City and such successor.

“DTC” means The Depository Trust Company of New York, New York, or any successor securities depository.

“DTC Participant” means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

“EMMA” means Electronic Municipal Market Access System.

“Event of Default” means any event of default as defined in Section 10.1 of this Ordinance.

“Financial Obligation” means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that “financial obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Fiscal Year” means such fiscal year as shall from time to time be set by the City Council.

“Forward Delivery Purchase Contract” means, the forward delivery purchase contract between the City and the Underwriters providing for the sale of the Certificates to the Underwriters.

“Initial Certificate” means the initial certificate authorized by Section 3.4 of this Ordinance.

“Interest and Sinking Fund” means the interest and sinking fund established by Section 2.2 of this Ordinance.

“Interest Payment Date” means the date or dates upon which interest on the Certificates is scheduled to be paid until their respective dates of maturity or prior redemption, such dates being February 15 and August 15 of each year, commencing August 15, 2022.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Revenues” means the gross revenues of the System less the expenses of operation and maintenance as said expenses are defined by Chapter 1502, Texas Government Code, as amended.

“Ordinance” means this Ordinance.

“Owner” means the person who is the registered owner of a Certificate or Certificates, as shown in the Register.

“Paying Agent/Registrar” means initially Regions Bank, or any successor thereto as provided in this Ordinance.

“Prior Lien Bonds” means any and all bonds or other obligations of the City presently outstanding or that may be hereafter issued, payable from and secured by a first lien on and pledge of the Net Revenues or by a lien on and pledge of the Net Revenues subordinate to a first lien and pledge of such Net Revenues but superior to the lien and pledge of the Surplus Revenues made for the Certificates.

“Project” means the purposes for which the Certificates are issued as set forth in Section 3.1.

“Record Date” means the last business day of the month next preceding an Interest Payment Date.

“Register” means the Register specified in Section 3.6(a) of this Ordinance.

“Regulations” means the applicable proposed, temporary or final Treasury Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Representation Letter” means the Blanket Letter of Representations between the City and DTC.

“Representative” means the representative of the Underwriters named in the Purchase Contract.

“Rule” means SEC Rule 15c2-12, as amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

“Special Payment Date” means the Special Payment Date prescribed by Section 3.3(b).

“Special Record Date” means the Special Record Date prescribed by Section 3.3(b).

“Surplus Revenues” means the revenues of the System remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with the City’s Prior Lien Bonds.

“Surplus Revenue Fund” means the surplus revenue fund established by Section 2.3 of this Ordinance.

“System” as used in this Ordinance means the City’s combined waterworks and sewer system, including all present and future additions, extensions, replacements, and improvements thereto.

“Unclaimed Payments” means money deposited with the Paying Agent/Registrar for the payment of principal of, redemption premium, if any, or interest on the Certificates as the same come due and payable or money set aside for the payment of Certificates duly called for redemption prior to maturity.

“Underwriters” means Huntington Capital Markets, Inc. and Stifel, Nicolaus & Company, Incorporated.

#### Section 1.2. Findings.

The declarations, determinations, and findings declared, made, and found in the preamble to this Ordinance are hereby adopted, restated, and made a part of the operative provisions hereof.

#### Section 1.3. Table of Contents, Titles, and Headings.

The table of contents, titles, and headings of the Articles and Sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Ordinance or any provision hereof or in ascertaining intent, if any question of intent should arise.

#### Section 1.4. Interpretation.

(a) Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa.

(b) This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein.

### ARTICLE II

#### SECURITY FOR THE CERTIFICATES; INTEREST AND SINKING FUND

##### Section 2.1. Payment of the Certificates.

(a) Pursuant to the authority granted by the Texas Constitution and laws of the State of Texas, there shall be levied and there is hereby levied for the current year and for each succeeding year thereafter while any of the Certificates or any interest thereon is outstanding and unpaid, an ad valorem tax on each one hundred dollars valuation of taxable property within the City, at a rate sufficient, within the limit prescribed by law, to pay the debt service requirements of the Certificates, being (i) the interest on the Certificates, and (ii) a sinking fund for their payment at redemption or maturity or a sinking fund of two percent per annum (whichever amount is the greater), when due and payable, full allowance being made for delinquencies and costs of collection.

(b) The ad valorem tax thus levied shall be assessed and collected each year against all property appearing on the tax rolls of the City most recently approved in accordance with law, and the money thus collected shall be deposited as collected to the Interest and Sinking Fund.

(c) Said ad valorem tax, the collections therefrom, and all amounts on deposit in or required hereby to be deposited to the Interest and Sinking Fund are hereby pledged and committed irrevocably to the payment of the principal of and interest on the Certificates when and as due and payable in accordance with their terms and this Ordinance.

(d) The amount of taxes to be provided annually for the payment of principal of and interest on the Certificates shall be determined and accomplished in the following manner:

(i) The City's annual budget shall reflect (a) the amount of debt service requirements to become due on the Certificates in the next succeeding Fiscal Year of the City, (b) the amount on deposit in the Surplus Revenue Fund and the Interest and Sinking Fund, as of the date such budget is prepared (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year), and (c) the amount of Surplus Revenues estimated and budgeted to be available for the payment of such debt service requirements on the Certificates during the next succeeding Fiscal Year of the City.

(ii) The amount required to be provided in the succeeding Fiscal Year of the City from ad valorem taxes shall be the amount, if any, the debt service requirements to be paid on the Certificates in the next succeeding Fiscal Year of the City exceeds the sum of (a) the amount shown to be on deposit in the Surplus Revenue Fund and the Interest and Sinking Fund (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year) at the time the annual budget is prepared, and (b) the Surplus Revenues shown to be budgeted and available for payment of said debt service requirements.

(iii) Following the final approval of the annual budget of the City, the governing body of the City shall, by ordinance, levy an ad valorem tax at a rate sufficient to produce taxes in the amount determined in paragraph (ii) above, to be utilized for purposes of paying the principal of and interest on the Certificates in the next succeeding Fiscal Year of the City.

(e) The City hereby covenants and agrees that the Surplus Revenues are hereby irrevocably pledged equally and ratably to the payment of the principal of, redemption premium, if any, and interest on the Certificates, as the same become due.

(f) If the liens and provisions of this Ordinance shall be released in a manner permitted by Article XI hereof, then the collection of such ad valorem tax may be suspended or appropriately reduced, as the facts may permit, and further deposits to the Interest and Sinking Fund may be suspended or appropriately reduced, as the facts may permit. In determining the aggregate principal amount of outstanding Certificates, there shall be subtracted the amount of any Certificates that have been duly called for redemption and for which money has been deposited with the Paying Agent/Registrar for such redemption.

Section 2.2. Interest and Sinking Fund.

(a) The City hereby establishes a special fund or account to be designated the “City of Palestine, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2022, Interest and Sinking Fund” (the “Interest and Sinking Fund”) said fund to be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City.

(b) Money on deposit in or required by this Ordinance to be deposited to the Interest and Sinking Fund shall be used solely for the purpose of paying the interest on and principal of the Certificates when and as due and payable in accordance with their terms and this Ordinance.

Section 2.3. Surplus Revenue Fund.

The City hereby establishes a special fund or account to be designated the “City of Palestine, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2022, Surplus Revenue Fund” (the “Surplus Revenue Fund”) said fund to be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City, and shall in no event be diverted or drawn upon for any purpose other than those herein provided. All Surplus Revenues shall be paid over and deposited into the Surplus Revenue Fund. The Surplus Revenues shall be appropriated and employed in the following order:

(a) First: For deposit to the Interest and Sinking Fund to provide for the payment of the debt service requirements of the Certificates in accordance with the terms and conditions of this Ordinance; and

(b) Second: After all the requirements of subparagraph (a) above have been provided for, whether by the collection of an ad valorem tax levied in this Ordinance or by the use of the pledged Surplus Revenues, the Surplus Revenues may be used for any lawful purpose.

ARTICLE III

AUTHORIZATION; GENERAL TERMS AND PROVISIONS  
REGARDING THE CERTIFICATES

Section 3.1. Authorization.

The City’s certificates of obligation to be designated “City of Palestine, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2022” (the “Certificates”), are hereby authorized to be issued and delivered in accordance with the Constitution and laws of the State of Texas, specifically Subchapter C, Chapter 271, Texas Local Government Code, as amended, and the City’s Home-Rule Charter. The Certificates shall be issued in the aggregate principal amount of \$\_\_\_\_\_ for the following purposes, to wit: (i) designing, improving, constructing, renovating and equipping library facilities, including a new library and the purchase of land therefor; (ii) designing, developing, constructing, improving and renovating City parks, trails and recreation facilities, (iii) designing, developing, constructing, improving, extending, and expanding streets, thoroughfares, sidewalks, bridges, and other public ways of the City, including streetscaping, signage, streetlighting, right-of-way protection, utility relocation,

and related storm drainage improvements; and acquiring rights-of-way in connection therewith; (iv) acquiring equipment and vehicles for police, public works, fire, emergency services, building services, planning and development and park and recreation purposes; (v) acquiring and installation of City information technology infrastructure and equipment; (vi) designing, developing, constructing, improving and renovating City buildings and facilities, including City Hall, equipment services facilities, public works facilities, the bathrooms in City buildings and facilities, including the purchase of land therefor; (vii) designing, improving, constructing, renovating and equipping fire facilities, including a new fire station and the purchase of land therefor; (viii) designing, improving, constructing, renovating and equipping police facilities, including a new police station; (ix) designing, constructing, acquiring and equipping of a public safety training facility; (x) improving and extending the City's waterworks and sewer system, including infrastructure replacement (items (i) through (x), collectively, the "Project"); (xi) professional services incurred in connection with the Project; and (xii) the costs incurred in connection with the issuance of the Certificates.

### Section 3.2. Date, Denomination, Maturities, and Interest.

(a) The Certificates shall be dated August 15, 2021 (the "Certificate Date"). The Certificates shall be in fully registered form, without coupons, in the denomination of \$5,000 or any integral multiple thereof and shall be numbered separately from one upward, except the Initial Certificate, which shall be numbered T-1.

(b) The Certificates shall mature on either August 15 or February 15, as indicated below, in the principal amounts set forth in the following schedule:

\$ <u>Serial Certificates</u>					
<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
8/15/2022			2/15/2037		
2/15/2023			2/15/2038		
2/15/2024			2/15/2039		
2/15/2025			2/15/2040		
2/15/2026			2/15/2041		
2/15/2027			2/15/2042		
2/15/2028			2/15/2043		
2/15/2029			2/15/2044		
2/15/2030			2/15/2045		
2/15/2031			2/15/2046		
2/15/2032			2/15/2047		
2/15/2033			2/15/2048		
2/15/2034			2/15/2049		
2/15/2035			2/15/2050		
2/15/2036			2/15/2051		

\$ <u>Term Certificates</u>		
<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
20__	\$	%

(c) Interest shall accrue and be paid on each Certificate respectively until its maturity or prior redemption from the later of the Delivery Date or the most recent Interest Payment Date to which interest has been paid or provided for at the rates per annum for each respective maturity specified in the schedule contained in subsection (b) above. Such interest shall be payable semiannually on February 15 and August 15 of each year, commencing on August 15, 2022, computed on the basis of a 360-day year of twelve 30-day months.

Section 3.3. Medium, Method, and Place of Payment.

(a) The principal of, redemption premium, if any, and interest on the Certificates shall be paid in lawful money of the United States of America.

(b) Interest on the Certificates shall be payable to the Owners as shown in the Register at the close of business on the Record Date; provided, however, in the event of nonpayment of interest on a scheduled Interest Payment Date and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") shall be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date," which shall be 15 days after the Special Record Date) shall be sent at least five Business Days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Owner of a Certificate appearing on the Register at the close of business on the last Business Day next preceding the date of mailing of such notice.

(c) Interest on the Certificates shall be paid by check, dated as of the Interest Payment Date, and sent first class United States mail, postage prepaid, by the Paying Agent/Registrar to each Owner, at the address thereof as it appears in the Register, or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the Owner; provided, however, that the Owner shall bear all risk and expense of such alternative banking arrangement. At the option of an Owner of at least \$1,000,000 principal amount of the Certificates, interest may be paid by wire transfer to the bank account of such Owner on file with the Paying Agent/Registrar.

(d) The principal of each Certificate shall be paid to the Owner thereof on the due date, whether at the maturity date or the date of prior redemption thereof, upon presentation and surrender of such Certificate at the Designated Payment/Transfer Office of the Paying Agent/Registrar.

(e) If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are required or



authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due and no additional interest shall be due by reason of nonpayment on the date on which such payment is otherwise stated to be due and payable.

(f) Unclaimed Payments shall be segregated in a special escrow account and held in trust, uninvested by the Paying Agent/Registrar, for the account of the Owners of the Certificates to which the Unclaimed Payments pertain. Subject to Title 6 of the Texas Property Code. Unclaimed Payments remaining unclaimed by the Owners entitled thereto for three years after the applicable payment or redemption date shall be applied to the next payment on the Certificates thereafter coming due; to the extent any such moneys remain after the retirement of all outstanding Certificates, shall be paid to the City to be used for any lawful purpose. Thereafter, neither the City, the Paying Agent/Registrar, nor any other person shall be liable or responsible to any Owners of such Certificates for any further payment of such unclaimed moneys or on account of any such Certificates, subject to Title 6 of the Texas Property Code.

#### Section 3.4. Execution and Registration of Certificates.

(a) The Certificates shall be executed on behalf of the City by the Mayor and the City Secretary, by their manual or facsimile signatures, and the official seal of the City shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Certificates shall have the same effect as if each of the Certificates had been signed manually and in person by each of said officers, and such facsimile seal on the Certificates shall have the same effect as if the official seal of the City had been manually impressed upon each of the Certificates.

(b) In the event that any officer of the City whose manual or facsimile signature appears on the Certificates ceases to be such officer before the authentication of such Certificates or before the delivery thereof, such manual or facsimile signature nevertheless shall be valid and sufficient for all purposes as if such officer had remained in such office.

(c) Except as provided below, no Certificate shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Ordinance unless and until there appears thereon the Certificate of Paying Agent/Registrar substantially in the form provided herein, duly authenticated by manual execution by an officer or duly authorized signatory of the Paying Agent/Registrar. It shall not be required that the same officer or authorized signatory of the Paying Agent/Registrar sign the Certificate of Paying Agent/Registrar on all of the Certificates. In lieu of the executed Certificate of Paying Agent/Registrar described above, the Initial Certificate delivered at the Closing Date shall have attached thereto the Comptroller's Registration Certificate substantially in the form provided herein, manually executed by the Comptroller of Public Accounts of the State of Texas, or by his duly authorized agent, which Certificate shall be evidence that the Certificate has been duly approved by the Attorney General of the State of Texas, that it is a valid and binding obligation of the City, and that it has been registered by the Comptroller of Public Accounts of the State of Texas.

(d) On the Delivery Date, one Initial Certificate representing the entire principal amount of the Certificates, payable in stated installments to the Representative or its designee, executed by manual or facsimile signature of the Mayor and City Secretary of the City, approved by the Attorney General of Texas, and registered and manually signed by the Comptroller of Public Accounts of the State of Texas, will be delivered to the Representative or its designee. Upon payment for the Initial Certificate, the Paying Agent/Registrar shall cancel the Initial Certificate and deliver to DTC on behalf of the Representative registered definitive Certificates as described in Section 3.10(a). To the extent the Paying Agent/Registrar is eligible to participate in DTC's FAST System, as evidenced by agreement between the Paying Agent/Registrar and DTC, the Paying Agent/Registrar shall hold the definitive Certificates in safekeeping for DTC.

### Section 3.5. Ownership.

(a) The City, the Paying Agent/Registrar, and any other person may treat the person in whose name any Certificate is registered as the absolute owner of such Certificate for the purpose of making and receiving payment as herein provided (except interest shall be paid to the person in whose name such Certificate is registered on the Record Date or Special Record Date, as applicable), and for all other purposes, whether or not such Certificate is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary.

(b) All payments made to the Owner of a Certificate shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Certificate to the extent of the sums paid.

### Section 3.6. Registration, Transfer, and Exchange.

(a) So long as any Certificates remain outstanding, the City shall cause the Paying Agent/Registrar to keep at the Designated Payment/Transfer Office a register in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Certificates in accordance with this Ordinance.

(b) The ownership of a Certificate may be transferred only upon the presentation and surrender of the Certificate at the Designated Payment/Transfer Office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar. No transfer of any Certificate shall be effective until entered in the Register.

(c) The Certificates shall be exchangeable upon the presentation and surrender thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar for a Certificate or Certificates of the same maturity and interest rate and in a denomination or denominations of any integral multiple of \$5,000, and in an aggregate principal amount equal to the unpaid principal amount of the Certificates presented for exchange. The Paying Agent/Registrar is hereby authorized to authenticate and deliver Certificates exchanged for other Certificates in accordance with this Section.

(d) Each exchange Certificate delivered by the Paying Agent/Registrar in accordance with this Section shall constitute an original contractual obligation of the City and shall be

entitled to the benefits and security of this Ordinance to the same extent as the Certificate or Certificates in lieu of which such exchange Certificate is delivered.

(e) No service charge shall be made to the Owner for the initial registration, subsequent transfer, or exchange for a different denomination of any of the Certificates. The Paying Agent/Registrar, however, may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer, or exchange of a Certificate.

(f) Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Certificate called for redemption, in whole or in part, where such redemption is scheduled to occur within forty-five (45) calendar days after the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the Owner of the uncalled principal balance of a Certificate.

### Section 3.7. Cancellation.

All Certificates paid or redeemed before scheduled maturity in accordance with this Ordinance, and all Certificates in lieu of which exchange Certificates or replacement Certificates are authenticated and delivered in accordance with this Ordinance, shall be cancelled and proper records made regarding such payment, redemption, exchange, or replacement. The Paying Agent/Registrar shall then return such cancelled Certificates to the City or may in accordance with law destroy such cancelled Certificates and periodically furnish the City with certificates of destruction of such Certificates.

### Section 3.8. Temporary Certificates.

(a) Following the delivery and registration of the Initial Certificate and pending the preparation of definitive Certificates, the proper officers of the City may execute and, upon the City's request, the Paying Agent/Registrar shall authenticate and deliver, one or more temporary Certificates that are printed, lithographed, typewritten, mimeographed, or otherwise produced, in any denomination, substantially of the tenor of the definitive Certificates in lieu of which they are delivered, without coupons, and with such appropriate insertions, omissions, substitutions, and other variations as the officers of the City executing such temporary Certificates may determine, as evidenced by their signing of such temporary Certificates.

(b) Until exchanged for Certificates in definitive form, such Certificates in temporary form shall be entitled to the benefit and security of this Ordinance.

(c) The City, without unreasonable delay, shall prepare, execute and deliver to the Paying Agent/Registrar the Certificates in definitive form; thereupon, upon the presentation and surrender of the Certificate or Certificates in temporary form to the Paying Agent/Registrar, the Paying Agent/Registrar shall cancel the Certificates in temporary form and shall authenticate and deliver in exchange therefor a Certificate or Certificates of the same maturity and series, in definitive form, in the authorized denomination, and in the same aggregate principal amount, as the Certificate or Certificates in temporary form surrendered. Such exchange shall be made without the making of any charge therefor to any Owner.

Section 3.9. Replacement Certificates.

(a) Upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Certificate, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Certificate of like tenor and principal amount, bearing a number not contemporaneously outstanding. The City or the Paying Agent/Registrar may require the Owner of such Certificate to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection therewith and any other expenses connected therewith.

(b) In the event that any Certificate is lost, apparently destroyed or wrongfully taken, the Paying Agent/Registrar, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Certificate has been acquired by a bona fide purchaser, shall authenticate and deliver a replacement Certificate of like tenor and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner first complies with the following requirements:

(i) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction, or theft of such Certificate;

(ii) furnishes such security or indemnity as may be required by the Paying Agent/Registrar to save it and the City harmless;

(iii) pays all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar, and any tax or other governmental charge that is authorized to be imposed; and

(iv) satisfies any other reasonable requirements imposed by the City and the Paying Agent/Registrar.

(c) If, after the delivery of such replacement Certificate, a bona fide purchaser of the original Certificate in lieu of which such replacement Certificate was issued presents for payment such original Certificate, the City and the Paying Agent/Registrar shall be entitled to recover such replacement Certificate from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost, or expense incurred by the City or the Paying Agent/Registrar in connection therewith.

(d) In the event that any such mutilated, lost, apparently destroyed, or wrongfully taken Certificate has become or is about to become due and payable, the Paying Agent/Registrar, in its discretion, instead of issuing a replacement Certificate, may pay such Certificate when it becomes due and payable.

(e) Each replacement Certificate delivered in accordance with this Section shall constitute an original additional contractual obligation of the City and shall be entitled to the benefits and security of this Ordinance to the same extent as the Certificate or Certificates in lieu of which such replacement Certificate is delivered.

Section 3.10. Book-Entry Only System.

(a) The definitive Certificates shall be initially issued in the form of a separate single fully registered Certificate for each of the maturities thereof. Upon initial issuance, the ownership of each such Certificate shall be registered in the name of Cede & Co., as nominee of DTC, and except as provided in Section 3.11 hereof, all of the outstanding Certificates shall be registered in the name of Cede & Co., as nominee of DTC.

(b) With respect to Certificates registered in the name of Cede & Co., as nominee of DTC, the City and the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest in the Certificates, except as provided in this Ordinance. Without limiting the immediately preceding sentence, the City and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Certificates, (ii) the delivery to any DTC Participant or any other person, other than an Owner, as shown on the Register, of any notice with respect to the Certificates, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, as shown in the Register of any amount with respect to principal of, premium, if any, or interest on the Certificates. Notwithstanding any other provision of this Ordinance to the contrary, the City and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Certificate is registered in the Register as the absolute Owner of such Certificate for the purpose of payment of principal of, premium, if any, and interest on the Certificates, for the purpose of giving notices of redemption and other matters with respect to such Certificate, for the purpose of registering transfer with respect to such Certificate, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of, premium, if any, and interest on the Certificates only to or upon the order of the respective Owners, as shown in the Register as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of, premium, if any, and interest on the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the register, shall receive a certificate evidencing the obligation of the City to make payments of amounts due pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Ordinance with respect to interest checks or drafts being mailed to the registered Owner at the close of business on the Record Date, the word "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

(c) The Representation Letter previously executed and delivered by the City, and applicable to the City's obligations delivered in book-entry-only form to DTC as securities depository for said obligations, is hereby ratified and approved for the Certificates.

Section 3.11. Successor Securities Depository; Transfer Outside Book-Entry Only System.

In the event that the City or the Paying Agent/Registrar determines that DTC is incapable of discharging its responsibilities described herein and in the Representation Letter, and that it is

in the best interest of the beneficial owners of the Certificates that they be able to obtain certificated Certificates, or in the event DTC discontinues the services described herein, the City or the Paying Agent/Registrar shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants, as identified by DTC, of the appointment of such successor securities depository and transfer one or more separate Certificates to such successor securities depository or (ii) notify DTC and DTC Participants, as identified by DTC, of the availability through DTC of Certificates and transfer one or more separate Certificates to DTC Participants having Certificates credited to their DTC accounts, as identified by DTC. In such event, the Certificates shall no longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Owners transferring or exchanging Certificates shall designate, in accordance with the provisions of this Ordinance.

#### Section 3.12. Payments to Cede & Co.

Notwithstanding any other provision of this Ordinance to the contrary, so long as any Certificates are registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on such Certificates, and all notices with respect to such Certificates, shall be made and given, respectively, in the manner provided in the Representation Letter.

### ARTICLE IV

#### REDEMPTION OF CERTIFICATES BEFORE MATURITY

##### Section 4.1. Limitation on Redemption.

The Certificates shall be subject to redemption before scheduled maturity only as provided in this Article IV.

##### Section 4.2. Optional Redemption.

(a) The City reserves the option to redeem Certificates having stated maturities on or after February 15, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2031, or any date thereafter, at a price equal to the principal amount of the Certificates called for redemption plus accrued interest to the date fixed for redemption.

(b) The City, at least 45 days before the redemption date, unless a shorter period shall be satisfactory to the Paying Agent/Registrar, shall notify the Paying Agent/Registrar of such redemption date and of the principal amount of Certificates to be redeemed.

##### Section 4.3. Mandatory Sinking Fund Redemption.

(a) The Certificates maturing on February 15 in the years 20\_\_, 20\_\_, and 20\_\_ (the "Term Certificates") are subject to scheduled mandatory redemption and will be redeemed by the City, in part at a price equal to the principal amount thereof, without premium, plus accrued

interest to the redemption date, out of moneys available for such purpose in the Interest and Sinking Fund, on the dates and in the respective principal amounts as set forth below.

\$ Term Certificates Maturing February 15, 20\_\_

<u>Redemption Date</u>	<u>Redemption Amount</u>
February 15, 20__	\$
February 15, 20__*	

\*maturity

(b) At least forty-five (45) days prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Certificates equal to the aggregate principal amount of such Term Certificates to be redeemed, shall call such Term Certificates for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided in Section 4.4.

The principal amount of the Term Certificates required to be redeemed on any redemption date pursuant to subparagraph (a) of this Section 4.00 shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

Section 4.4. Notice of Redemption to Owners.

(a) The Paying Agent/Registrar shall give notice of any redemption of Certificates by sending notice by United States mail, first class postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Certificate to be redeemed, at the address shown on the Register at the close of business on the business day next preceding the date of mailing of such notice.

(b) The notice shall state the redemption date, the redemption price, the place at which the Certificates are to be surrendered for payment, and, if less than all the Certificates outstanding are to be redeemed, an identification of the Certificates or portions thereof to be redeemed.

(c) Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice.

Section 4.5. Payment Upon Redemption.

(a) Before or on each redemption date, the Paying Agent/Registrar shall make provision for the payment of the Certificates to be redeemed on such date by setting aside and



holding in trust an amount from the Interest and Sinking Fund or otherwise received by the Paying Agent/Registrar from the City sufficient to pay the principal of, premium, if any, and accrued interest on such Certificates.

(b) Upon presentation and surrender of any Certificate called for redemption at the Designated Payment/Transfer Office on or after the date fixed for redemption, the Paying Agent/Registrar shall pay the principal of, premium, if any, and accrued interest on such Certificate to the date of redemption from the money set aside for such purpose.

#### Section 4.6. Effect of Redemption.

(a) Notice of redemption having been given as provided in Section 4.3 of this Ordinance, the Certificates or portions thereof called for redemption shall become due and payable on the date fixed for redemption and, unless the City defaults in the payment of the principal thereof, premium, if any, or accrued interest thereon, such Certificates or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Certificates are presented and surrendered for payment on such date.

(b) If the City shall fail to make provision for payment of all sums due on a redemption date, then any Certificate or portion thereof called for redemption shall continue to bear interest at the rate stated on the Certificate until due provision is made for the payment of same by the City.

#### Section 4.7. Conditional Notice of Redemption.

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

## ARTICLE V

### PAYING AGENT/REGISTRAR

#### Section 5.1. Appointment of Initial Paying Agent/Registrar.

Regions Bank, Houston, Texas is hereby appointed as the initial Paying Agent/Registrar for the Certificates.

#### Section 5.2. Qualifications.

Each Paying Agent/Registrar shall be a commercial bank, a trust company organized under the laws of the State of Texas, or other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Certificates.

#### Section 5.3. Maintaining Paying Agent/Registrar.

(a) At all times while any of the Certificates are outstanding, the City will maintain a Paying Agent/Registrar that is qualified under Section 5.2 of this Ordinance. The Mayor is hereby authorized and directed to execute an agreement with the Paying Agent/Registrar specifying the duties and responsibilities of the City and the Paying Agent/Registrar in substantially the form presented at this meeting, such form of agreement being hereby approved. The signature of the Mayor shall be attested by the City Secretary of the City.

(b) If the Paying Agent/Registrar resigns or otherwise ceases to serve as such, the City will promptly appoint a replacement.

#### Section 5.4. Termination.

The City, upon not less than sixty (60) days' notice, reserves the right to terminate the appointment of any Paying Agent/Registrar by delivering to the entity whose appointment is to be terminated written notice of such termination.

#### Section 5.5. Notice of Change to Owners.

Promptly upon each change in the entity serving as Paying Agent/Registrar, the City will cause notice of the change to be sent to each Owner and any bond insurer by first class United States mail, postage prepaid, at the address thereof in the Register, stating the effective date of the change and the name and mailing address of the replacement Paying Agent/Registrar.

#### Section 5.6. Agreement to Perform Duties and Functions.

By accepting the appointment as Paying Agent/Registrar and executing the Paying Agent/Registrar Agreement, the Paying Agent/Registrar is deemed to have agreed to the provisions of this Ordinance and that it will perform the duties and functions of Paying Agent/Registrar prescribed thereby.

Section 5.7. Delivery of Records to Successor.

If a Paying Agent/Registrar is replaced, such Paying Agent, promptly upon the appointment of the successor, will deliver the Register (or a copy thereof) and all other pertinent books and records relating to the Certificates to the successor Paying Agent/Registrar.

ARTICLE VI

FORM OF THE CERTIFICATES

Section 6.1. Form Generally.

(a) The Certificates, including the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of the Paying Agent/Registrar, and the Assignment form to appear on each of the Certificates, (i) shall be substantially in the form set forth in this Article, with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Ordinance, and (ii) may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as, consistently herewith, may be determined by the City or by the officers executing such Certificates, as evidenced by their execution thereof.

(b) Any portion of the text of any Certificates may be set forth on the reverse side thereof, with an appropriate reference thereto on the face of the Certificates.

(c) The definitive Certificates, if any, shall be typewritten, photocopied, printed, lithographed, or engraved, and may be produced by any combination of these methods or produced in any other similar manner, all as determined by the officers executing such Certificates, as evidenced by their execution thereof.

(d) The Initial Certificate submitted to the Attorney General of the State of Texas may be typewritten and photocopied or otherwise reproduced.

Section 6.2. Form of the Certificates.

The form of the Certificates, including the form of the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the form of Certificate of the Paying Agent/Registrar and the form of Assignment appearing on the Certificates, shall be substantially as follows:

(a) Form of Certificate.

REGISTERED  
No. \_\_\_\_\_

REGISTERED  
\$ \_\_\_\_\_

United States of America  
State of Texas  
Anderson County  
CITY OF PALESTINE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATE OF OBLIGATION  
SERIES 2022  
(FORWARD DELIVERY)

<u>INTEREST RATE:</u>	<u>MATURITY DATE:</u>	<u>CLOSING DATE:</u>	<u>CUSIP NO.</u>
_____ %	_____ 15, 20__	January 4, 2022	_____

The City of Palestine (the "City"), in Anderson County, State of Texas, for value received, hereby promises to pay to

\_\_\_\_\_

or registered assigns, on the Maturity Date specified above, the sum of

\_\_\_\_\_ DOLLARS

unless this Certificate shall have been sooner called for redemption and the payment of the principal hereof shall have been paid or provision for such payment shall have been made, and to pay interest on such principal amount from the later of the Delivery Date specified above or the most recent interest payment date to which interest has been paid or provided for until payment of such principal amount has been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on February 15 and August 15 of each year, commencing August 15, 2022.

The principal of this Certificate shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Certificate at the corporate trust office in Houston, Texas (the "Designated Payment/Transfer Office"), of Regions Bank or, with respect to a successor Paying Agent/Registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Certificate is payable by check dated as of the interest payment date, and will be mailed by the Paying Agent/Registrar to the registered owner at the address shown on the registration books kept by the Paying Agent/Registrar or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner; provided, however, such registered owner shall bear all risk and expenses of such customary banking arrangement. At the option of an Owner of at least \$1,000,000 principal amount of the Certificates, interest may be paid by wire transfer to the bank account of such Owner on file with the Paying Agent/Registrar. For the purpose of the payment of interest on this Certificate, the registered owner shall be the person in whose name

this Certificate is registered at the close of business on the "Record Date," which shall be the last business day of the month next preceding such interest payment date; provided, however, that in the event of nonpayment of interest on a scheduled payment date and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") shall be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date," which date shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Owner of a Certificate appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

If the date for the payment of the principal of or interest on this Certificate shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due.

This Certificate is one of a series of fully registered certificates dated August 15, 2021, specified in the title hereof issued in the aggregate principal amount of \$\_\_\_\_\_ (herein referred to as the "Certificates"), issued pursuant to a certain ordinance of the City (the "Ordinance") for the purpose of paying contractual obligations to be incurred for authorized public improvements (the "Project"), as described in the Ordinance, and to pay the contractual obligations for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates.

The City has reserved the option to redeem the Certificates maturing on or after February 15, 2032, in whole or in part, before their respective scheduled maturity dates, on February 15, 2031, or any date thereafter, at a price equal to the principal amount of the Certificates so called for redemption plus accrued interest to the date fixed for redemption. If less than all of the Certificates are to be redeemed, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot the Certificates, or portions thereof, within such maturity and in such principal amounts, for redemption.

[The Certificates maturing on February 15, 20\_\_ (the "Term Certificates"), are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the City, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the dates and in the principal amounts shown in the following schedule:

Term Certificates Maturing September 15, 20\_\_

<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 20__	\$
February 15, 20__	

The Paying Agent/Registrar will select by lot or by any other customary method that results in a random selection the specific Term Certificates (or with respect to Term Certificates having a denomination in excess of \$5,000, each \$5,000 portion thereof) to be redeemed by mandatory redemption. The principal amount of Term Certificates required to be redeemed on any redemption date pursuant to the foregoing mandatory sinking fund redemption provisions hereof shall be reduced, at the option of the City, by the principal amount of any Certificates which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.]

Notice of such redemption or redemptions shall be sent by United States mail, first class postage prepaid, not less than 30 days before the date fixed for redemption, to the registered owner of each of the Certificates to be redeemed in whole or in part. Notice having been so given, the Certificates or portions thereof designated for redemption shall become due and payable on the redemption date specified in such notice, and from and after such date, notwithstanding that any of the Certificates or portions thereof so called for redemption shall not have been surrendered for payment, interest on such Certificates or portions thereof shall cease to accrue.

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

As provided in the Ordinance, and subject to certain limitations therein set forth, this Certificate is transferable upon surrender of this Certificate for transfer at the designated office of

the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar; thereupon, one or more new fully registered Certificates of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Certificate called for redemption where such redemption is scheduled to occur within forty five (45) calendar days of the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Certificate.

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name this Certificate is registered as the owner hereof for the purpose of receiving payment as herein provided (except interest shall be paid to the person in whose name this Certificate is registered on the Record Date) and for all other purposes, whether or not this Certificate be overdue, and neither the City nor the Paying Agent/Registrar shall be affected by notice to the contrary.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Certificate and the series of which it is a part is duly authorized by law; that all acts, conditions, and things to be done precedent to and in the issuance of the Certificates have been properly done and performed and have happened in regular and due time, form, and manner as required by law; that ad valorem taxes upon all taxable property in the City have been levied for and pledged to the payment of the debt service requirements of the Certificates within the limit prescribed by law; that, in addition to said taxes, further provisions have been made for the payment of the debt service requirements of the Certificates by pledging to such purpose Surplus Revenues, as defined in the Ordinance, derived by the City from the operation of the combined waterworks and sewer system; that when so collected, such taxes and Surplus Revenues shall be appropriated to such purposes; and that the total indebtedness of the City, including the Certificates, does not exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the City has caused this Certificate to be executed by the manual or facsimile signature of the Mayor of the City and countersigned by the manual or facsimile signature of the City Secretary, and the official seal of the City has been duly impressed or placed in facsimile on this Certificate.

---

City Secretary, City of Palestine, Texas

---

Mayor, City of Palestine, Texas

[SEAL]



(b) Form of Comptroller's Registration Certificate. The following Comptroller's Registration Certificate may be deleted from the definitive Certificates if such certificate on the Initial Certificate is fully executed.

OFFICE OF THE COMPTROLLER	§	
OF PUBLIC ACCOUNTS	§	REGISTER NO. _____
OF THE STATE OF TEXAS	§	

I hereby certify that there is on file and of record in my office a certificate of the Attorney General of the State of Texas to the effect that this Certificate has been examined by him as required by law, that he finds that it has been issued in conformity with the Constitution and laws of the State of Texas, and that it is a valid and binding obligation of the City of Palestine, Texas; and that this Certificate has this day been registered by me.

Witness my hand and seal of office at Austin, Texas, \_\_\_\_\_.

\_\_\_\_\_  
Comptroller of Public Accounts  
of the State of Texas

[SEAL]

(c) Form of Certificate of Paying Agent/Registrar.

The following Certificate of Paying Agent/Registrar may be deleted from the Initial Certificate if the Comptroller's Registration Certificate appears thereon.

#### CERTIFICATE OF PAYING AGENT/REGISTRAR

The records of the Paying Agent/Registrar show that the Initial Certificate of this series of certificates of obligation was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas, and that this is one of the Certificates referred to in the within-mentioned Ordinance.

REGIONS BANK,  
as Paying Agent/Registrar

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Authorized Signatory

(d) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto (print or typewrite name, address and Zip Code of transferee): \_\_\_\_\_

\_\_\_\_\_  
(Social Security or other identifying number: \_\_\_\_\_) the within Certificate and all rights hereunder and hereby irrevocably constitutes and appoints \_\_\_\_\_ attorney to transfer the within Certificate on the books kept for registration hereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed By: \_\_\_\_\_

\_\_\_\_\_  
Authorized Signatory

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears on the face of the within Certificate in every particular and must be guaranteed in a manner acceptable to the Paying Agent/Registrar.

(e) The Initial Certificate shall be in the form set forth in paragraphs (a), (b) and (d) of this Section, except for the following alterations:

(i) immediately under the name of the Certificate the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the expression "As shown below" and the reference to the "CUSIP NO. \_\_\_\_" shall be deleted;

(ii) in the first paragraph of the Certificate, the words "on the Maturity Date specified above, the sum of \_\_\_\_\_ DOLLARS" shall be deleted and the following will be inserted: "on the maturity dates shown below, in the principal installments and bearing interest at the per annum rates set forth in the following schedule:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
(Information to be inserted from Section 3.2 hereof).		

(iii) the Initial Certificate shall be numbered T-1.

Section 6.3. CUSIP Registration.

The City may secure identification numbers through the CUSIP Global Services managed by S&P Global Market Intelligence on behalf of The American Bankers Association, and may authorize the printing of such numbers on the face of the Certificates. It is expressly provided, however, that the presence or absence of CUSIP numbers on the Certificates shall be of no significance or effect in regard to the legality thereof and neither the City nor the attorneys approving said Certificates as to legality are to be held responsible for CUSIP numbers incorrectly printed on the Certificates.

Section 6.4. Legal Opinion.

The approving legal opinion of Bracewell LLP, Bond Counsel, may be attached to or printed on the reverse side of each Certificate over the certification of the City Secretary of the City, which may be executed in facsimile.

Section 6.5. Bond Insurance.

Information pertaining to bond insurance, if any, may be printed on each Certificate.

ARTICLE VII

SALE AND DELIVERY OF CERTIFICATES; DEPOSIT OF PROCEEDS

Section 7.1. Sale of Certificates; Official Statement.

(a) The Certificates are hereby officially sold and awarded to the Underwriters in accordance with the terms and provisions of that certain Forward Delivery Purchase Contract relating to the Certificates between the District and the Underwriters and dated the date of the passage of this Ordinance. The form and content of such Forward Delivery Purchase Contract are hereby approved, and the Mayor is hereby authorized and directed to execute and deliver such Forward Delivery Purchase Contract. It is hereby officially found, determined and declared that the terms of this sale are the most advantageous reasonably obtainable. The Certificates shall initially be registered in the name of the Huntington Capital Markets, Inc., as Representative of the Underwriters, or its designee.

(b) The form and substance of the Preliminary Official Statement for the Certificates and any addenda, supplement or amendment thereto (the "Preliminary Official Statement") and the final Official Statement (the "Official Statement") presented to and considered at this meeting, are hereby in all respects approved and adopted, and the Preliminary Official Statement is hereby deemed final as of its date (except for the omission of pricing and related information) within the meaning and for the purposes of paragraph (b)(1) of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, by the City Council. The use and distribution of the Preliminary Official Statement in the public offering of the Certificates by the Underwriter is hereby authorized. The City Manager, the Finance Director, the Mayor and the City Secretary of the City are hereby authorized and directed to use and distribute or authorize the use and distribution of the final Official Statement and any addenda, supplement or amendment thereto (the "Official Statement") and to execute the same and deliver appropriate numbers of executed copies thereof to the Underwriter of the Certificates. The Official Statement as thus approved, executed and delivered, with such appropriate variations as shall be approved by the City Manager, the Finance Director, the Mayor of the City and the Underwriters, may be used by the Underwriters in the public offering and sale thereof. The City Secretary is hereby authorized and directed to include and maintain a copy of the Official Statement and any addenda, supplement or amendment thereto thus approved among the permanent records of this meeting.

(c) All officers of the City are authorized to execute such documents, certificates and receipts as they may deem appropriate in order to consummate the delivery of the Certificates in accordance with the terms of sale therefor. Further, in connection with the submission of the

record of proceedings for the Certificates to the Attorney General of the State of Texas for examination and approval of such Certificates, the appropriate officer of the City is hereby authorized and directed to issue a check of the City payable to the Attorney General of the State of Texas as a nonrefundable examination fee in the amount required by Chapter 1202, Texas Government Code (such amount to be the lesser of (i) 1/10th of 1% of the principal amount of the Certificates or (ii) \$9,500).

(d) The obligation of the Underwriters to accept delivery of the Certificates is subject to the Underwriters being furnished with the final, approving opinion of Bracewell LLP, Bond Counsel for the City, which opinion shall be dated and delivered on the Closing Date. The Mayor and the City Manager are each hereby authorized and directed to execute a bond counsel engagement letter with Bracewell LLP, setting forth such firm's duties as Bond Counsel for the City, and such engagement letter and the terms thereof in the form presented at this meeting is hereby approved and accepted.

#### Section 7.2. Control and Delivery of Certificates.

(a) The Mayor of the City is hereby authorized to have control of the Initial Certificate and all necessary records and proceedings pertaining thereto pending investigation, examination, and approval of the Attorney General of the State of Texas, registration by the Comptroller of Public Accounts of the State of Texas and registration with, and initial exchange or transfer by, the Paying Agent/Registrar.

(b) After registration by the Comptroller of Public Accounts, delivery of the Certificates shall be made to the Underwriter under and subject to the general supervision and direction of the Mayor, against receipt by the City of all amounts due to the City under the terms of sale.

(c) In the event the Mayor or City Secretary is absent or otherwise unable to execute any document or take any action authorized herein, the Mayor Pro Tem and the Assistant City Secretary, respectively, shall be authorized to execute such documents and take such actions, and the performance of such duties by the Mayor Pro Tem and the Assistant City Secretary shall for the purposes of this Ordinance have the same force and effect as if such duties were performed by the Mayor and City Secretary, respectively.

#### Section 7.3. Deposit of Proceeds.

(a) \$\_\_\_\_\_ of Certificate proceeds (representing the principal amount of the Certificates plus premium in the amount of \$\_\_\_\_\_ generated on the Certificates) shall be deposited to the Project Fund and shall be used for the purposes described in Section 3.1(i) and (ii) of this Ordinance.

(b) \$\_\_\_\_\_ of Certificate proceeds (representing premium generated in connection with the issuance of the Certificates) shall be applied to the payment of costs of issuance of the Certificates as specified in Section 3.1(iii) of this Ordinance. Any proceeds remaining after payment of cost of issuance shall be deposited to the Interest and Sinking Fund.

## ARTICLE VIII

### INVESTMENTS

#### Section 8.1. Investments.

(a) Money in the Interest and Sinking Fund or the Surplus Revenue Fund created by this Ordinance, at the option of the City, may be invested in such securities or obligations as permitted under applicable law.

(b) Any securities or obligations in which such money is so invested shall be kept and held in trust for the benefit of the Owners and shall be sold and the proceeds of sale shall be timely applied to the making of all payments required to be made from the fund from which the investment was made.

#### Section 8.2. Investment Income.

(a) Interest and income derived from investment of the Interest and Sinking Fund and the Surplus Revenue Fund shall be credited to their respective funds.

(b) Interest and income derived from investment of the funds to be deposited pursuant to Section 7.3 hereof shall be credited to the account where deposited until the acquisition or construction of said projects is completed and thereafter, to the extent such interest and income are present, such interest and income shall be deposited to the Interest and Sinking Fund.

## ARTICLE IX

### PARTICULAR REPRESENTATIONS AND COVENANTS

#### Section 9.1. Payment of the Certificates.

On or before each Interest Payment Date while any of the Certificates are outstanding and unpaid, there shall be made available to the Paying Agent/Registrar, out of the Interest and Sinking Fund, money sufficient to pay such interest on and principal of, redemption premium, if any, and interest on the Certificates as will accrue or mature on the applicable Interest Payment Date, Maturity Date, and if applicable, on a date of prior redemption.

#### Section 9.2. Other Representations and Covenants.

(a) The City will faithfully perform, at all times, any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance and in each Certificate; the City will promptly pay or cause to be paid the principal of, redemption premium, if any, and interest on each Certificate on the dates and at the places and manner prescribed in such Certificate; and the City will, at the times and in the manner prescribed by this Ordinance, deposit or cause to be deposited the amounts of money specified by this Ordinance.

(b) The City is duly authorized under the laws of the State of Texas to issue the Certificates; all action on its part for the creation and issuance of the Certificates has been duly

and effectively taken; and the Certificates in the hands of the Owners thereof are and will be valid and enforceable obligations of the City in accordance with their terms.

### Section 9.3. Federal Tax Matters.

(a) *General.* The City covenants not to take any action or omit to take any action that, if taken or omitted would cause the interest on the Certificates to be includable in gross income, for federal income tax purposes. In furtherance thereof, the City covenants to comply with sections 103 and 141 through 150 of the Code and the provisions set forth in the Federal Tax Certificate executed by the City in connection with the Certificates.

(b) *No Private Activity Bonds.* The City covenants that it will use the proceeds of the Certificates (including investment income) and the property financed, directly or indirectly, with such proceeds so that the Certificates will not be “private activity bonds” within the meaning of section 141 of the Code. Furthermore, the City will not take a deliberate action (as defined in section 1.141-2(d)(3) of the Regulations) that causes the Certificates to be a “private activity bond” unless it takes a remedial action permitted by section 1.141-12 of the Regulations.

(c) *No Federal Guarantee.* The City covenants not to take any action or omit to take any action that, if taken or omitted, would cause the Certificates to be “federally guaranteed” within the meaning of section 149(b) of the Code, except as permitted by section 149(b)(3) of the Code.

(d) *No Hedge Bonds.* The City covenants not to take any action or omit to take action that, if taken or omitted, would cause the Certificates to be “hedge bonds” within the meaning of section 149(g) of the Code.

(e) *No Arbitrage Bonds.* The City covenants that it will make such use of the proceeds of the Certificates (including investment income) and regulate the investment of such proceeds of the Certificates so that the Certificates will not be “arbitrage bonds” within the meaning of section 148(a) of the Code.

(f) *Required Rebate.* The City covenants that, if the City does not qualify for an exception to the requirements of section 148(f) of the Code, the City will comply with the requirement that certain amounts earned by the City on the investment of the gross proceeds of the Certificates, be rebated to the United States.

(g) *Information Reporting.* The City covenants to file or cause to be filed with the Secretary of the Treasury an information statement concerning the Certificates in accordance with section 149(e) of the Code.

(h) *Record Retention.* The City covenants to retain all material records relating to the expenditure of the proceeds (including investment income) of the Certificates and the use of the property financed, directly or indirectly, thereby until three years after the last Certificate is redeemed or paid at maturity (or such other period as provided by subsequent guidance issued by the Department of the Treasury) in a manner that ensures their complete access throughout such retention period.

(i) *Registration.* If the Certificates are “registration-required bonds” under section 149(a)(2) of the Code, the Certificates will be issued in registered form.

(j) *Favorable Opinion of Bond Counsel.* Notwithstanding the foregoing, the City will not be required to comply with any of the federal tax covenants set forth above if the City has received an opinion of nationally recognized bond counsel that such noncompliance will not adversely affect the excludability of interest on the Certificates from gross income for federal income tax purposes.

(k) *Continuing Compliance.* Notwithstanding any other provision of this Ordinance, the City’s obligations under the federal tax covenants set forth above will survive the defeasance and discharge of the Certificates for as long as such matters are relevant to the excludability of interest on the Certificates from gross income for federal income tax purposes.

## ARTICLE X

### DEFAULT AND REMEDIES

#### Section 10.1. Events of Default.

(a) Each of the following occurrences or events for the purpose of this Ordinance is hereby declared to be an Event of Default:

(i) the failure to make payment of the principal of, redemption premium, if any, or interest on any of the Certificates when the same becomes due and payable; or

(ii) default in the performance or observance of any other covenant, agreement, or obligation of the City, which default materially and adversely affects the rights of the Owners, including but not limited to their prospect or ability to be repaid in accordance with this Ordinance, and the continuation thereof for a period of sixty (60) days after notice of such default is given by any Owner to the City.

#### Section 10.2. Remedies for Default.

(a) Upon the happening of any Event of Default, then any Owner or an authorized representative thereof, including but not limited to a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under this Ordinance by mandamus or other suit, action or special proceeding in equity or at law in any court of competent jurisdiction for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies.

(b) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Owners of Certificates then outstanding.

Section 10.3. Remedies Not Exclusive.

(a) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Certificates or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Ordinance, the right to accelerate the debt evidenced by the Certificates shall not be available as a remedy under this Ordinance.

(b) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

ARTICLE XI

DISCHARGE

Section 11.1. Discharge.

The Certificates may be defeased, discharged or refunded in any manner permitted by applicable law.

ARTICLE XII

CONTINUING DISCLOSURE UNDERTAKING

Section 12.1. Annual Reports.

(a) The City shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the City, financial information and operating data with respect to the City of the general type included in the final Official Statement, being information described in the Appendix A as Tables numbered 1 through 6 and 8 through 14, including financial statements of the City if audited financial statements of the City are then available, and (2) if not provided as part such financial information and operating data, audited financial statements of the City within 12 months after the end of each fiscal year, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles appended to the Official Statement, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

(b) If the City changes its Fiscal Year, it will notify the MSRB of the change (and of the date of the new Fiscal Year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.



(c) All financial information, operating data, financial statements, and notices required by this Section to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided pursuant to Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the SEC.

Section 12.2. Notice of Certain Events.

(a) The City shall provide the following to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Certificates:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;
- (vii) Modifications to rights of the holders of the Certificates, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the Certificates, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the City;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an

action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(xiv) Appointment of successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material;

(xv) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and

(xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

Any event described in (xii), is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person; and the City intends the words used in the immediately preceding paragraphs (xv) and (xvi) and the definition of Financial Obligations in those sections to have the same meanings as when they are used in rule and sec release no. 34-83885, dated August 20, 2018.

(b) The City shall provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, notice of a failure by the City to provide required annual financial information and notices of material events in accordance with Section 12.1 and subsection (a) above. All documents provided to the MSRB pursuant to this Section shall be accompanied by identifying information, as prescribed by the MSRB, and will be available via EMMA at [www.emma.msrb.org](http://www.emma.msrb.org).

### Section 12.3. Limitations, Disclaimers and Amendments.

(a) The City shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the City remains an “obligated person” with respect to the Certificates within the meaning of the Rule, except that the City in any event will give notice of any deposit made in accordance with Article XI that causes Certificates no longer to be Outstanding.

(b) The provisions of this Article are for the sole benefit of the Owners and beneficial owners of the Certificates, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete

presentation of the City's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Certificates at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY CERTIFICATE OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

(c) No default by the City in observing or performing its obligations under this Article shall comprise a breach of or default under the Ordinance for purposes of any other provisions of this Ordinance.

(d) Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

(e) The provisions of this Article may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell Certificates in the primary offering of the Certificates in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (A) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of this Ordinance that authorizes such an amendment) of the Outstanding Certificates consent to such amendment or (B) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Certificates. If the City so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with Section 12.1 an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

## ARTICLE XIII

### AMENDMENTS

#### Section 13.1. Amendments.

This Ordinance shall constitute a contract with the Owners, be binding on the City, and shall not be amended or repealed by the City so long as any Certificate remains outstanding except as permitted in this Section. The City may, without consent of or notice to any Owners, from time to time and at any time, amend this Ordinance in any manner not detrimental to the

interests of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of the Owners of the Certificates holding a majority in aggregate principal amount of the Certificates then outstanding, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Owners of outstanding Certificates, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Certificates, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Certificates, (ii) give any preference to any Certificate over any other Certificate, or (iii) reduce the aggregate principal amount of Certificates required to be held by Owners for consent to any such amendment, addition, or rescission.

## ARTICLE XIV

### MISCELLANEOUS

#### Section 14.1. Changes to Ordinance.

The Mayor, the City Manager and the Finance Director, in consultation with Bond Counsel, are each hereby authorized to make changes to the terms of this Ordinance if necessary or desirable to carry out the purposes hereof or in connection with the approval of the issuance of the Certificates by the Attorney General of Texas.

#### Section 14.2. Partial Invalidity.

If any section, paragraph, clause or provision of this Ordinance shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause or provision shall not affect any of the remaining provisions of the Ordinance.

#### Section 14.3. No Personal Liability.

No recourse shall be had for payment of the principal of or interest on any Certificates or for any claim based thereon, or on this Ordinance, against any official or employee of the City or any person executing any Certificates.

## ARTICLE XV

### EFFECTIVE IMMEDIATELY

#### Section 15.1. Effective Immediately.

Notwithstanding the provisions of the City Charter, this Ordinance shall become effective immediately upon its adoption at this meeting pursuant to Section 1201.028, Texas Government Code.

PASSED AND APPROVED this 25<sup>th</sup> day of August, 2021.

---

Mayor  
City of Palestine, Texas

ATTEST:

---

City Secretary  
City of Palestine, Texas

APPROVED AS TO FORM:

---

City Attorney  
City of Palestine, Texas

## EXHIBIT A

### DESCRIPTION OF ANNUAL DISCLOSURE OF FINANCIAL INFORMATION

The following information is referred to in Article XII of this Ordinance.

#### **Annual Financial Statements and Operating Data**

The financial information and operating data with respect to the City to be provided annually in accordance with such Article are as specified (and included in the Appendix or other headings of the Official Statement referred to) below:

1. The audited financial statements of the City for the most recently concluded fiscal year.
2. Statistical and financial data set forth in Tables 1-6 and 8-14 in the Official Statement.

#### **Accounting Principles**

The accounting principles referred to in such Article are the accounting principles described in the notes to the financial statements set forth in Appendix B to the Official Statement.



Agenda Date: August 25, 2021  
To: City Council  
From: Teresa Herrera, City Manager  
Agenda Item: Allocation of cost savings on Health Benefits  
Date Submitted:

---

**SUMMARY:**

Attached is the information for our upcoming benefit renewals. We need Council to determine how to divide the cost savings. Also, we have Dental numbers. Our rates were locked in, and they were actually higher than 2020, however, we had a COVID rebate and applied it to keep the costs the same as what we paid for MetLife in 2020. Our broker went back to BCBS to get a reduction and was successful in getting a reduction, but it will still result in a small increase in the dental premiums. The updated premiums are in the 'Revised Renewal BCBS Premium' column.

**RECOMMENDED ACTION:**

Staff recommends Council make a decision on how to divide the cost savings.

**CITY MANAGER APPROVAL:**

---

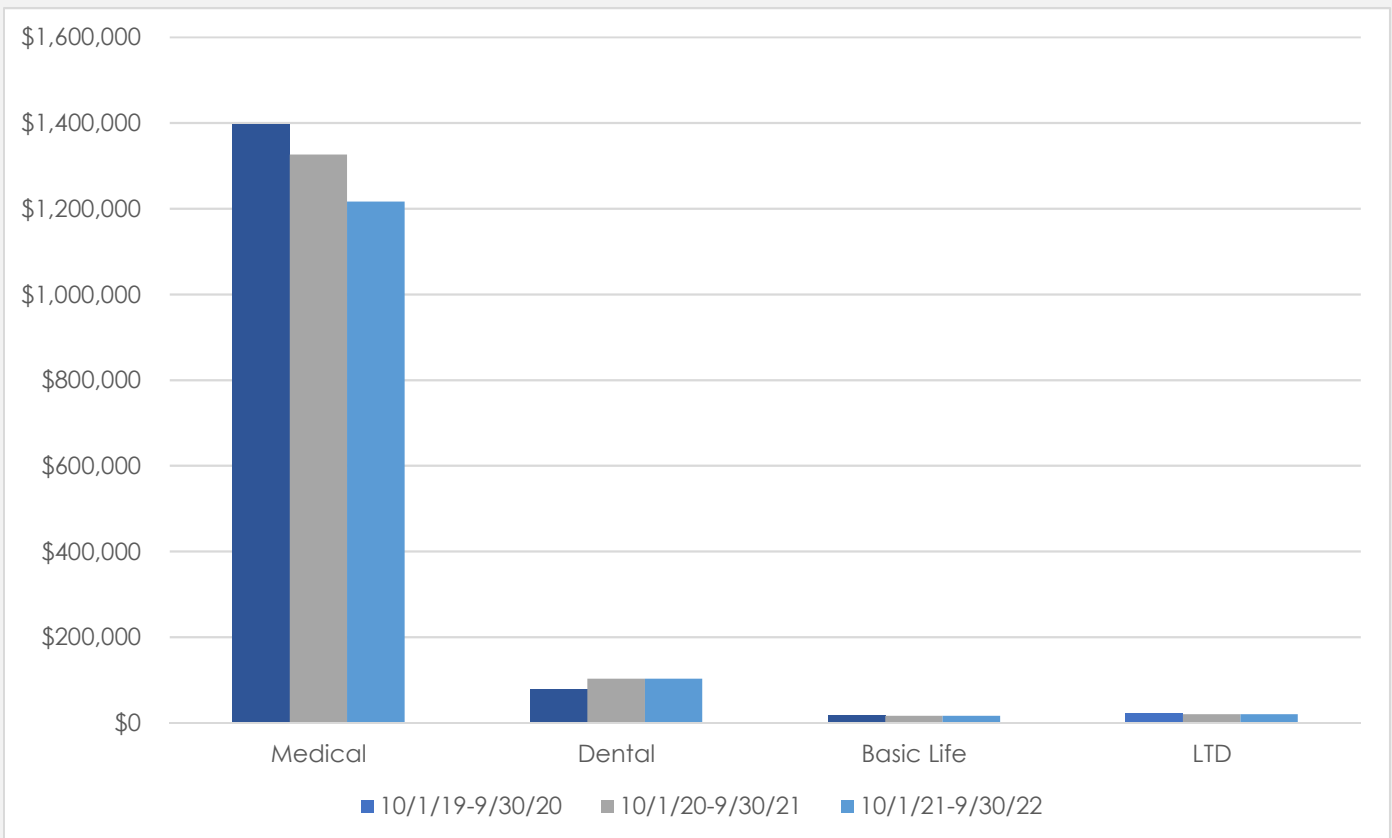
**Attachments**

Health Benefits  
Dental Update

# CITY OF PALESTINE

## YEAR OVER YEAR PLAN COSTS

PLAN TYPE	BCBS/METLIFE/MOO	BCBS/MOO	BCBS/MOO
	10/1/19-9/30/20	10/1/20-9/30/21	10/1/21-9/30/22
Medical	\$1,395,878	\$1,326,073	\$1,216,672
Dental	\$77,327	\$102,626	\$102,626
Basic Life	\$16,349	\$16,349	\$16,349
LTD	\$22,455	\$19,668	\$19,668
<b>TOTALS</b>	<b>\$1,512,009</b>	<b>\$1,464,716</b>	<b>\$1,355,316</b>





PLAN BENEFITS	Carrier	Current				Renewal			
	Plan	BlueEdge HSA Insured		PPO Insured Cost Standard		BlueEdge HSA Insured		PPO Insured Cost Standard	
	Network	Blue Choice		Blue Choice		Blue Choice		Blue Choice	
	Benefit	In	Out	In	Out	In	Out	In	Out
	<b>Annual Deductible</b>								
	Individual	\$2,000	\$4,000	\$1,000	\$2,000	\$2,000	\$4,000	\$1,000	\$2,000
	Family	\$6,000	\$12,000	\$3,000	\$6,000	\$6,000	\$12,000	\$3,000	\$6,000
	<b>Out-Of-Pocket Limit</b>								
	Individual	\$6,650	\$15,000	\$7,350	\$15,000	\$6,650	\$15,000	\$7,350	\$15,000
	Family	\$7,350	\$30,000	\$14,700	\$30,000	\$7,350	\$30,000	\$14,700	\$30,000
	<b>Coinsurance</b>	80%	50%	80%	50%	80%	50%	80%	50%
	<b>Office Visits/Exams</b>								
	Primary Care Physician	80%	50%	\$30 Copay	50%	80%	50%	\$30 Copay	50%
	Specialist Care Physician	80%	50%	\$50 Copay	50%	80%	50%	\$50 Copay	50%
	Lab/X-Ray (Outpatient)	80%	50%	80%	50%	80%	50%	80%	50%
	Preventive	100%	50%	100%	50%	100%	50%	100%	50%
	<b>Urgent Care</b>	80%	50%	\$50 Copay	50%	80%	50%	\$50 Copay	50%
	<b>Emergency Room</b>	80%	50%	\$75 Copay	\$75 Copay	80%	50%	\$75 Copay	\$75 Copay
	<b>Inpatient Hospital</b>	80%	50%	80%	50%	80%	50%	80%	50%
	<b>Prescription Drugs</b>								
	Generic	80%		\$10 Copay	50%	80%		\$10 Copay	50%
	Preferred Brand	80%		\$40 Copay	50%	80%		\$40 Copay	50%
	Non-Preferred Brand	80%		\$60 Copay	50%	80%		\$60 Copay	50%
	Preferred Specialty	80%		\$60 Copay	50%	80%		\$60 Copay	50%
	Non-Preferred Specialty	80%		\$75 Copay	50%	80%		\$75 Copay	50%

PLAN COST		BlueEdge HSA Insured	PPO Insured Cost Standard	BlueEdge HSA Insured	PPO Insured Cost Standard
	Employee Only	\$640.39	\$739.14	\$587.54	\$678.14
	Employee + Spouse	\$1,408.85	\$1,626.13	\$1,292.59	\$1,491.94
	Employee + Child(ren)	\$1,216.74	\$1,404.38	\$1,116.33	\$1,288.48
	Employee + Family	\$1,985.21	\$2,291.37	\$1,821.38	\$2,102.28
	<b>Monthly Premium</b>	\$64,679	\$45,827	\$59,342	\$42,045
	<b>Annual Premium</b>	\$776,152	\$549,921	\$712,099	\$504,537
	<b>TOTAL PREMIUM</b>	\$1,326,073		\$1,216,636	
	<b>Increase/Decrease Cost</b>			-\$109,438	
	<b>Increase/Decrease Percentage</b>			-8.25%	

CENSUS	Employee Only	89	56
	Employee + Spouse	2	1
	Employee + Child(ren)	4	2
	Employee + Family	0	0
	<b>Total</b>	<b>95</b>	<b>59</b>

# CITY OF PALESTINE

## Monthly Claims Report

10/1/20-9/30/21

Carrier: **BCBS**

Renewal Date:

10/1/2021

Month	Medical Subscribers	Medical Members	Premium	Monthly Medical Paid Claims	Monthly Rx Paid Claims	VBC Payments	Total Monthly Claims
October-20	155	172	\$ 113,359.00	\$ 41,393.00	\$ 3,444.00	\$ 20.00	\$ 44,857.00
November-20	152	166	\$ 110,191.00	\$ 30,827.00	\$ 3,799.00	\$ 23.00	\$ 34,649.00
December-20	153	167	\$ 110,733.00	\$ 316,629.00	\$ 7,826.00	\$ 26.00	\$ 324,481.00
January-21	157	168	\$ 112,718.00	\$ 26,268.00	\$ 3,092.00	\$ 156.00	\$ 29,516.00
February-21	157	168	\$ 112,078.00	\$ 17,066.00	\$ 6,429.00	\$ 166.00	\$ 23,661.00
March-21	160	171	\$ 114,738.00	\$ 69,791.00	\$ 9,898.00	\$ 162.00	\$ 79,851.00
April-21	157	170	\$ 112,427.00	\$ 38,966.00	\$ 4,143.00	\$ 165.00	\$ 43,274.00
May-21	154	167	\$ 110,506.00	\$ 19,349.00	\$ 8,121.00	\$ 152.00	\$ 27,622.00
June-21	157	173	\$ 113,004.00	\$ 127,317.00	\$ 1,541.00	\$ 152.00	\$ 129,010.00
July-21							
August-21							
September-21							
<b>TOTALS</b>			<b>\$ 1,009,754.00</b>	<b>\$ 687,606.00</b>	<b>\$ 48,293.00</b>	<b>\$ 1,022.00</b>	<b>\$ 736,921.00</b>

AVERAGES

156

169

\$

112,194.89

\$

76,400.67

\$

5,365.89

\$

113.56

\$

81,880.11

**LOSS RATIO:**

**73.0%**

# CITY OF PALESTINE

## Large Claimants

10/1/20-9/30/21

Carrier: BCBS

Renewal Date: 10/1/2021

Relationship	Age / Gender Band	IP Paid	OP Paid	Professional Paid	RX Paid	TOTAL PAID	Currently Enrolled
Dependent	Male <1-19	\$ 246,120	\$ 6,016	\$ 19,650	\$ 709	\$ 272,495	Yes
Employee	Male 40-49	\$ 102,351	\$ 6,949	\$ 11,599	\$ 3	\$ 120,902	Yes
Employee	Female 40-49	\$ -	\$ 57,377	\$ 25,241	\$ 4,024	\$ 86,642	Yes

		Current		Original Renewal		Revised Renewal		2019-20 MetLife	
PLAN BENEFITS	Carrier Plan Benefit	BCBS Dental		BCBS Dental		BCBS Dental		MetLife Dental	
		In	Out	In	Out	In	Out	In	Out
	Annual Deductible								
	Individual	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
	Family	\$150	\$150	\$50	\$50	\$50	\$50	\$50	\$50
	Coinsurance								
	Preventative	100%	100%	100%	100%	100%	100%	100%	100%
	Basic	80%	80%	80%	80%	80%	80%	80%	80%
	Major	50%	50%	50%	50%	50%	50%	50%	50%
	Orthodontia	50%	50%	50%	50%	50%	50%	50%	50%
Calendar Year Maximum	\$1,500		\$1,500		\$1,500		\$1,500		
Orthodontia Lifetime Maximum	\$1,500		\$1,500		\$1,500		\$1,500		

PLAN COSTS		BCBS	BCBS	BCBS	MetLife
	Employee Only	\$32.41	\$32.41	\$27.73	\$25.68
	Employee + Spouse	\$66.61	\$66.61	\$57.00	\$52.78
	Employee + Child(ren)	\$79.24	\$79.24	\$67.80	\$62.79
	Employee + Family	\$122.14	\$122.14	\$104.50	\$96.78
	Monthly Premium	\$8,552	\$8,552	\$7,317	\$6,776
	Annual Premium	\$102,626.28	\$102,626.28	\$87,807.72	\$81,317.52
	COST DIFFERENTIAL		\$0.00	-\$14,818.56	
	COST DIFFERENTIAL (%)		0.0%	-14.4%	

CENSUS	Employee Only	107
	Employee + Spouse	12
	Employee + Child(ren)	14
	Employee + Family	26
	Total	159

Annual Metlife - BCBSTX Difference 2021/2022

\$6,490.20